

Hong Kong Exchanges and Clearing Limited

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Re: BlackRock response to the Exchange’s consultation paper on “Enhancement of Climate-related Disclosures Under the Environmental, Social and Governance Framework”

Background

On 14 April 2023, the Stock Exchange of Hong Kong Limited (the Exchange) issued a consultation paper, and requested public feedback, on the “Enhancement of Climate-related Disclosures Under the Environmental, Social and Governance Framework.”^{1, 2}

Key proposals include a mandate to all listed issuers to provide climate-related disclosures in their ESG reports, and to introduce new climate-related disclosures that are aligned with the International Sustainability Standards Board (ISSB) Climate Standard.³ BlackRock⁴ supports a regulatory regime that increases transparency, protects investors and facilitates responsible growth of capital markets. We appreciate the Exchange’s proactive alignment of its regulation with international standards and are pleased to have the opportunity to comment on some of the proposals in the consultation, contributing to the discussion to help shape a final outcome that balances and protects the interests of all relevant stakeholders.

Executive Summary

BlackRock Investment Stewardship (BIS) encourages sound corporate governance and business practices that support the long-term, durable financial returns that our clients depend on to meet their investing goals. BIS engages with companies, where appropriate, to understand how they are managing the business-relevant risks and opportunities that may be material to long-term financial value creation for our clients, including material sustainability-related risks and opportunities.⁵ We are supportive of efforts to provide a global baseline of standards to promote the disclosure of more reliable, comparable, and

¹ Hong Kong Exchanges and Clearing Limited (HKEX). “[Exchange Publishes Consultation Paper on Enhancement of Climate Disclosure under its ESG Framework](#)” 14 April 2023.

² HKEX. “[Consultation Paper – Enhancement of Climate-related Disclosures Under the Environmental, Social and Governance Framework](#)” April 2023.

³ Hong Kong Exchanges and Clearing Limited (HKEX). “[Exchange Publishes Consultation Paper on Enhancement of Climate Disclosure under its ESG Framework](#)” 14 April 2023.

⁴ BlackRock is one of the world’s leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

⁵ By material sustainability-related risks and opportunities, we mean the drivers of risk and long-term financial value creation in a company’s business model that have an environmental or social dependency or impact. Examples of environmental issues include, but are not limited to, water use, land use, waste management and climate risk. Examples of social issues include, but are not limited to, human capital management, impacts on the communities in which a company operates, customer loyalty and relationships with regulators. It is our view that well-managed companies will effectively evaluate and manage material sustainability-related risks and opportunities relevant to their businesses. Governance is the core means by which boards can oversee the creation of durable, long-term financial value. Appropriate risk oversight of business-relevant and material sustainability-related considerations is a component of a sound governance framework.

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consistent climate-related information for investors. In our consultation response to the Exchange, we encourage further alignment of these efforts with those of the ISSB's standards, in particular the adoption of the ISSB General Standard, and the provision of a "comply or explain" approach to disclosures in the ISSB Climate Standard where the Exchange proposed an optional approach or a removal. In support of establishing global baseline standards with industry-specific guidance, we also recommend the Exchange align with the ISSB to make the disclosure of industry-specific metrics a requirement, while allowing issuers flexibility to decide the specific metrics to be disclosed, instead of only encouraging issuers to consider the industry-based disclosure requirements prescribed under other international reporting frameworks.

We welcome the Exchange's proposals for certain interim provisions in recognition of the need for flexibility in areas where relevant climate data, science, standards, controls, and reporting methodologies are still evolving and may diverge among different sectors. We consider it reasonable for the Exchange to review readiness of issuers, by sector, to comply by the end of the Interim Period and examine whether an extension of the Interim Period or a "comply or explain" approach is warranted for these disclosure requirements in the next two years after the end of the Interim Period. We also recognize that the potential liability attached to sustainability reporting will depend on national regimes. In our view, liability should be commensurate with the evolving nature of climate-related disclosure, to encourage rather than discourage higher quality disclosure. We encourage the Exchange to adopt liability frameworks that provide meaningful protection from legal liability for disclosures provided in good faith while standards continue to evolve.

