

Submitted via Qualtrics

Anonymous

Company / Organisation

Non-governmental / Charitable Organisation

Question 1

Do you agree to upgrade climate-related disclosures to mandatory from "comply or explain"?

Yes

Please provide reasons for your views.

We welcome the proposed measures, including their alignment with the standards issued by the International Sustainability Standards Board (ISSB), and the upgrading of climate-related disclosures to mandatory. They will help to maintain Hong Kong's competitiveness as an international financial centre and further strengthen its position as a trusted venue for raising capital.

The measures will also help Hong Kong to deliver its Climate Action Plan 2050 by accelerating the growth of green and sustainable finance.

Upgrading climate-related disclosures to mandatory has several specific advantages over a "comply or explain" approach. In particular:

- It eliminates the "pick and choose" approach to reporting, where companies can opt to "explain" why they are not addressing certain indicators when they find it inconvenient to do so. Companies may choose not to disclose information which shows the weaknesses of their position. Mandatory reporting ensures that all companies are held to the same standards and that investors and other stakeholders have access to the same information.
- By increasing the consistency and comparability of information, mandatory disclosure facilitates meaningful comparisons between firms, allowing investors and other stakeholders to assess climate risks and to take action accordingly.
- It can directly improve climate risk management practices within firms. The requirement to conduct comprehensive reporting across all areas of their business - with no opt-outs - can galvanise companies to address any shortcomings.
- It facilitates potential regulation and certification processes: For regulators and anyone certifying the quality of the disclosures, mandatory disclosures mean they do not have to check what explanation is provided by companies that fail to comply with some indicators. There is no common framework for such explanations and they can therefore be difficult to assess, opening the door to greenwashing and/or significant gaps between the quality of certifications.

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?

Yes

Please provide reasons for your views.

We support the proposed requirement for issuers to disclose their governance processes, controls, and procedures used to monitor and manage climate-related risks and opportunities. Many studies have found that a majority of company boards are not sufficiently involved in oversight of climate-related financial risks (see Carbon Tracker, “Flying Blind: The Glaring Absence of Climate Risk in Financial Reporting”).

The close alignment of the proposed measures with the draft climate-related disclosure standards issued by the ISSB will allow Hong Kong to strengthen its position as a leading centre for green and sustainable finance. The ISSB standards are widely expected to become a global baseline for climate-related reporting.

While many jurisdictions are already taking steps to introduce disclosure requirements based on the recommendations from the Taskforce for climate-related Financial Disclosures (TCFD) into their legal or regulatory frameworks, there are concerns that the TCFD’s largely principles-based recommendations may not result in consistent and comparable disclosures that fully meet investors’ needs for decision-useful information. In contrast, the ISSB standards have a greater degree of specificity and granularity to satisfy the needs of investors and other stakeholders.

It makes sense for Hong Kong to act quickly to adopt the ISSB standards. Doing so may attract issuers looking to align themselves with a framework which is likely to be adopted globally. The ISSB standards reflect what investors are likely to expect as a minimum in the coming years, and Hong Kong will benefit from developing familiarity and expertise with them among firms, regulators, accountants, auditors, ESG consultants and other professional services.

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?

Yes

Please provide reasons for your views.

We support the proposed requirement to disclose both physical and transition risks and opportunities. We welcome the requirements to identify and disclose the time horizon over

which climate-related risks can be expected to affect the issuer's business model, strategy and cash flows, access to finance and cost of capital.

There is a need for additional guidance on what time horizons are appropriate for different kinds of risks. For example, longer horizons may be necessary to capture tail risks brought on by chronic risks such as sea level rise and basin water scarcity. Additional guidance would lead to greater consistency in how issuers are defining these time horizons and therefore allow for improved comparability across issuers.

It would also be helpful for issuers to be required to disclose the process they follow in making their materiality assessments. This would provide greater insight for investors and help them better assess whether the process is robust enough to capture the necessary issues.

The proposed requirements focus exclusively on financial materiality and may not satisfy the needs of some investors to understand how an issuers' climate-related risks and opportunities may be material to the environment and people. This concept of "double materiality" is present in reporting requirements in the European Union, and is reflected in commitments made through initiatives such as the UN Race to Zero and Glasgow Financial Alliance for Net Zero.

We believe a double materiality element should be incorporated into the requirements. Double materiality has become increasingly important to those investors who are concerned about considering the broader impact of sustainability issues, including climate, in their decisions. There is a risk that the requirements in their current form could fail to provide the information the financial market needs and swiftly become outdated.

