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14 July 2023

Hong Kong Exchanges and Clearing Limited
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Dear Sir/Madam,

Re: Consultation Paper on Enhancement of Climate-Related Disclosures Under the Environmental, Social and Governance Framework

Deloitte Touche Tohmatsu is pleased to respond in this letter to Hong Kong Exchanges and Clearing Limited's (the "Exchange") Consultation Paper ("CP") on Enhancement of Climate-Related Disclosures Under the Environmental, Social and Governance Framework.

Investors are seeking more high-quality, transparent, consistent and internationally comparable sustainability-related information. We therefore welcome the Exchange's efforts in enhancing requirements on climate-related disclosure to help listed issuers meet the investors' growing information demands.

Specifically, we welcome and strongly support the Exchange's efforts in aligning requirements proposed in the CP with those in IFRS S2 Sustainability Disclosure Standard "Climate-related Disclosures" ("IFRS S2") issued by the International Sustainability Standards Board ("ISSB"). The alignment will help to provide investors with comparable information with regard to climate risk disclosures (aligned to a consistent global baseline now provided by IFRS S2) and minimise unnecessary cost for listed issuers from various jurisdictions, who have within their groups components which are required to report in accordance with these standards in other jurisdictions, or who may want to claim compliance with IFRS Sustainability Disclosure Standards. We also believe that the introduction of the proposed requirements would help maintain and improve the Exchange's competitiveness as a leading international capital market as well as supporting the goal of achieving a global baseline of consistent and comparable sustainability information which is essential to enable global flows of capital to sustainable businesses.

Reporting Boundary

Given the general aim of disclosure requirements with respect to climate-related risk that are aligned with the provisions of IFRS S2 and therefore comparable disclosures we question whether, with respect to the climate-related disclosures proposed in Part D of Appendix 27, they should be subject to the scope of what an issuer defines to be their Reporting Boundary in accordance with paragraph 15 of Part B of Appendix 27. While the ability of the issuer to draw a certain Reporting Boundary subject to a narrative explaining it is an existing provision of the Exchange's ESG reporting requirements, we believe in respect of the Part D disclosures for the sake of international comparability (given the fact that IFRS S2 does not have a comparable provision) on these key disclosures an issuer should be required to make full disclosures without any choice over how to draw the reporting boundary (effectively paragraph 15 not being applied to Part D disclosures) and instead use a definition of reporting entity that is the same as that for financial reporting purposes in line with standards issued by the ISSB. Otherwise, we are concerned that the claim of alignment to the requirements of IFRS S2 will not be meaningful in terms of the actual outcomes and could lead to issuers being perceived as producing lower-quality climate-related disclosures than those entities reporting in accordance with IFRS S2.

Alignment of wording

With respect to the detailed proposed requirements of Part D of Appendix 27, we note that these are not fully aligned to the requirements in IFRS S2 as now issued by the ISSB. We believe this is partly the result of changes made by the ISSB with respect to wording since the publication of the CP. In other cases, we believe this is the inadvertent result of the attempt to use more succinct simplified wording, presumably with an intent to make the requirements more understandable to users (perhaps as a result of some suggestions made to the Exchange). However, we believe that such attempts carry the very real risk of introducing differences in meaning and precise requirements, that could lead to questions about the degree of alignment with IFRS S2, reduce comparability (for Hong Kong investors as well as overseas investors considering investing in issuers listed on the Exchange and interested in being able to make assessments regarding prospects and risk adjusted returns on a comparable basis), and cause unnecessary confusion, as well as increasing costs of compliance for issuers. We have made detailed comments and recommendations in respect of instances of this in the responses to the questions where this is relevant. However, as a general comment we urge the Exchange to align the wording fully to the text of IFRS S2 subject to further reliefs and transitional arrangements that are deemed appropriate to local circumstances and any other necessary minimum changes necessary due to specific paragraph references and differences in paragraph structure.

Interim Provisions

In principle, we support many of the interim provisions recommended in the CP, which allow listed issuers to have more time in setting up processes and collecting data necessary to comply with certain requirements which are more challenging, especially for reporters with less experience in sustainability reporting. We have specific comments on some of those, which we discuss in our detailed responses to specific questions as set out in the Appendix to this letter. However, we urge the Exchange to consider whether the further ongoing (non-interim) reliefs now included in IFRS S2, as issued, could be adopted in the Exchange's guidance, and thereby remove the need for related interim provisions.