BlackRock submitted the following response to the Exchange's public consultation on the **"Enhancement of Climate-related Disclosures Under the Environmental, Social and Governance Framework."**

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

- Yes.
- As long-term investors on behalf of our clients, BlackRock engages with companies to understand how both climate risks and opportunities are integrated into their governance, strategy, and risk management. We maintain that long-term investors can benefit from greater disclosures that might result from the Exchange's proposal, with interim provisions during the Interim Period, by introducing requirements based on the ISSB Climate Standard, which is built on the Taskforce on Climate-related Financial Disclosure (TCFD) framework and the Sustainability Accounting Standards Board (SASB) standards.
- We see value in the Exchange's proposals of certain interim provisions, as we recognize the need for flexibility in areas where relevant climate data, science, standards, controls, and reporting methodologies are still evolving and may diverge among different sectors. We consider it reasonable for the Exchange to review by sector readiness of issuers to comply with these requirements by the end of the Interim Period and examine whether an extension of the Interim Period or a "comply or explain" approach is warranted for these disclosure requirements in the next two years after the end of the Interim Period. We are mindful that adopting a regime with mandatory prescriptive requirements for premature and onerous disclosures could have the unintended consequence of creating a chilling effect on early adopters or diverting issuers' efforts from mature disclosure items that are important to get right. 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 like our clients. We believe 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. Therefore, we see value in the Exchange taking into consideration the maturity of reporting methodology and infrastructure when it revisits the interim provisions by the end of the Interim Period and provide the flexibility necessary for continuing development of pragmatic best practices.

- Apart from the ISSB Climate Standard, we encourage the Exchange to consider integrating the ISSB General Standard into Appendix 27. Long-term investors like our clients can benefit from high-quality climate-related disclosures, and we maintain that reliable, comparable, and consistent climate-related disclosures by companies across jurisdictions are essential for investors who wish to integrate climate risks and opportunities into their investment decision-making processes. We view both the ISSB General Standard and ISSB Climate Standard as important contributions to a multi-year, multi-jurisdictional effort towards improving the availability, quality, comparability, timeliness, and interoperability of sustainability-related disclosures. We believe the ISSB General Standard serves as a global baseline of sustainability disclosure standards to provide investors with comparable information to assess issuers’ plans to mitigate sustainability risks. While we recognize a certain degree of consistency between the general requirements and reporting principles prescribed in Appendix 27 and the general features for reporting of sustainability-related financial information under the ISSB General Standard, there is room for further alignment in areas such as ensuring an entity’s sustainability-related financial disclosure is for the same reporting entity as the related general purpose financial statements and encouraging disclosure on sources of estimation and outcome uncertainty. In particular, while Appendix 27 requires an explanation of the reporting scope of an ESG report, it is not uncommon to observe companies excluding significant subsidiaries or operation in specific markets from their ESG reports. We therefore encourage the Exchange to integrate both the ISSB General Standard and ISSB Climate Standard into Appendix 27. We believe that the ISSB Climate Standard, which is designed to be applied with the ISSB General Standard as a pair, can promote a common language to increase the comparability and consistency of issuers’ climate-related disclosure across jurisdictions only when it is founded on a single, global baseline of sustainability-related disclosure standard. Misalignment by Hong Kong issuers with the ISSB General Standard, which will be gradually adopted by issuers of other jurisdictions, could undermine global comparability of climate disclosure across jurisdictions and make it particularly challenging for investors to evaluate the quality of climate disclosures by Hong Kong issuers.
- Although regulating disclosure of private companies does not fall within the remit of the Exchange, we recognize the potential value in the Exchange pursuing consistent disclosure across public and private markets within the Green and Sustainable Finance Cross-Agency Steering Group as a group member. We are of the view that mandating reporting by companies across both public and private markets can be critical to averting unintended consequences in the capital markets such as (1) the sale of physical assets to private companies to avoid disclosure, and (2) private companies being potentially disincentivized from going public, decreasing choice for public market investors. Uniform disclosures can also provide market participants with a clearer understanding of how the transition to a lower carbon economy is unfolding across the entire economy. The absence of consistent private and public market disclosure standards risks placing public companies in

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the position of having to step into the role of policing their value chain partners and clients through negotiating the implementation and monitoring of the data they need for their own disclosures, such as private companies' greenhouse gas (GHG) emissions reporting.

- For the Exchange's reference, BlackRock's responses to ISSB's consultation on the two exposure drafts can be found below.
 - ISSB General Standard:
<https://www.blackrock.com/corporate/literature/publication/issb-response-to-exposure-draft-ed2022s1-on-general-requirements-for-disclosure-of-sustainability-related-financial-information-290722.pdf>
 - ISSB Climate Standard:
<https://www.blackrock.com/corporate/literature/publication/issb-response-to-exposure-draft-ed2022s2-climate-related-disclosures-290722.pdf>

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.

