<u>Submitted via Qualtrics</u>

SWCS Corporate Services Group (Hong Kong) Limited
Company / Organisation
Other (please specify)

<u>Question 1</u>
Do you agree to upgrade climate-related disclosures to mandatory from "comply or explain"?

Yes

Please provide reasons for your views.

Agree.

We concur with the view made by the Exchange under paragraph 42 of the Consultation Paper, which states: “the market expects TCFD-aligned climate-related disclosures to be mandatory by 2025”, and is in the view that the majority of the proposed climate-related disclosures, such as those related to governance, should be upgraded to mandatory disclosure to drive changes.

However, concern is raised about the readiness on the actual implementation of climate-related disclosures for listed companies. The Proposed Listing Rules and Appendix 27, which includes the upgraded climate-related disclosures (and hopefully the associated application guidelines), are anticipated to be released in Q4 2023, while the revised Listing Rules and Appendix 27 are proposed to become effective on 1 January 2024. This will give listed companies only a little time to learn the new requirements and prepare their internal climate-related management systems to be ready for climate-related disclosures. As the amendment and additional requirements for climate-related disclosures are significant, it is suggested that a longer transition period should be granted for listed companies to learn and prepare for climate-related disclosures.

Besides, the ISSB, while publishing its IFRS S2 Climate-related Disclosures Standard (The Climate Standard), has stated that it has considered the specific circumstances of emerging and developing economies and smaller companies (i.e. proportionally for companies with fewer resources) by introducing targeted relief measures for some requirements, and by scaling some requirements specifically for those with fewer resources, etc. For example, IFRS S2 takes into consideration a company’s available skills, capabilities, and resources in determining the approach to scenario analysis the company is required to apply (Page 9 of the IFRS Effects Analysis refers). It is therefore suggested that the Exchange may consider some requirements of the proposed climate-related disclosures – such as those related climate scenario analysis, in the form of “comply or explain” provisions during the transition period, as not all listed companies may have the skills, capabilities, or resources to comply with all the requirements of climate-related disclosures in the financial year of 2024 starting 1 January 2024.

Additionally, it is recommended that the Exchange provides more guidance materials and application guidelines for listed companies to follow. Besides, in order to allow listed companies adequate amount of time to study and follow the guidance provided, the period of interim disclosures may be suitably adjusted (i.e. say 2 years after the publication of the guidance materials).

For reference, SWCS conducted a survey during the webinar (please refer to Appendix I) with attendees (including listed/unlisted companies, consulting companies, etc.) with the following key results:

- The overall level of readiness for the new disclosure requirements on climate-related matters is relatively low, with the majority of participants indicated that they are less prepared to disclose metrics and targets for GHG Scope 3 emissions, internal carbon price, and remuneration policies.
- The majority of participants have indicated that the current proposed interim period of two years is insufficient to adapt and comply with the new requirements. They suggest that more time, ranging from two to four years, is necessary to adequately prepare for and implement the new requirements.

Please also refer to Appendix II: Insights from SWCS Research – where SWCS conducted research on 345 listed companies in Hong Kong, focusing on the readiness of listed companies for the proposed new climate-related disclosures outlined in the Exchange's Consultation paper. The research found that only around 30% of sampled issuers had a plan, proposal, or approach associated with climate-related targets, indicating a low degree of readiness among listed companies on climate-related issues. While 50% of sampled issuers described specific risks and responsive measures, only around 30% conducted climate scenario analysis to identify climate-related risks. There is also a gap in quantitative disclosure of financial impacts and cross-industry metrics related to climate-related risks and opportunities. Additionally, only 8% of companies have developed plans for an internal carbon price, while 20% have included ESG KPIs in their remuneration policies.

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Appendix I SWCS survey on readiness to the proposed new climate disclosure requirements

A total of 128 representatives of listed companies participated in the two SWCS webinars we conducted (carried out in June and July 2023) for the Exchange’s consultation paper, which is focused on the relevant new disclosure requirements. Survey on the readiness in complying with the proposed disclosures were made, with the following results:

Question 1. For climate-related disclosures at the governance level, your level of preparedness is __ (1- barely prepared, 3-generally prepared, 5- well prepared)

Results: Out of the total of 75 valid responses collected for the new governance disclosure requirements for climate-related issues, 42 (56.6%) indicated general preparedness or above.

However, general preparedness was the most common response, while well-preparedness was relatively less prevalent.

