

14 July 2023

**BY HAND AND BY EMAIL**

Corporate and Investor Communications Department  
Hong Kong Exchanges and Clearing Limited  
8<sup>th</sup> Floor, Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

Dear Sirs,

**Consultation Paper on Enhancement of Climate-related Disclosures under the Environmental, Social and Governance Framework**

Ernst & Young is pleased to respond in this letter to the request of The Stock Exchange of Hong Kong Limited for feedback on the captioned consultation paper. Terms used in this letter shall have the same meanings as in the consultation paper.

We welcome the Exchange's ongoing efforts to enhance climate-related disclosures and ensure that its ESG framework meets investors' information needs, reflects international developments, and maintains Hong Kong's competitiveness as an international finance centre.

We also appreciate that, in formulating the proposals, the Exchange has gained insights, via its engagement with stakeholders, as to how issuers are doing in their sustainability journey, and the challenges they face.

In general, we consider that the proposals are in the right direction. Set out below are our comments and observations on some of the key proposals/issues.

**Mandatory disclosures with reference to ISSB Climate Standard**

We agree with the proposed upgrade of climate-related disclosures to mandatory from "comply or explain" in order to keep pace with investors' expectation and international developments, subject to appropriate transitional arrangements being put in place.

We also agree that enhancing climate-related disclosures by introducing requirements largely based on the ISSB Climate Standard is the right approach. Whilst the ISSB Standards, which are built on the TCFD Recommendations, are expected to become the global baseline for sustainability-related disclosures, we applaud the Exchange for taking into consideration the concerns of its issuers in deriving proposals and incorporating certain ISSB Climate Standard requirements with modifications, such as the flexibility offered in terms of the disclosures relating to climate-related opportunities and the maintenance of an internal carbon price.

As issuers become more familiar with climate-related disclosures in the near future, we suggest the Exchange to consider disclosing a timeline for full adoption of the ISSB Climate Standard.

### **Interim provisions for certain disclosures during the Interim Period**

The ISSB allows a one-year exemption for disclosure of scope 3 emissions, including financed emissions (if an entity participates in asset management, commercial banking or insurance activities). The Exchange will allow all issuers to make interim disclosures for certain proposed requirements (e.g., scope 3 emissions, current and anticipated financial effects) during a two-year Interim Period covering the first two reporting years following 1 January 2024, the Effective Date, while still providing meaningful information for investors and stakeholders to understand the company's readiness in complying with the disclosure requirements in full.

Given the numerous practical challenges anticipated for companies in making climate-related disclosures and the fact that the proposals will impose mandatory disclosure requirements on all companies listed in Hong Kong regardless of the disclosure standards they adopt in their home jurisdictions, we agree to applying the proposed phased-in approach, whilst encouraging early compliance through issuing Implementation Guidance and continuous training.

### **Materiality**

We note from the existing Appendix 27 that one of the reporting principles that issuers should follow in preparing their ESG reports is materiality, i.e., the threshold at which ESG issues determined by the board are sufficiently important to investors and other stakeholders that they should be reported. The ESG report should disclose: (i) the process to identify and the criteria for the selection of material ESG factors; (ii) if a stakeholder engagement is conducted, a description



of significant stakeholders identified, and the process and results of the issuer's stakeholder engagement.

The Exchange proposes to require disclosure of (i) the issuer's assessment of any climate-related risks reasonably likely to have a material effect on its business model, strategy and cash flows, its access to finance and its cost of capital, which may manifest in the short, medium or long term (paragraph 2 of Part D of the Proposed Appendix 27); and (ii) the current financial effect of climate-related risks and, where applicable, climate-related opportunities, where such effect is material (paragraph 10 of Part D of the Proposed Appendix 27). Note (1) to paragraph 10 of Part D of the Proposed Appendix 27 states that issuers should account for climate-related matters in the financial statements in accordance with the requirements under HKFRS, IFRS, CASBE or the alternative overseas financial reporting standard acceptable to the Exchange. As such, we believe that the materiality test for financial effects should be determined with reference to the materiality test set for the financial statements under the relevant financial reporting standards.

It is not entirely clear whether the Exchange is proposing a "double materiality" or a "single materiality" concept. Double materiality is adopted in the EU sustainability reporting standards and applies both "impact materiality" (the company's own impact on people and the environment) and "financial materiality" (how sustainability issues affect the company's business) perspectives. A sustainability topic or information meets the criteria of double materiality if it is material from the impact perspective or from the financial perspective or from both of these perspectives. On the other hand, ISSB applies single materiality in sustainability reporting - the definition of "material information" is consistent with the definition of "material" that applies for IFRS.