- Yes.
- As explained in the [BlackRock response to the ISSB Climate Standard](#), we support the objective of enabling a company's stakeholders to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities, building on the recommendations of TCFD. However, in our view, robust oversight with respect to climate-related risks and opportunities benefits from a whole-of-the-board approach. While we recognize and appreciate that a dedicated committee of the board can be beneficial, especially for companies where climate risk and opportunities are material, the formation of such a committee should be at the discretion of the board. Although the Exchange does not propose mandatory requirements for issuers to set up a dedicated committee or assign a dedicated person responsible for climate oversight, we do not think it is conducive to a holistic approach or, in some cases, appropriate to identify a specific individual responsible for oversight of climate-related risks and opportunities.
- Assessing and managing climate-related risks and opportunities is the purview of management, subject to appropriate board oversight. However, we do not believe issuers should be required to disclose specific details regarding management's process, but should instead consider which elements of its climate-related governance and risk oversight processes are relevant to its investors. Prescribing a more granular level of disclosures would likely require issuers to disclose a large volume of information that is, on the one hand, unlikely to be material for investors, and on the other hand, may be competitively sensitive for issuers.

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.

- Yes.

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.

- No.

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- Many of our clients are increasingly focused on the investment opportunities associated with a transition to a low-carbon economy. These clients seek to understand how companies are planning to capture opportunities associated with this transition. Given the role that climate-related opportunities will play in our clients' investment portfolios, BlackRock has consistently advocated for providing investors with high-quality, globally comparable climate-related disclosure, including disclosure on both climate-related risks and opportunities.
- While recognizing that not all issuers would have identified climate-related opportunities at this stage, we do not see justification for an optional reporting recommendation in perpetuity, as the Exchange has introduced only interim provisions during the Interim Period for other disclosure items for a similar reason. Alternatively, we believe a "comply or explain" regime can incentivize issuers to initiate an assessment of their material climate-related opportunities and disclose any material opportunities identified. If no material climate-related opportunities are identified, a negative statement should be provided. A "comply or explain" approach would also allow issuers to explain non-disclosure of commercially sensitive information, which is consistent with ISSB's introduction of an exemption that would permit an issuer to omit commercially sensitive information about a sustainability-related opportunity.
- It should also be noted that climate-related opportunities are not limited to those in response to the climate-related risks identified in accordance with paragraph 2 of Part D of the Proposed Appendix 27. For example, a manufacturer may capture climate-related opportunities by pivoting to battery production, which is not necessarily a response to any material climate-related risks it is currently exposed to. The potential lack of disclosure of climate-related opportunities by Hong Kong issuers may undermine global comparability of disclosure across jurisdictions and make it particularly challenging for investors to understand how Hong Kong issuers manage 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.

- Yes.
- Specifically in relation to the Exchange's proposed paragraph 22 of Part D of the Proposed Appendix 27 which encourages issuers to consider industry-based metrics, we support the requirement for issuers to consider industry-based metrics in preparing the disclosure in paragraph 2 and 3. BlackRock believes long-term investors can benefit from the creation of global baseline standards with industry-specific guidance, such as the industry-specific standards that will be taken forward by the ISSB in Appendix B of the Climate Standard exposure draft. While ISSB has deliberately classified Appendix B as illustrative examples for now, it has also stated its intention to make Appendix B mandatory in the future, subject to further consultation. As issuers in different industries are exposed to different material climate-related risks and opportunities, they shall consider industry-specific metrics, in addition to cross-industry metrics, in its assessment of material climate-related risks and opportunities.

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.

- No.
- While we agree with the proposed disclosure requirements for climate-related risks, we see risks if the disclosure of climate-related opportunities is deemed entirely optional. As explained in our response to Question 4, a “comply or explain” regime would be more suitable for issuers to disclose how they are responding to material climate-related opportunities.

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.