Question 2. For specific details on disclosure of climate strategies – climate-related risks and opportunities, your level of preparedness is __ (1- barely prepared, 3-generally prepared, 5- well prepared)

Results: A total of 76 valid responses were received regarding the disclosure of climate strategy, out of which 43 (56.6%) indicated general preparedness or above.

Question 3. For disclosure of processes used to identify, assess, and manage climate-related opportunities, your level of preparedness is __ (1- barely prepared, 3-generally prepared, 5- well prepared)

Results: We received a total of 34 valid responses, out of which 20 (58.8%) demonstrated a general or higher level of preparedness.

Question 4. For disclosure of GHG Scope 3 emissions, internal carbon prices, remuneration policies, your level of preparedness is __ (1- barely prepared, 3- generally prepared, 5- well prepared)

Results: Out of 69 valid responses, 61 respondents indicated a general or lower level of preparedness, accounting for a high percentage of 88.4%.

Question 5. For the transition to mandatory climate-related disclosures aligned with the ISSB's climate standards, do you think the Interim Period (2024-2026) is adequate?

Results: For the current proposed interim period (2024-2026), 72.2% of the 72 valid responses agreed that a longer interim period (e.g. 2-4 years) is required for better adaptation and alignment.

Overall, the results of the polling survey indicated that around half of the representatives of listed companies indicated that they are not yet ready to disclose climate-related information, with the poorest preparation being in terms of disclosing climate-related metrics and targets. Also, a majority of the respondents indicate a longer (e.g. 2-4 years) interim period would be desirable. For more details, please contact us.

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Appendix II: Insights from SWCS research：

Recently, SWCS conducted research on listed companies in Hong Kong, focusing on both the compliance level of listed companies with the disclosure requirements stipulated under Appendix 27 and the readiness of listed companies for the proposed new climate-related disclosures outlined in the Exchange's Consultation paper.

A total of 345 listed companies from the Main Board and GEM were sampled, of which 145 were ESG indexed companies (i.e., all companies elected under the Hang Seng Corporate Sustainability Index Series), and 150 companies were sampled randomly from the Hang Seng Composite Index of the Main Board, and 50 companies from the GEM Board. The sample represented more than 12% of the approximately 2,600 listed companies in Hong Kong and covered all 12 industries of the Hang Seng Industry Classification System.

The research observations and supporting data are as follows:

- On subject related climate-related target, the research shows that only around 30% of the sampled issuers among the population had a plan, proposal, or approach associated with climate-related targets. This reflects a relatively low degree of readiness from listed companies on climate-related issues, with a clear gap in setting climate-related targets.

- On the strategy pillar, it is found that around 50% of sampled issuers describe specific risks on the business or operations and responsive measures. Relatively few companies have conduct climate-related risk identification with the help of climate scenario analysis, and the total percentage is still low, less than 30%.

- ISSB is committed to linking climate-related risks and opportunities to financial information, and the Exchange is concerned with the disclosure of financial information and financial impacts. The research discovered a greater disclosure of qualitative financial impact of climate-related risks and opportunities on the business or operations than quantitative information. Less than 5% of issuers identified quantitative financial impact of climate-related risks on the business or operations. For qualitative disclosure, the financial impact of climate-related risks accounted for more than 50%, while financial impact of climate-related opportunities accounted for 30%, also indicating a gap.

- Regarding climate risk management, it was found that around 55% of issuers described specific risks on the business or operations and responsive measures. Among these, the description of physical risk, transition risk, and regulatory risk accounted for around 75%, 60%, 55%, respectively. However, only around 10% disclosed a prioritized list of climate-related risks. Although a number of companies identified climate-related risks, they did not disclose how they prioritize the risks in terms of factors like possibility of happening and extent of impacts.

- Regarding disclosure on GHG emissions, there is a high level of disclosure in scope 1 and 2 GHG emissions. However, not many companies disclose scope 3 emissions. Around 30% of the samples disclosed one item of Scope 3 GHG emissions, but only 9% disclosed Scope 3 GHG emissions for activities along the value chain as mentioned in GHG Protocol.

- For cross-industry metrics, the proportion of disclosure of the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities, disclosure of the amount and percentage of assets or business activities vulnerable to physical/transition risk, and other relevant metrics is under 3.5%, indicating a certain gap in quantitative disclosure of cross-industry metrics.

