

Submitted via Qualtrics

CPA Australia
Company / Organisation
Professional Body / Industry Association

Question 1

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

Yes

Please provide reasons for your views.

Agree in principle. We note that small and medium-sized issuers typically do not have the same capacity, skills, and knowledge as larger-sized issuers to comply with the proposed mandatory disclosure requirement.

According to our ESG 2022 survey, 64 per cent of Hong Kong respondents from companies with 500 or more employees said they have adopted sustainability or ESG reporting practices. This is significantly higher than respondents from companies with fewer than 500 employees (19 per cent).

We therefore encourage the HKEX to continue working with the government, professional associations, advisers, businesses and educators to provide support and guidance to small and medium-sized issuers. This could include measures to expand the ESG talent pool in Hong Kong, such as developing resources and training to upskill accounting and finance professionals and offering ESG internship programs for young professionals.

We also suggest consideration be given to other options to reduce the implementation burden on small and medium-sized issuers. One option could be a phased approach to mandatory reporting, with mandatory reporting starting later for smaller issuers. By way of example, we refer to the Australian Treasury's current proposal (1) to require mandatory reporting following a phased approach across several years. Another option could be to extend the interim period's climate-related disclosure requirements for smaller issuers.

(1) : Climate-related financial disclosures (Consultation Paper), Australian Government, The Treasury (2023), pp. 8-9.

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.

Agree. However, we note that paragraph 1(c) states “how and how often the board and its committees are informed about climate-related risks and opportunities”. We do not consider frequency equates to relevance. Likewise, it is not just about being informed of internal risks but also about being informed of external trends. This requirement could therefore be rephrased to “how does the board ensure it is appropriately informed on a timely basis via internal or external means...”.

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.

Agree. It would also be useful if examples be provided to assist issuers as value chain disclosures under paragraph 2(e) are a new concept and issuers could face challenges in preparing such disclosures. We also note the intent of the ISSB to develop guidance on implementation of IFRS S2 later this year, and we would point to that future piece of work as a source of inspiration.

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?

No

Please provide reasons for your views.

Disagree. We believe disclosures of climate-related opportunities should be mandatory for issuers (noting the suggestions to help smaller issuers with implementation discussed in Question 1). This will not only align with the ISSB’s sustainability standards, but also incentivise issuers to consider climate-related risks and opportunities in a more comprehensive manner. Further, mandatory disclosures could send a positive message to the market by highlighting the presence of climate-related opportunities for issuers.

We would however point to the provisions provided by the ISSB around considerations of disclosures that would amount to commercially sensitive information. We would urge the HKEX to consider the requirements applied to qualify for an exemption.(2)

(2): IFRS S1 – General requirements for sustainability-related financial disclosures pp. 31-32 (B34-B37).

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.

Agree. However, we understand that there will be challenges in disclosing metrics for some issuers. We would recommend guidance be provided to support reporters in their selection.

The ISSB recommends the use of cross industry metrics to support reporting. We would support industry collaboration to determine not only determining the systemic risks across industries, but also the establishment of best practice. We however note that this would rely on industry collaboration, which may not be uniformly strong.

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.

Agree. See also our response to Question 4. We suggest the issuer should be required to disclose how they are responding to both climate-related risks and opportunities as part of their transition plans.

However, we also recognise that not all issuers are uniform in their level of maturity. Further, as companies progress on their respective journeys, their transition plans may become

commercially sensitive as these plans could potentially provide competitive advantage. We would point to our response to Question 4 in this respect.

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.

Agree. However, with respect to paragraph 6(h), we recognise that carbon credits can play an important role in transition plans, but we suggest that related disclosures should instead be included as part of the metrics and targets requirements. We consider that transition plans should cover elements like adaptation.

Further, we consider that carbon credits should only be utilised to the extent that no other viable option is available to the issuer or where no further potential diversification or change in operations is possible at that time. As such, we also consider that evidence could be required on how an entity has sought to change its business operations or the extent to which other mitigation mechanisms have been deployed.

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?

Yes

Please provide reasons for your views.

Agree. We recognise that not all issuers have the same level of maturity or capability to set GHG emission targets. This would be especially so for small to medium-sized issuers. We suggest that note 2 could also require issuers who do not provide information related to GHG emission targets to provide an explanation on why they're unable to do so.

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.

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.

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.

Agree. However, we note that paragraph 9(e) views transition or physical risks in a mutually exclusive way. We consider that scenarios may increasingly encompass both transition and physical risks and suggest that the paragraph be amended to enable a cohesive view of the overall impact.