- No.
- While we largely agree with the proposed disclosure of climate-related targets, we would also like to highlight a few considerations for the Exchange’s reference.
- Firstly, we see risks if the disclosure of climate-related targets, especially Scope 1 and 2 GHG emissions targets, is entirely optional. As an investor, we look to companies to provide meaningful short-, medium-, and long-term reductions targets, ideally science-based where available for their sector, for Scope 1 and 2 GHG emissions. The disclosure of climate-related targets is critical for investors’ assessment of an issuer’s preparedness and transition plan. Similar to other interim provisions, we consider it reasonable to grant all issuers a two-year Interim Period with interim provisions to report on work plan, progress and timetable for setting climate-related targets. But a continuous lack of disclosure of climate-related targets, especially Scope 1 and 2 emissions reduction targets, which would be permitted under the proposed disclosure requirements, could significantly undermine investors’ ability to assess transition plans of Hong Kong issuers. We would encourage the Exchange to consider aligning its approach with the rest of the consultation paper, i.e. requiring disclosure of climate-related targets and converting note 2 to paragraph 6 from a permanent provision to an interim provision.
- Secondly, the disclosure of milestones or interim targets is valuable for investors’ assessment of an issuer’s preparedness and transition plan. As mentioned, we look to companies to provide meaningful short-, medium-, and long-term reductions targets, ideally science-based where available for their sector, for Scope 1 and 2 GHG emissions. Without disclosure of any short- or medium-term targets, investors may struggle to assess the credibility of a transition plan and the progress made by a company along its transition pathway, despite a long-term (such as 2050 or 2060) net-zero commitment. While the Exchange has clarified that an issuer will only need to disclose milestones or interim targets if it has one, we encourage the Exchange to consider adding a note to require an explanation in the absence of interim Scope 1 and 2 GHG emissions targets (i.e. a “comply or explain” approach), where the issuer has set Scope 1 and 2 GHG emissions targets.
- Thirdly, ISSB standards 23(e) and 23(f) are useful for the assessment of the meaningfulness of a climate-related target. In particular, we believe investors can benefit when companies disclose whether their targets are certified by a third party as science-based, where relevant standards are available for their sector. We agree with the Exchange that most of the Hong Kong issuers have just started to set and disclose targets, but instead of removing these parts of the ISSB standards completely, we encourage the Exchange to adopt these items with either interim provisions or a “comply or explain” approach. While the Exchange prefers “to have disclosure with more certainty” at this stage, we believe a negative statement on these disclosure items would still be useful for investors.

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- Fourthly, we believe it is important to distinguish Scope 3 emissions from Scope 1 and 2 emissions when companies set and report targets. As investors, we use Scope 3 emissions as a proxy metric (among others) for the degree of exposure companies have to carbon-intensive business models and technologies. While we believe the Exchange should require the disclosure of Scope 1 and 2 GHG emissions targets, we do not believe the purpose of Scope 3 disclosure requirements should be to push issuers into the role of enforcing emission reduction targets outside of their control.
- Finally, we appreciate the Exchange's proposed requirements for disclosure on the use of carbon offsets. Where companies utilize carbon offsets to advance carbon neutrality goals, we look for disclosures detailing how the offsets are evaluated and assessed for their permanence and additionality, as well as for leakage. We see carbon offsets as a complement to, not a replacement for, companies' substantive and sustained long-term emissions reductions plans. These instruments should not detract from or disincentivize efforts to reduce emissions.

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.

- No.
- As explained in our response to Question 7, we see risks if the disclosure of climate-related targets, especially Scope 1 and 2 GHG emissions targets, is entirely optional. The disclosures set out in note 2 to paragraph 6 should be, at most, an interim provision for issuers that have yet to set and disclose climate-related targets during the Interim Period, instead of a permanent provision in the Proposed Appendix 27.
- But if the Exchange were to proceed with an optional approach to climate-related targets, we agree the disclosures as set out in note 2 to paragraph 6 would be helpful for investors.

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.

- Yes.

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.

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 agree with the Exchange's proposed requirements for climate-related scenario analysis, but suggest considering a flexible approach to disclosing relevant information.
- Where issuers choose to prepare and disclose scenario analysis, this may help a company's stakeholders assess the climate resilience of its strategy. However, we note that for all issuers, regardless of industry, climate-related scenario analysis has

proven to be one of the most challenging aspects of the TCFD recommendations. Measuring climate risk and quantifying its impacts on companies and the economy is inherently complex. As we acknowledge the current lack of uniformity across issuers in various industry sectors on the (i) most appropriate climate-related assumptions to use, (ii) scenarios against which analysis should be conducted, and (iii) client response assumptions to utilize, we support the Exchange to provide industry guidance on climate scenario analysis in the Implementation Guidance. Until there is further evolution leading to consistency in climate scenario analysis, the current disclosure landscape may not be ready for a mandatory approach to climate-related scenario analysis.