• Regarding the adoption of a carbon price, only around 8% of companies have developed plans for an internal carbon price, and none of these companies have disclosed the actual value of their internal carbon price. GEM companies have not disclosed any plans for an internal carbon price. In contrast, for remuneration policies, around 20% of sampled issuers, found only in ESG-indexed companies, have already included ESG KPIs in their policies and disclosed them in their reports.

For further inquiries, please contact SWCS.

<u>Question 2</u>
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?

Yes

Please provide reasons for your views.

We agree with the perspective articulated by the Exchange in paragraph 48 of the Consultation Paper, which emphasizes the crucial role of the board in spearheading sustainability practices and embedding them into strategic planning to facilitate management's initiatives. The transparency of board-level governance pertaining to climate-related data can enhance the understanding of investors and other stakeholders about the climate-related risks and opportunities a company is confronted with, as well as the company's capability to handle these issues.

One primary issue, however, is whether listed companies are given sufficient time and provided with adequate guidance to prepare for new governance disclosures that concentrate on climate-related matters—for example, the establishment of targets associated with significant climate-related risks and opportunities. As stated in the response to Question 1, it is proposed that the Exchange should dispense comprehensive guidance and afford ample time for listed companies to formulate their climate-related governance structure. This structure should entail a suitable process, controls, and procedures that are competent enough to monitor and manage climate-related risks and opportunities.

<u>Question 3</u>
Do you agree to require disclosure of climate-related risks as set out in paragraph 2 of Part D of the Proposed Appendix 27?

Yes

Please provide reasons for your views.

The proposed disclosure requirement is considered in line with the disclosure requirement of IFRS S2 Climate-related Disclosures.

However, please refer to the concerns raised regarding the implementation of the proposed disclosures, as mentioned in the response to Question 2.

<u>Question 4</u>
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?

Yes

Please provide reasons for your views.

As mentioned by the Exchange in paragraph 58 of the Consultation Paper, not all listed companies may have identified climate-related opportunities at this stage, and therefore, they may choose to disclose the effects of any climate-related opportunities they have identified. Including this "optional" requirement under the proposed mandatory disclosure structure may lead to unnecessary confusion.

It is therefore suggested that the Exchange may consider putting this clause as a "comply or explain" provisions, and requiring listed companies to provide valid reasons for not disclosing climate-related opportunities to ensure that they have undergone the process of identifying such opportunities.

<u>Question 5</u>
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?

Yes

Please provide reasons for your views.

The proposed disclosure requirement is considered in line with the disclosure requirement of IFRS S2 Climate-related Disclosures.

Disclosure needs to take into account the applicability of cross-industry metric categories and the industry-based metrics associated with disclosure topics, as described in IFRS S2.

<u>Question 6</u>

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?

Yes

Please provide reasons for your views.

The proposed disclosure requirement is considered in line with the disclosure requirement of IFRS S2 Climate-related Disclosures.

Listed companies should provide the details of work on how they respond to the climate-related risks identified and, where applicable, any climate-related opportunities identified.

<u>Question 7</u>

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?

Yes

Please provide reasons for your views.

Listed companies need to set these targets and implement them in accordance with the regulations in order to show their efforts and commitment in mitigating climate change.

However, the setting of climate-related targets, their scope, measurement and how they are reviewed require a combination of internal policies and technique, especially for scope 3 emissions, which are difficult to measure for some categories.

Based on SWCS webinar results, 72.2% of the respondents replied that they need a longer time, e.g. 2-4 years, to prepare the climate-related disclosure (Details please refer to Appendix I under the reply of Question 1).

In addition, in the current version of Appendix 27, directional statements are also acceptable for compliance. The Exchange should consider giving listed companies more transition time and guidance for them to set suitable numerical targets.

<u>Question 8</u>

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?

Yes

Please provide reasons for your views.

It is suggested that the Exchange should provide guidance on the details to be disclosed in the work plan.

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?

Yes

Please provide reasons for your views.

Progress disclosure can give the following benefits:

1. Demonstrate the company's climate management results: e.g., reduction of greenhouse gas emissions, increased use of renewable energy. This helps investors and other stakeholders to understand the company's climate management performance and thus assess the company's sustainability.

2. Enhance the company's transparency and credibility: Investors and other stakeholders will have more trust in the company's climate management reports and information, attracting more investment and cooperation opportunities.

3. Guide the company's climate management: Understanding the effectiveness and shortcomings of its own climate management measures, so as to formulate improvement programs and improve the level of management.