We note that the Corporate Sustainability Reporting Directive of the European Union (EU) will ultimately apply to companies which are listed in other jurisdictions but which have a net turnover above EUR 150 million in the EU. We recommend that the Hong Kong government (recognising this is not a matter for the HKEX) adopt a similar policy towards non-Hong Kong companies with significant operations in the SAR. This would help to establish a level playing field and help to boost global standards on climate-related disclosures.

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?

Yes

Please provide reasons for your views.

Please see our response to question 3.

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?

Yes

Please provide reasons for your views.

We encourage HKEX to restrict the use of methodologies to the GHG Protocol to avoid potential discrepancies in reporting and facilitate comparison. As discussed further in our response to question 25, we also recommend that the standard follows the ISSB in requiring disclosure of the percentage or amount of remuneration linked to climate targets and factors. This is to allow for comparability across issuers.

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?

Yes

Please provide reasons for your views.

We support the requirement to disclose transition plans. Transition plans are critically important in allowing investors and other stakeholders to understand the overall approach taken by issuers to address climate-related risks and opportunities.

Transition plans are increasingly being expressed in terms of achieving net-zero greenhouse gas emissions, or alignment to a global temperature goal of 1.5°C by 2050 or sooner. Transparency around the target-setting and reporting within them must therefore be a key focus.

Issuers should be required to clearly disclose a set of absolute emission reduction targets as part of their transition plan, and to outline concrete short and medium- term action to cut their absolute emissions.

This will give investors and other stakeholders the ability to assess whether a company's plan is aligned with scenarios which limit warming to 1.5 °C, and make financial and investment decisions accordingly.

Meaningful transition plans should look beyond firms' actions to adapt their own businesses to the low-carbon transition, and include reference towards their role in enabling an economy-wide

transition, for example through their engagement with policymakers, the business community and the public. HKEX may wish to refer to the target-setting tool developed by the Net Zero Asset Owners Alliance, which covers each of these areas. This is ultimately in order to manage long-term financial risk and opportunity.

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?

Yes

Please provide reasons for your views.

We support the requirement to disclose climate-related targets. Targets are essential to make climate strategies and transition plans meaningful.

Climate-related targets should be aligned with science-based pathways for emissions reduction in line with the Paris Agreement goals. Issuers should be required to disclose to what extent their targets are aligned with pathways for the relevant sector and the economy as a whole. For this purpose, issuers should be required to disclose which science-based pathway they have chosen, and their reasons for doing so. For example, this might include discussion of how the assumptions underpinning the pathway fit with their understanding of the economy.

Any deviations from either the cross-sectoral or sector-specific pathways referred to by the issuer which reduce the level of ambition required must be disclosed and justified. This requirement will help investors and other stakeholders assess 'at a glance' whether the plans are rigorous enough to meet the baseline expectations for transition in the relevant sector.

Issuers should set emissions reduction targets for 2025 and 2030 and every five years thereafter. This is necessary to provide transparency about the rigour of its emissions reduction plans.

Financial institutions face specific risks resulting from their financing and investment activities, and as such should be required to set emissions reduction targets in this regard. This should include targets for the total emissions associated with their portfolio emissions and sector-level targets for high-emitting sectors. Financial institutions should also disclose targets for engaging with their investees on climate risk, and targets for financing the green transition. This reflects the protocol developed by the Net Zero Asset Owners Alliance.

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?

No

Please provide reasons for your views.

Issuers should always provide the information in paragraph 6, no other procedures should be authorised.

If issuers are permitted to provide provisional information instead of the requirements in paragraph 6, then this arrangement should exist only for a very limited period.

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.

Providing an annual report on the progress made during the latest reporting year enables investors and stakeholders to monitor how well an issuer has implemented its transition plans and achieved its targets. It encourages managers to assess the company's progress and make any necessary adjustments to their strategies.

We see no reason to delay the introduction of this requirement beyond the Effective Date.

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.

Disclosure of climate resilience allows investors and stakeholders to assess how prepared a company and its business model is in responding to climate risk. This incorporates but is not limited to the use of climate-related scenario analysis.

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.

Climate-related scenario analysis enables a company to gain insights into how the physical and transition risks associated with climate change may impact its businesses, strategies, and financial performance in the future.

The Hong Kong Monetary Authority (HKMA) is conducting a second climate stress test in 2023. We suggest HKEX coordinate with HKMA to ensure that the implementation guidance is aligned with the framework the HKMA is currently developing.

Climate-related scenario analysis, and risk assessment more broadly, should be conducted by relying on at least:

A 1.5°C scenario with no/low overshoot and a limited level of negative emissions – for example the OECM and IEA NZE - to assess the resilience in a context of “orderly” and realistic transition;

A high global warming scenario reflecting current policies – for example the IEA STEPS – to assess the resilience without major policy changes;

A very high global warming scenario – like the NGFS “hot house world” – to assess the resilience in the event of failure to apply climate policies.