- We find it reasonable if certain interim provisions allow disclosure of qualitative information or a work plan, which will be aligned with the flexibility provided by the proposed interim provisions for the disclosure of financial effects of climate-related risks and opportunities. A flexible approach to disclosure will likely encourage more companies over time to provide such disclosures. The Exchange may review by sector readiness of issuers to comply by the end of the Interim Period and examine whether an extension of the Interim Period or a “comply or explain” approach is warranted for these disclosure requirements in the next two years after the end of the Interim Period.
- When a company discloses information about the climate scenario analysis it uses, we suggest an explanation of the selection of climate-related scenarios be provided in the context of its industry and long-term strategy to enable investors to evaluate the suitability of the chosen scenarios for assessing the sustainability of the company’s business model amidst climate-related uncertainties.
- We note that, again, descriptions of scenario analysis for assessing the effect of climate-related opportunities are only required “where applicable”. As explained in our response to Question 4, we believe a “comply or explain” regime would be more suitable for issuers to disclose their scenario analysis of material climate-related opportunities.

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.

- No.
- While we largely agree with the proposed disclosure requirements, we see risks if the disclosure in relation to climate-related opportunities is entirely optional. As explained in our response to Question 4, we believe a “comply or explain” regime would be suitable for issuers to assess and disclose climate-related opportunities. Where material climate-related opportunities are identified, we find it useful when issuers provide relevant disclosure of the current financial effects of these climate-related opportunities.

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.

- Yes.
- As explained in our response to Question 1, we see value in the interim provisions as we recognize the need for flexibility in areas where relevant climate data, science, standards, controls, and reporting methodologies are still evolving and may diverge

among different sectors. We consider it reasonable for the Exchange to review by sector readiness of issuers to comply by the end of the Interim Period and examine whether an extension of the Interim Period or a “comply or explain” approach is warranted for the next two years after the end of the Interim Period. We are mindful that adopting a regime with mandatory prescriptive requirements for premature and onerous disclosures could have the unintended consequence of creating a chilling effect on early adopters or diverting issuers’ efforts from mature disclosure items that are important to get right. 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 like our clients. We believe 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. Therefore, we see value in the Exchange taking into consideration the maturity of reporting methodology and infrastructure when it revisits the interim provisions by the end of the Interim Period and provide the flexibility necessary for continuing development of pragmatic best practices.

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.

- No.
- On the one hand, we recognize the challenges to issuers in providing quantitative disclosure of anticipated financial effects of climate-related risks and opportunities, which warrant a flexible approach to improving disclosures in areas that are still evolving. On the other hand, anticipated financial effects are an important aspect of climate-related disclosure, which is inherently forward-looking, for investors to understand an issuer’s exposure to climate-related risks and opportunities in the future. Instead of requiring only qualitative disclosure, we believe a “comply or explain” regime for quantitative disclosure of anticipated financial effects would strike a balance between encouraging leading companies to provide advanced disclosures and avoiding a significant burden on general issuers due to onerous disclosures. Optimistically, this approach would create the flexibility necessary for continuing development of pragmatic best practices.
- We recognize that the potential liability attached to sustainability reporting will depend on national regimes. In our view, liability should be commensurate with the evolving nature of climate-related disclosure, to encourage rather than discourage higher quality disclosure. We urge the Exchange to adopt liability frameworks that provide meaningful protection from legal liability for disclosures provided in good faith while standards continue to evolve (for example, in some jurisdictions this may be provided in the form of a safe harbor from liability), and that gives companies the flexibility they need to develop their disclosures without imposing a chilling effect. We recognize that in certain national regimes, this may result in climate-related disclosure being located outside of general purpose financial reporting.