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?

Yes

Please provide reasons for your views.

The proposed disclosure requirement is considered in line with the disclosure requirement of IFRS S2 Climate-related Disclosures.

However, please refer to the concerns raised regarding the implementation of the proposed disclosures, as mentioned in the response to Question 2.

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?

Yes

Please provide reasons for your views.

The proposed disclosure requirement is considered in line with the disclosure requirement of IFRS S2 Climate-related Disclosures.

However, please refer to the concerns raised regarding the implementation of the proposed disclosures, as mentioned in the response to Question 2. The Exchange should consider giving listed companies more transition time and guidance of the disclosure requirement as set out in paragraph 9 of Part D of the Proposed Appendix 27, especially on the know-how of scenario analysis.

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?

Yes

Please provide reasons for your views.

In the finalized IFRS S2, para. 19-21 mention that reporting entities are not required to provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity under the following circumstances:

- Those effects are not separately identifiable;
- High level of measurement uncertainty involved in estimation resulting in not useful quantitative information;
- Listed companies do not have the skills, capabilities or resources to provide that quantitative information

It is suggested that the Exchange should consider those exceptions on the Proposed Appendix 27.

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?

Yes

Please provide reasons for your views.

In the finalized IFRS S2, para. 19-21 mention that reporting entities are not required to provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity under the following circumstances:

- Those effects are not separately identifiable;
- High level of measurement uncertainty involved in estimation resulting in not useful quantitative information;
- Listed companies do not have the skills, capabilities or resources to provide that quantitative information

It is suggested that the Exchange should consider those exceptions on the Proposed Appendix 27.

<u>Question 14</u>

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?

Yes

Please provide reasons for your views.

In the finalized IFRS S2, para. 19-21 mention that reporting entities are not required to provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity under the following circumstances:

- Those effects are not separately identifiable;
- High level of measurement uncertainty involved in estimation resulting in not useful quantitative information;
- Listed companies do not have the skills, capabilities or resources to provide that quantitative information

It is suggested that the Exchange should consider those exceptions on the Proposed Appendix 27.

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?

Yes

Please provide reasons for your views.

In the finalized IFRS S2, para. 19-21 mention that reporting entities are not required to provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity under the following circumstances:

- Those effects are not separately identifiable;
- High level of measurement uncertainty involved in estimation resulting in not useful quantitative information;
- Listed companies do not have the skills, capabilities or resources to provide that quantitative information

It is suggested that the Exchange should consider those exceptions on the Proposed Appendix 27.

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?

Yes

Please provide reasons for your views.

It is the disclosure requirement of IFRS S2 Climate-related Disclosures.

The concerns are the same as those mentioned in the reply of Question 2. The Exchange should consider giving listed companies more transition time and guidance of the disclosure requirement as set out in paragraph 12(a) of Part D of the Proposed Appendix 27.

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?

Yes

Please provide reasons for your views.

However, corresponding implementation guidelines need to be published by the Exchange as described in Q28.

Climate change and its response may lead to new business opportunities, such as renewable energy, green buildings, low-carbon transportation and more. By seizing these opportunities, businesses and governments can boost jobs, innovation and economic growth.

The concerns are the same as those mentioned in the reply of Question 2. The Exchange should consider giving listed companies more transition time and guidance of the disclosure requirement as set out in paragraph 12(b) of Part D of the Proposed Appendix 27.

Besides, it is suggested that the Exchange should consider amending this clause to “comply or explain” provisions, listed companies should give considered reasons why they do not 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, to ensure that they have undergone the process of identifying 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?

Yes

Please provide reasons for your views.

Issuers have a good level of disclosure on Scope 1 and 2 GHG emissions, and these requirements already exist in Appendix 27 of the current ESG Reporting Guide.

Question 18(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?

Yes

Please provide reasons for your views.

However, corresponding implementation guidelines need to be published by the Exchange, as described in Q28.

Understanding and calculating Scope 3 emissions is critical to reducing greenhouse gas emissions across the value chain.

<u>Question 19</u>

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?

Yes

Please provide reasons for your views.

Companies are exempted from disclosing Scope 3 GHG emissions (including "financed emissions") in the first reporting period after IFRS S2 takes effect, and from the second year onwards, they are required to disclose Scope 3 GHG emissions (and are not required to disclose comparable information). The Exchange should consider following this exemption.