Equivalent requirements to IFRS S1

We note that the Exchange is proposing to require entities (through the proposed Part D of Appendix 27) to comply with requirements aligned with IFRS S2, combined with currently proposed more general requirements in Part A of the Appendix 27 with the latter not being aligned to the requirements of IFRS S1 "General Requirements for Disclosure of Sustainability-related Financial Information" ("IFRS S1"). As IFRS S1 and IFRS S2 were designed to operate as a package, we observe that the Exchange's proposal will not necessarily ensure comparable disclosures on the subject matter of climate-related disclosures when comparing entities applying the Exchange's proposed requirements with an entity reporting in accordance with the IFRS Sustainability Disclosure Standards (currently IFRS S1 and IFRS S2). Put another way, there is a danger that two entities, faced with exactly the same set of facts and circumstances reporting under the two sets of requirements (the Exchange's proposed requirements as compared to IFRS S1 and IFRS S2), would produce different disclosures in respect of climate risk disclosures. Prominent examples of possible sources for such a difference include the materiality Reporting Principle in paragraph 11a of Part A and the Reporting Boundary guidance in paragraph 15 in Part B being different to the equivalent guidance in IFRS S1. We observe that this could impair comparability and the weaken the ability of the Exchange's proposal to support the goal of achieving a baseline of consistent and comparable sustainability information.

Given the issue mentioned in the above paragraph and a number of important other benefits (as detailed in the Appendix) we urge the Exchange to carry out as a top priority a consultation proposing to incorporate into its ESG Code the requirements of IFRS S1 when these are not already present (as a project separate from this CP and without delaying the finalization of the proposals in the CP due to the urgent demand for climate-related disclosures). We believe this would be helpful to issuers, support the comparability with entities reporting under ISSB standards and strengthen the Exchange's attractiveness and competitiveness as a capital market. Please refer to the "other comments" section of the Appendix for our detailed reasoning in this respect. We would hope that incorporating the requirements of IFRS S1 could be carried out swiftly such that any period of operation of the proposed requirements of Part D (designed to align with IFRS S2) combined with Part A and B as currently proposed (not aligned to IFRS S1) guidance as per the proposals in the CP, which leads to the issues highlighted above could be kept to a minimum. The Exchange could also consider signalling to issuers, investors and stakeholders its intention to carry out a further consultation on this subject matter by including a statement to this effect when it finalises the proposed rules changes from the current CP.

Assurance

We note that paragraph 9 of Part A of Appendix 27 is not affected by the proposals in the CP and therefore will continue to state that *"The issuer may seek independent assurance to strengthen the credibility of the ESG information disclosed."* While we do not disagree with the lack of proposed changed in this area for the moment, i.e. that assurance would not be at present required, we recommend that the Exchange begin developing a timetable that would eventually require such assurance. We believe that ultimately the requirement for assurance of the sustainability reporting required by the Exchange (including significantly the newly proposed Part D) is necessary both to increase trust and confidence in climate-related disclosures and will help enhance the quality and reliability of the information. Assurance is therefore likely increasingly to be demanded by investors and other stakeholders. Such a move would help to maintain of the Exchange's position as a leading capital market over the longer term. In this respect we suggest that the Exchange considers the requirements and plans in this area by other regulators (as specifically detailed in the CP with respect to the European Union, New Zealand, Australia and others which may have emerged since), as well the timing of expected finalization of the planned new standard on assurance in this area being developed by the International Auditing and Assurance Standards Board ("IAASB"). Outreach with investors and other stakeholders, in order to gauge the strength of demand for such assurance, may be worth considering. On the other hand, the Exchange may wish to engage with assurance providers and issuers to ascertain what might be a realistic timeline for mandating such assurance, mindful of the need for issuers to put in place sufficiently mature controls and processes over sustainability information, which can form the basis of high-quality reporting as the basis of assurance. Taken together, this should enable the Exchange to put forward a proposal via a further consultation paper as to a timetable for requiring assurance over information disclosed under the requirements of its Environmental, Social and Governance Reporting Code. This could include the gradual phasing in of assurance over different requirements over a period of time and an increasing level of assurance (on the latter point the Exchange may wish to consider the European Union requirements and SEC proposals in this area).

Timing of release of final Listing Rule changes as a result of the changes proposed in the CP

Lastly, we bring to the attention of the Exchange the issue of the timing of the release of the final changes to the Appendix 27 of the Listing Rules as a result of the CP as compared to the Effective Date of the changes (currently proposed to be for periods commencing on or after 1 January 2024). Whilst we appreciate that the Exchange does need time to analyze feedback received and make decisions over the final changes, the later the release of the resulting amendments to Appendix 27, the more challenging it will be for issuers to be able to conduct the efforts needed, including putting in place the controls and processes necessary for a robust implementation of the requirements in time for reporting per the proposed Effective Date. This is particularly in the case for those issuers who are relatively less advanced in terms of sophistication of their current ESG and in particular climate-related reporting.