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 in the paragraph immediately following paragraph 11 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

- Yes.
- As explained in our response to Question 1, we see value in the interim provisions as we recognize the need for flexibility in areas where relevant climate data, science, standards, controls, and reporting methodologies are still evolving and may diverge among different sectors. It is reasonable for the Exchange to review by sector readiness of issuers to comply by the end of the Interim Period and examine whether an extension of the Interim Period or a “comply or explain” approach is warranted for the next two years after the end of the Interim Period. We are mindful that adopting a regime with mandatory prescriptive requirements for premature and onerous disclosures could have the unintended consequence of having a chilling effect on early adopters or diverting issuers’ efforts from mature disclosure items that are important to get right. 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 like our clients. We believe 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 the reporting infrastructure becomes more well-developed, leading to increasingly more comprehensive climate disclosures over time. Therefore, we see value in the Exchange taking into consideration the maturity of reporting methodology and infrastructure when it revisits the interim provisions by the end of the Interim Period and provide the flexibility necessary for continuing development of pragmatic best practices. As explained in our response to Question 14, we believe such a pragmatic approach can be readily applied to requiring quantitative, instead of qualitative disclosure of anticipated financial effects.

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.

- Yes.

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.

- No.
- While we agree with the proposed disclosure for climate-related opportunities, we see risks if the disclosure is entirely optional. As explained in our response to Question 4, a “comply or explain” regime would be more suitable for issuers to disclose the process used to identify, assess and manage 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. (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.

- Yes.
- We support requiring issuers to disclose their Scope 1 and 2 GHG emissions estimates regardless of materiality, as this information helps investors assess

exposure to climate-related risks and opportunities across a variety of sectors. However, we view Scope 3 emissions differently from Scope 1 and 2, given the methodological complexity and lack of direct control by companies over the requisite data to assess Scope 3 emissions.

- As investors, we believe it is important to be able to evaluate companies' assessments of their emissions across their value chain, or Scope 3 emissions, as such emissions could affect long-term shareholder value. We use Scope 3 emissions as a proxy metric (among others) for the degree of exposure companies have to carbon-intensive business models and technologies. In our experience as investors, these issues, and the usefulness of Scope 3 disclosures more generally, vary significantly across industries and the 15 categories of Scope 3 emissions. We encourage the Exchange to provide additional industry-specific guidance on which gases are likely to be material, and how materiality should be evaluated, for these disclosures to be reliable and consistent for investors, including with respect to the appropriate calculation methodology for each category of Scope 3 emissions.
- We recognize that GHG emission intensity is part of the KPIs in the current Appendix 27 but will be removed in the proposed Appendix 27 to align with ISSB Climate Standard. We suggest the Exchange give very careful consideration to repealing such requirements. Although an intensity target of GHG emissions is allowed by ISSB Climate Standard and the Exchange, companies may be less incentivized to set an intensity target if the disclosure of intensity data is not required. We believe GHG emission intensity can be an important aspect for assessing a company's decarbonization plan, as total GHG emissions may vary with output level, especially for growth companies where total emissions tend to be increasing. We also find intensity data useful for conducting peer comparison at the sectoral or jurisdictional level. We encourage the Exchange to provide industry-specific guidance on how GHG emission intensity should be calculated, including the appropriate unit of production. To the best of our knowledge, an additional disclosure requirement on GHG emission intensity would be considered consistent with ISSB's building block approach.

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.

- Yes.
- As explained in our response to Question 1, we see value in the Exchange's proposed interim provisions in relation to Scope 3 emissions, as we recognize the need for flexibility in areas where relevant climate data, science, standards, controls, and reporting methodologies are still evolving and may diverge among different sectors. We consider it reasonable for the Exchange to review by sector readiness of issuers to comply with these requirements by the end of the Interim Period and examine whether an extension of the Interim Period or a "comply or explain" approach is warranted for these disclosure requirements in the next two years after the end of the Interim Period. We are mindful that adopting a regime with mandatory prescriptive requirements for premature and onerous disclosures could have the unintended consequence of creating a chilling effect on early adopters or diverting issuers' efforts from mature disclosure items that are important to get right. 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 like our clients. We believe under a "comply or explain" regime, issuers' determinations of whether to comply or

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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. Therefore, we see value in the Exchange taking into consideration the maturity of reporting methodology and infrastructure when it revisits the interim provisions by the end of the Interim Period and provide the flexibility necessary for continuing development of pragmatic best practices. We generally support a ‘comply or explain’ approach to disclosure of Scope 3 after the Interim Period, allowing issuers to either disclose material Scope 3 emissions or explain why certain emissions categories are not relevant to the issuer or not subject to reasonable estimation.

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. (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.