We welcome the Exchange's stated intention to include suggestions and illustrative examples in the Implementation Guidance to support the disclosures of material financial effects. We would appreciate further guidance in the Implementation Guidance to explain the concept of materiality adopted by the Exchange. This is particularly useful to listed issuers that also have to comply with sustainability reporting requirements in other jurisdictions.

### **Implementation Guidance and training**

We welcome the Exchange's intended issue of the Implementation Guidance to facilitate issuers' compliance with the new Rules and its continuance to monitor issuers' compliance and provide further guidance or training as appropriate. In order to encourage early compliance and ensure quality as well as comparability

of disclosures amongst issuers, we hope the Implementation Guidance is as comprehensive as possible and will provide clarifications and examples (preferably by industry) on as many practical issues as possible. To this end, the Exchange may consider conducting a soft consultation with practitioners on the draft Implementation Guidance before issuance.

As collection of data for scope 3 emissions is a practical challenge, we suggest that the Exchange work with the Government and relevant bodies to assist listed companies to collect the necessary information. This may include the provision of training on how to determine material scope 3 emissions categories and the creation of a central database to obtain the necessary information such as emissions factors. We note the commitment by the Steering Group in co-ordinating the management of climate and environmental risks to the financial sector, accelerating the growth of green and sustainable finance in Hong Kong and supporting the Government's climate strategies. The Exchange may consider committing more resources and extending the cooperation with the Environment Bureau beyond the financial sector to assist listed companies from all industry sectors.

The Exchange may also consider delivering industry-specific training as a smaller audience with similar background may encourage more meaningful interaction and experience sharing, thereby facilitating a smooth transition to mandatory climate-related disclosures consistent with the ISSB Climate Standard.

## **Going forward**

### *Assurance implementation timeline*

We understand that the current consultation paper focuses on bringing the Listing Rules more in line with international developments in relation to climate-related disclosures. We also note that the current proposals make no amendment to paragraph 9 of Appendix 27 which states that issuers may seek independent assurance to strengthen the credibility of the ESG information disclosed, and where independent assurance is obtained, issuers should describe the level, scope and processes adopted for the assurance given clearly in their ESG reports.

Assurance is a critical element to strengthening market confidence and trust in ESG disclosures and to addressing ongoing concerns around greenwashing. There is an urgency to credible reporting due to the need for action to combat climate change. As a result, assurance has already been made mandatory in some jurisdictions or is proposed to be made mandatory in other jurisdictions, such as the assurance proposal in the consultation launched in Singapore on 6 July 2023.



The International Auditing and Assurance Standards Board confirmed that the public consultation on its proposed new standard for sustainability assurance, International Standard on Sustainability Assurance 5000, *General Requirements for Sustainability Assurance Engagements*, will open by early August 2023.

Given the increasing emphasis on ESG factors in investment decisions, we trust that the assurance topic is on the Exchange's ESG policy agenda and look forward to discussing any implementation timeline with proper transition relief with the Exchange in due course.

#### Alignment with the ISSB General Standard

Appendix 27 prescribes general requirements and reporting principles regarding the presentation and relevance of information contained in an ESG report, consistent with the general features for reporting of sustainability-related financial information under the ISSB General Standard. It is not clear that Appendix 27 is fully aligned with the ISSB General Standard on topics such as the reporting entity and disclosure of significant judgments and estimates.

Similar to our suggestion for eventual full alignment with the ISSB Climate Standard mentioned in the first section of this letter, we suggest the Exchange to consider disclosing a timeline for full adoption of ISSB General Standard.

#### Non-listed companies

On 6 July 2023, the Accounting and Corporate Regulatory Authority in Singapore and Singapore Exchange Regulation launched a public consultation to require listed issuers to lead the way and report ISSB-aligned climate-related disclosures starting from the financial year 2025. Large non-listed companies with annual revenue of at least S\$1 billion will follow suit in the financial year 2027.

The Exchange plays a vital role in driving the ESG and sustainability agenda amongst listed issuers in Hong Kong through listing regulation, advocacy and education. We suggest that the Exchange continue its good work and engage with the Hong Kong sustainability standard setter to lay out a road map for sustainability reporting by non-listed companies.

Should you have any questions on the above comments, please do not hesitate to contact our Professional Practice Partner in Hong Kong, [REDACTED]

Yours faithfully,

[REDACTED]

*Certified Public Accountants*  
Hong Kong