In addition, the Exchange should consider giving listed companies more transition time and guidance of the disclosure requirement on disclosing Scope 3 GHG emissions. The actual effective date should depend on the time after the relevant guidance is released by the Exchange.

<u>Question 20(a)</u>

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?

Yes

Please provide reasons for your views.

However, the Exchange should consider giving listed companies more transition time and guidance of the disclosure requirement.

<u>Question 20(b)</u>

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?

Yes

Please provide reasons for your views.

It is suggested that the Exchange should provide guidance on the details to be disclosed, especially the work plan.

<u>Question 21(a)</u>
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?

Yes

Please provide reasons for your views.

Agree, same as the reply in 20(a)

<u>Question 21(b)</u>
Do you agree with the proposed interim disclosures during the Interim Period in respect of the metric regarding physical risks as set out in the paragraph immediately following paragraph 17 of Part D of the Proposed Appendix 27?

Yes

Please provide reasons for your views.

Agree, same as the reply in 20 (b)

<u>Question 22(a)</u>
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?

Yes

Please provide reasons for your views.

The actual and potential effects of any climate-related opportunities are optional to be disclosed where applicable, as set out in paragraph 3 of Part D of the Proposed Appendix 27, the 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 should also be optional to align with paragraph 3.

<u>Question 22(b)</u>
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?

Yes

Please provide reasons for your views.

The actual and potential effects of any climate-related opportunities are optional to be disclosed where applicable, as set out in paragraph 3 of Part D of the Proposed Appendix 27, the proposed interim disclosures during the Interim Period in respect of metrics regarding climate-related opportunities should also be aligned with paragraph 3.

In addition, it is suggested that the Exchange should provide guidance on the details to be disclosed, especially the work plan.

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?

Yes

Please provide reasons for your views.

It is suggested that the Exchange should provide guidance on the details to be disclosed.

The actual and potential effects of any climate-related opportunities are optional to be disclosed where applicable, as set out in paragraph 3 of Part D of the Proposed Appendix 27, the disclosure of the amount of capital expenditure, financing or investment deployed towards climate-related opportunities as set out in paragraph 19 of Part D of the Proposed Appendix 27 should also be aligned with paragraph 3.

Question 23(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?

Yes

Please provide reasons for your views.

The actual and potential effects of any climate-related opportunities are optional to be disclosed where applicable, as set out in paragraph 3 of Part D of the Proposed Appendix 27, the proposed interim disclosures during the Interim Period in respect of the metric regarding capital deployment should also be aligned with paragraph 3.

In addition, it is suggested that the Exchange should provide guidance on the details to be disclosed, especially the work plan.

<u>Question 24</u>
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?

Yes

Please provide reasons for your views.

Please refer to the details in the reply of Question 29

<u>Question 25</u>
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?

Yes

Please provide reasons for your views.

Please refer to the details in the reply of Question 29

<u>Question 26</u>
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?

Yes

Please provide reasons for your views.

In addition, it is suggested that the Exchange considers releasing its own ESG reporting framework to provide more guidance to the listed companies.

<u>Question 27</u>
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?

Yes

Please elaborate.

It is noted that during the preparation of Part D by the Exchange, IFRS S1 and S2 were in their draft exposure stage. Now that IFRS S1 and S2 have been formally released, the Exchange is suggested fully considering aligning the proposed disclosures with the latest requirements stated in IFRS S1 and S2.

Considering that IFRS S1 is considered a global baseline for sustainability reporting, it is suggested that the Exchange should also consider how to incorporate the requirements in IFRS S1 into Appendix 27 in the future. This is important because sustainability issues other than climate-related issues are equally important, although the finalized version of IFRS S1 permits companies to disclose information on only climate-related risks and opportunities (in accordance with IFRS S2) in the first annual reporting period and consequently apply the requirements in IFRS S1.

Section B of the Proposed Appendix 27 addresses overall governance on ESG, while section D focuses on climate governance. It is suggested that the Exchange ensure that no duplication is brought about by these sections. Additionally, the Exchange may consider incorporating more requirements on sustainability governance apart from climate governance to avoid the impression that only climate governance is the most important and that other sustainability governance is less important.