- Yes.
- We believe long-term investors will benefit from the requirements for disclosure of cross-industry metrics and the relevant proposed interim provisions. We also maintain that investors can find it helpful when companies disclose industry-specific metrics on these topics, if they consider these metrics material to their operations.
- As explained in our response to Question 1, we see value in the Exchange’s proposals of certain interim provisions, as we recognize the need for flexibility in areas where relevant climate data, science, standards, controls, and reporting methodologies are still evolving and may diverge among different sectors. We consider it reasonable for the Exchange to review by sector readiness of issuers to comply with these requirements by the end of the Interim Period and examine whether an extension of the Interim Period or a “comply or explain” approach is warranted for these disclosure requirements in the next two years after the end of the Interim Period. We are mindful that adopting a regime with mandatory prescriptive requirements for premature and onerous disclosures could have the unintended consequence of having a chilling effect on early adopters or diverting issuers’ efforts from mature disclosure items that are important to get right. 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 like our clients. We believe 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. Therefore, we see value in the Exchange taking into consideration the maturity of reporting methodology and infrastructure when it revisits the interim provisions by the end of the Interim Period and provide the flexibility necessary for continuing development of pragmatic best practices.

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. (b) Do you agree with the proposed interim disclosures during the Interim Period in respect of the metric regarding

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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.

- Yes.
- We believe long-term investors will benefit from the requirements for disclosure of cross-industry metrics and the relevant proposed interim provisions. We also maintain that investors can find it helpful when companies disclose industry-specific metrics on these topics, if they consider these metrics material to their operations.
- As explained in our response to Question 1, we see value in the Exchange's proposals of certain interim provisions, as we recognize the need for flexibility in areas where relevant climate data, science, standards, controls, and reporting methodologies are still evolving and may diverge among different sectors. We consider it reasonable for the Exchange to review by sector readiness of issuers to comply with these requirements by the end of the Interim Period and examine whether an extension of the Interim Period or a "comply or explain" approach is warranted for these disclosure requirements in the next two years after the end of the Interim Period. We are mindful that adopting a regime with mandatory prescriptive requirements for premature and onerous disclosures could have the unintended consequence of having a chilling effect on early adopters or diverting issuers' efforts from mature disclosure items that are important to get right. 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 like our clients. We believe 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. Therefore, we see value in the Exchange taking into consideration the maturity of reporting methodology and infrastructure when it revisits the interim provisions by the end of the Interim Period and provide the flexibility necessary for continuing development of pragmatic best practices.

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.

- No.
- Consistent with our response to Question 4, we believe a "comply or explain" approach is most appropriate for disclosure of climate-related opportunities and relevant information. A "comply or explain" approach would allow issuers to explain non-disclosure of commercially sensitive information, which is consistent with ISSB's introduction of an exemption that would permit an issuer to omit commercially sensitive information about a sustainability-related opportunity.

Question 22 (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.

- Yes.
- As explained in our response to Question 1, we see value in the Exchange's proposals of certain interim provisions, as we recognize the need for flexibility in

areas where relevant climate data, science, standards, controls, and reporting methodologies are still evolving and may diverge among different sectors. We consider it reasonable for the Exchange to review by sector readiness of issuers to comply with these requirements by the end of the Interim Period and examine whether an extension of the Interim Period or a “comply or explain” approach is warranted for these disclosure requirements in the next two years after the end of the Interim Period. We are mindful that adopting a regime with mandatory prescriptive requirements for premature and onerous disclosures could have the unintended consequence of having a chilling effect on early adopters or diverting issuers’ efforts from mature disclosure items that are important to get right. 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 like our clients. We believe 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. Therefore, we see value in the Exchange taking into consideration the maturity of reporting methodology and infrastructure when it revisits the interim provisions by the end of the Interim Period and provide the flexibility necessary for continuing development of pragmatic best practices.

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. (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.

- Yes.
- We believe long-term investors will benefit from the requirements for disclosure of cross-industry metrics and the relevant proposed interim provisions. We also find it helpful when companies disclose industry-specific metrics on these topics, if they consider these metrics material to their operations.
- As explained in our response to Question 1, we see value in the Exchange’s proposals of certain interim provisions, as we recognize the need for flexibility in areas where relevant climate data, science, standards, controls, and reporting methodologies are still evolving and may diverge among different sectors. We consider it reasonable for the Exchange to review by sector readiness of issuers to comply with these requirements by the end of the Interim Period and examine whether an extension of the Interim Period or a “comply or explain” approach is warranted for these disclosure requirements in the next two years after the end of the Interim Period. We are mindful that adopting a regime with mandatory prescriptive requirements for premature and onerous disclosures could have the unintended consequence of having a chilling effect on early adopters or diverting issuers’ efforts from mature disclosure items that are important to get right. 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 like our clients. We believe 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,

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leading to increasingly more comprehensive climate disclosures over time.