We note the lack of capacity of smaller issuers to comply to the same standard of disclosure that would be required for larger issuers. The ISSB has provided relief, by requiring qualitative disclosures as a minimum. IFRS S1 also provides relief to smaller entities by matching expected disclosures to the extent that: "the available skills, capabilities and resources when determining an appropriate approach to use for its climate-related scenario analysis".

We would suggest a similar approach to provide relief for smaller issuers in the first instance.

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?

No

Please provide reasons for your views.

Disagree. We consider it to be difficult for issuers to isolate and quantify the effects of climate on their financial position, performance and cash flows.

Additionally, we note that the current effects on the financial position, performance and cash flows should already be disclosed within the issuer's financial statements. We do not believe that these disclosures should be duplicated.

Whilst we agree with encouraging the disclosure of quantitative information, we would prefer Part D of Appendix 27 to provide greater flexibility, clearer definitions as to what is considered "climate-related".

Similarly, guidance should be provided as to the use of assumptions and how entities should navigate situations where assumptions relied on differ from those relied on for general financial reporting purposes.

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.

See our response to Question 12.

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?

Yes

Please provide reasons for your views.

Agree. However, we consider there may be a challenge regarding the requirement in paragraph 11(b) for disclosure on funding plans. We appreciate that the intent is to seek clarity on how issuers would seek to fund their transition ambition. However, information on the potential sources of funding may be highly sensitive and speculative. The depth of disclosure required should be balanced against commercial sensitivities.

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.

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.

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.

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.

Agree. We believe paragraph 14(a) should also require issuers to disclose the methodologies used to prepare data, regardless of whether they choose to use the GHG Protocol or local legislation for measuring GHG emissions.

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.

Agree. We also acknowledge that while there are existing data, methods, and tools for calculating Scope 3 emissions, there will be challenges in obtaining complete data for some issuers.

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?

Yes

Please provide reasons for your views.

Agree. The proposed Interim Period as well as clear disclosure of assumptions, limitations, and uncertainties in the data, will be important to enable users to understand the information.

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?

Yes

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?

Yes

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?

Yes

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?

Yes

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?

Yes

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?

Yes

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.

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.

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.

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.

Agree. Consideration would need to be given on how the requirement to factor climate-related considerations into remuneration policy relates to enterprise value and whether such a requirement could be extended for additional sustainability thematic areas.

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?

No

Please provide reasons for your views.

We strongly disagreed with the inclusion of industry-based requirements within the IFRS Sustainability Disclosure Standards. While we support the inclusion of industry-specific metrics, we recommend industry-specific metrics should be reviewed and field tested for their usefulness to users of general purpose financial reports before their inclusion within Part D of Appendix 27.

We also note that the SASB Standards are currently under review to determine and align with international expectations.

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?

No

Please elaborate.

No further comments.

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.

Crucial to the proposed enhancements of climate-related disclosures is data, both internal and external. In this regard, issuers will require complete data, such as Scope 3 emissions, from entities including SMEs. Many SMEs will not possess the skills and capabilities to collect and organise data necessary for climate and sustainability disclosures of issuers. This could have the unintended consequence of discouraging issuers buying from local SMEs given they may not be able to provide them the required data. It should also be recognised that providing such data to issuers will add to SME compliance costs. We suggest the HKEX continue collaborating

with the government, industry associations, and businesses to make it simpler for SMEs to provide such data at the least possible cost. We however also note that the determination of the inclusion of Scope 3 would be reliant on the materiality of a range of players to the reporting entity.

Further, as noted in our response to Question 1, building professional capacity to support implementation of Part D of Appendix 27 and ongoing collaboration with the government, advisers, professional associations, businesses and educators within the sustainability reporting ecosystem will be critical. We have developed relevant educational programs and practical tools and resources to build professional capacity in sustainability reporting and assurance. For example, we provide a suite of self-paced learning materials on sustainability reporting including a micro-credential course and have published a number of thought leadership pieces on ESG including an ESG Reporting White Paper. Recently, we launched an ESG Internship Program to provide practical ESG work experience to students at top-ranked universities in Hong Kong.

There is also a critical role for independent external assurance to enhance the credibility of climate and sustainability disclosures. In our view, the goal should be for investors and other stakeholders to rely on the assurance obtained and the integrity of the information, similar to the way they rely on assurance obtained in an audit of financial statements. Assurance over climate-related disclosures is critical to ensure users can rely on the reported information for decision making.

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?

No

Please share your views with us.

No feedback at this stage.