Additionally, specific analysis should be conducted to identify and tackle tail risks (see for example: Monasterolo, Assessing Financial Risks From Physical Climate Shocks, World Bank, 2022)

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.

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.

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.

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?

No

Please provide reasons for your views.

The time frame is too long given the pressing need to address climate-related financial risks. While the Hong Kong Monetary Authority asks for full compliance with the Taskforce for Climate-related Financial Disclosures by 2025 for the financial sector, the current proposals would not require reports fully compliant with the new Rules to be produced in 2027.

We recognise that climate disclosures may present some challenges for smaller firms, but this should not be a reason to delay mandatory disclosure. Physical climate impacts are already financially material today. One possibility would be to take a phased approach, for example by prioritising larger issuers and allowing smaller issuers a longer lead time to assess and disclose risks.

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.

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.

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.

We encourage HKEX to restrict the use of methodologies to the GHG Protocol to avoid potential discrepancies in reporting and facilitate comparison.

We also recommend that verification of all emissions data - not just carbon credits and offsets - should be recommended or mandatory. The HKEX may wish to draw on the guidelines developed by China's Ministry of Ecology and Environment for this purpose.

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 two modifications should be made:

As above, we encourage HKEX to restrict the use of methodologies to the GHG Protocol to avoid potential discrepancies in reporting and facilitate comparison.

As HKEX rightfully identified, scope 3 reporting is essential. Regarding its importance, the 2-year interim period is unnecessarily long and should be limited to one year, in line with the ISSB standard.

We recommend that HKEX should provide technical suggestions to issuers on how to identify and account the scope 3 emissions, including key parameters, and the proper sub-categories for different industries.

We share the view of the ISSB that the requirement for disclosure of scope 3 emissions includes financed emissions. The ISSB has also indicated that it is looking at including facilitated emissions, resulting from the underwriting of capital market activities, in future disclosure requirements. We recommend that financial institutions should be required to disclose and set targets for reducing their facilitated emissions. This would enable HKEX to adopt a pioneering role.

We recommend that HKEX provide guidance on how financial institutions should calculate their financed and facilitated emissions. We suggest HKEX engage with the Partnership for Carbon Accounting Financials to discuss the weighting assigned to facilitated emissions. This would allow HKEX to establish itself as a market leader in this area.

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?

No

Please provide reasons for your views.

As HKEX rightfully identified, scope 3 reporting is essential. Given its importance, the 2-year interim period is too long and should be limited to one year. This would be in line with the ISSB Climate Standard.

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.

Question 20(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.

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.

Question 21(b)

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?

Please provide reasons for your views.

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.

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.

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.

The affectation of capital expenditures is essential to understand whether a company is taking the appropriate steps to reach its climate goals and manage related risks. The indicators should be strengthened to clearly enable investors to identify:

Whether the company is investing or/and plans to invest in the future in high carbon infrastructures and activities, notably those related to the production, transport, storage and transformation of fossil fuels;

Whether the company is investing in “sustainable” activities - as defined by Hong Kong’s forthcoming green taxonomy - excluding any activities tied to the fossil fuel sector.

This indicator should be provided for the short, medium and longer term.

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?

No

Please provide reasons for your views.

There are no justifications to enabling companies not to fully report on planned capital expenditures.

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?

Yes

Please provide reasons for your views.

but this should be made mandatory, as it is in the ISSB Climate Standard. This is necessary to account for the potential evolution of emissions regulations in the future, and to price-in some of the externalities of companies' activities.

We do not accept the argument that the carbon market is not sufficiently mature. It is by promoting the use of carbon pricing that the market will become more sophisticated. HKEX has previously spoken about its ambition to build a leading carbon market, and this is an opportunity to move towards that goal.

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?

Yes

Please provide reasons for your views.

but we also recommend that the standard follows the ISSB in requiring disclosure of the percentage or amount of remuneration linked to climate targets and factors.

Remuneration policies can be a powerful tool for encouraging leadership on climate change. By linking executive compensation to performance on climate-related issues, companies can create an incentive for management to incorporate climate considerations into their business strategies and to place more weight on their management of climate issues.

Disclosing the percentage or amount of remuneration linked to climate targets and factors should be mandatory. Without mandatory disclosure of the amount of remuneration linked to climate targets, it is impossible to assess whether it provides a real incentive. Such disclosures would also aid comparability across issuers.

The company should also disclose the share of remuneration tied to factors related to an increase in production or any other factor that could contribute to a rise in GHG emissions.

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.

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.

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.

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.