Therefore, we see value in the Exchange taking into consideration the maturity of reporting methodology and infrastructure when it revisits the interim provisions by the end of the Interim Period and provide the flexibility necessary for continuing development of pragmatic best practices.

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.

- Yes.
- We suggest the Exchange require a negative statement where an issuer does not maintain an internal carbon price.

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.

- Yes.
- BlackRock does not have a position on the use of sustainability-related performance criteria, including climate-related considerations, in remuneration. But in our experience, 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 specific metrics and/or targets being used to measure performance and determine remuneration.

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.

- No.
- BlackRock believes long-term investors would benefit from the creation of global baseline standards with industry-specific guidance, such as the industry-specific standards that will be taken forward by the ISSB in Appendix B of the Climate Standard exposure draft. While ISSB has deliberately classified Appendix B as illustrative examples, it maintains the requirement that entities provide industry-specific disclosures. Instead of simply encouraging issuers to consider the industry-based disclosure requirements prescribed under other international ESG reporting frameworks, we recommend the Exchange consider aligning with the ISSB to make the disclosure of industry-specific metrics a requirement, while allowing issuers flexibility to decide the specific metrics to be disclosed. We also urge the Exchange

to work with market participants and standard setters, like the ISSB, to continue developing industry-specific guidance.

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.

- No.

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.

- Yes.
- As explained in our responses to Questions 11, 18, and 26, we strongly believe long-term investors will benefit from industry-specific implementation guidance on disclosure requirements such as emission intensity, Scope 3 emissions, and scenario analysis, as the challenges and need for flexibility could vary significantly across industries. Further technical guidance will be helpful for disclosure requirements where interim provisions are warranted, as reporting methodologies and standards are still evolving.

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.

- Yes.
- We support the introduction of proportionality mechanisms in ISSB's inaugural standards – IFRS S1 and IFRS S2. We see risks in mandating onerous disclosures beyond an issuer's capabilities and resources available as it could unintentionally divert its efforts from other disclosure items that are important to get right. This is consistent with our view that a flexible approach, such as a "comply or explain" regime, can better encourage more comprehensive climate disclosures over time. If the Exchange is to introduce the proportionality mechanisms, we consider it essential for the Exchange to provide specific guidance on how proportionality will be assessed and applied in order to avoid potential abuse of the mechanisms.
- We also see value in the introduction of an exemption that would permit an issuer to omit commercially sensitive information about a sustainability-related opportunity. We do not believe it would be in the best interest of shareholders when issuers are required to disclose information that is competitively sensitive for them. But when an issuer chooses to omit disclosure of any material climate-related opportunities, a cogent explanation should be provided. As explained in our response to Question 4, instead of an entirely voluntary approach, we believe a "comply or explain" approach would encourage issuers to provide more comprehensive climate disclosure over time, while providing them with sufficient flexibility.
- On climate-related targets, we agree with the distinction by ISSB between the requirements for climate-related targets and those for GHG emission targets in particular. Our responses to Question 7 and 8 primarily relate to GHG emission targets. We believe the distinction would allow the Exchange to set more robust requirements for disclosure of GHG emission targets, while preserving flexibility for the disclosure of other climate-related targets.
- We noted that ISSB confirmed the proposed requirements for companies participating in activities associated with three industries—Asset Management,

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Commercial Banks and Insurance—to disclose information about financed emissions as part of their Scope 3 GHG emissions disclosures. We support the separate disclosure of financed emissions, including GHG emissions associated with assets under management (AUM) on behalf of external clients, and encourage the Exchange to partner with stakeholders including ISSB to specify a methodology to support consistent disclosure. While BlackRock reports AUM associated emissions based on the PCAF framework, we note that data, controls and methodologies for computing GHG emissions associated with some asset classes are still emerging, and flexibility will be needed as this area develops. As explained in our response to Question 18, we support a “comply or explain” approach to disclosure of Scope 3 emissions, including financed emissions.

[This response was submitted online and did not require signatures of respondents.]