In addition, IFRS S2 requires the disclosure of an explanation of whether a company is applying an "internal carbon price" and a "climate-related remuneration policy," whereas the Exchange allows for disclosure if applicable. However, this approach may have a potential negative impact, as some companies may choose not to set an internal carbon price or establish a remuneration policy to avoid the pressure of mandatory disclosure. In such cases, the current proposed requirement may become a clause that does not promote a more sustainable market, and the effectiveness of this requirement may be compromised. Therefore, it is important to strike a balance between the need for disclosure and the potential negative impact it may have on companies.

Question 28

Do you have any comments regarding the topics/matters that we intend to give guidance on?

Yes

Is there any particular topic/matter you consider further guidance to be helpful?

Yes

Please elaborate.

Given the significant impact of the amendment in Proposed Appendix 27 and the effort required for listed companies to comply, it is recommended that guidance be provided for each clause in the amendment. Below are some examples of topics where guidance could be useful:

1. Quantitative and qualitative information: It is possible that listed companies may not disclose comparable quantitative information due to varying levels of readiness. In such cases, it may be necessary to require qualitative descriptions as a transitional arrangement. To ensure the quality of this part of the information, it would be helpful for the Exchange to provide guidelines for such qualitative disclosure. This could guide the direction and steps of disclosure for companies that are not yet fully prepared, as well as how to convert the results of such qualitative disclosure to quantitative disclosure after the interim period is over. Guidance on how to disclose quantitative information would also be useful.

2. Risk management: Standardized guidance could be helpful to guide listed companies in carrying out risk identification, assessment, and management processes. This guidance could address the variances that may arise between companies in assessing the likelihood and impact of risks and using risk assessment tools. It could also ensure consistency in risk identification, assessment, and management processes for companies operating in different geographic locations and industry sectors. Additionally, there may be a need for professional and reliable ranking methods in climate risk assessment.

3. Capital expenditure, financing, or investment deployed towards climate-related risks and opportunities: Further guidance could be given on how to determine the amount of capital expenditure, financing, or investment deployed towards climate-related risks and opportunities. This is because there is currently a lack of consistency and standardization in the guidelines for climate-related capital allocation disclosures. It is difficult for companies to compare and assess climate-related capital allocations. Additionally, the disclosure of climate-related capital allocation requires a significant amount of data collection and analysis, including corporate carbon emission data, energy consumption data, portfolio data, etc. However, this data can come from different departments and systems, leading to inconsistencies and incompleteness, and requiring significant time and resources to collect and analyze. Due to the long-term and intertwined nature of the impact of climate-related investments, it is difficult to accurately measure their impact, especially given the various factors that can affect them, such as policies and regulations, market trends, technological innovation, etc. Furthermore, the impact of climate-related investments can vary by sector and region, making it even more challenging to measure their impact.

Further recommendations on quality control

The Proposed Appendix 27 represents a significant improvement over the current climate section of the ESG Reporting Guide, as it requires companies to disclose a significant amount of accurate and comparable information, particularly in terms of strategy development and identification of risks and opportunities based on scenario analysis, as well as quantification of various climate-related financial impacts. However, this represents a challenge for many companies that are still in the early stages of preparation, and seeking the assistance of a professional third party may be a more reliable approach to ensure the quality of the report.

Currently, there is no requirement for qualification or certification for drafting ESG reports, which can lead to significant variation in report quality. To address this issue, it is recommended that the Exchange consider introducing prescribed qualifications and accreditation through licensing or similar practices for ESG reporting entities / practitioners, and only allow qualified entities / practitioners to draft ESG reports. This will help ensure that ESG reports are of a consistently high quality, and provide investors with the information they need to make informed decisions.

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?

Yes

Please share your views with us.

It is noted that during the preparation of Part D by the Exchange, IFRS S1 and S2 were in their draft exposure stage. Now that IFRS S1 and S2 have been formally released, the Exchange is suggested fully considering aligning the proposed disclosures with the latest requirements stated in IFRS S1 and S2.

Following the introduction of new climate-related disclosures by the Exchange, based on the IFRS S2 as Part D of Appendix 27, which sets out mandatory disclosure requirements for climate-related risks and opportunities, it is recommended that the Exchange consider complying with both IFRS S1 and S2 to apply both standards together in the future. As the focus on sustainability continues to grow, the Exchange should also consider how the existing ESG reporting disclosure requirements can be extended and transitioned to cover overall sustainability matters. This will help ensure that companies are providing comprehensive and transparent disclosure of their sustainability performance, which is increasingly important to investors and stakeholders. It is suggested that the Exchange consider how the principle of aggregation be ensured, especially those clauses related to risks.