Our detailed responses to the CP are set out in the Appendix to this letter in response to each of the questions in the CP, along with some comments which are not necessarily associated with any particular question under the heading "Other comments". Unless otherwise defined, terms used herein shall have the same meanings as those defined in the CP.

In case of any questions please contact [redacted]

Yours faithfully,

[redacted]

APPENDIX

Question 1

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

We agree with the proposals for the reasons explained in the CP. We believe the proposals are generally in line with the approach of the ISSB standards in prescribing requirements (subject to consideration of materiality in respect of which see our remarks in *"Other comments: Equivalent requirements to IFRS S1" in the Appendix*) rather than giving "comply or explain". These standards are the expected global baseline, which will likely be adopted in many different jurisdictions worldwide. We also note that while the first batch of European Sustainability Reporting Standards ("ESRS") are still being finalized it is likely that those standards are largely in the form of requirements subject to consideration of materiality rather than "comply or explain" provisions. Therefore, the upgrade proposed by the Exchange is in line with the general direction of travel internationally for sustainability reporting frameworks to move from "comply or explain" type regimes to ones of mandatory reporting in line with demands from investors and other stakeholders. This will also help to maintain and strengthen the competitive position of Exchange as a major capital market attractive to investors and issuers as well as advance Hong Kong's position as a leader in green and sustainable finance, and help the financial ecosystem's transition towards carbon neutrality.

Question 2

Do you agree to introduce new governance disclosures focusing on climate-related issues as set out in paragraph 1 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We agree with the aim of the proposals for the reasons explained in the CP. We support the aim to align with IFRS S2 in this area and also note it is in line with the Steering Group announcement ambition (per para 42 of the CP) regarding TCFD, given governance is a pillar of the TCFD recommendations. However, we suggest that the following detailed changes be made to the disclosures proposed in the CP (in Part D: Climate Related Disclosures) in order to achieve full alignment with the requirements in IFRS S2:

- In para 1b) we suggest adding "or will be developed" after "appropriate skills and competencies are available" in line with the text in the IFRS S2.6a)ii) as now published by ISSB. As well as aligning with IFRS S2 text we believe this will be helpful in terms of the requirements reflecting the current reality of the fact that the boards of many issuers are (and will be for a period) still at the stage of developing skills and competencies in the area of climate risk.
- Given that para 1a) refers to "or board members" alongside board committees and the fact that IFRS S2.6a refers to "or individuals" we suggest that in the subparagraphs that follow references to "or board members" also be added where appropriate.
- In para 1b) we suggest the phrase "ensures that" be replaced with "determines whether" to align with IFRS S2 requirements. Given that some may consider that the former is more onerous than the latter requirement and the fact that we do not believe the Exchange is looking to make the requirements more onerous we suggest aligning the wording to the IFRS S2 wording would be desirable.

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Question 2 - continued

- We suggest incorporating into para 1 the requirement in IFRS S2.6a)i) to disclose "how responsibilities for climate-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s);"
- In para 1d) we suggest adding the words from IFRS S2.6a)iv) regarding "including whether the trade offs associated with the risks and opportunities have been considered".
- In para 1e) we suggest removing the reference to "significant" in relation to risks and opportunities, given the lack of such wording in IFRS S2.6a)v)
- In para 1f)iii) we suggest incorporating the requirement in IFRS S2 paragraph 6(b)(ii) on disclosing "how these controls and procedures are integrated with other internal functions".

Question 3

Do you agree to require disclosure of climate-related risks as set out in paragraph 2 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We agree with the broad shape of the proposals for the reasons explained in the CP. We support the full alignment with IFRS S2 in this area and also note it is in line with the Steering Group announcement ambition (as per para 42 of the CP) regarding TCFD given risks are key element of strategy pillar of the TCFD framework. In line with this we would suggest the following specific changes to the disclosures proposed in the CP (in Part D: Climate Related Disclosures) in order to achieve full alignment with the requirements in IFRS S2:

- In para 2 in the first sentence we suggest replacing the words "reasonably likely to have a material effect on" with "could reasonably be expected to affect". With respect to the materiality principle we note that this is already embedded in para 11 of Part A of Appendix 27 as part of the general Reporting Principles issuers should follow in preparing ESG Reports with specific wording on "threshold at which ESG issues determined by the board are sufficiently important to investors and other stakeholders that they should be reported". We therefore question whether this concept needs to be repeated in this paragraph. Similarly in the wording para 2a) we question whether the inclusion of the word "material" is necessary.
- Consider whether the Exchange wishes to require identification of whether a risk is acute or chronic per the proposed para 2d) given this is not specifically required by IFRS S2. If the Exchange does decide to still require this disclosure, we suggest that further guidance (perhaps through example) is given to help issuers understand the distinction between acute and chronic.
- We suggest adding to the proposed requirements an equivalent requirement to that in IFRS S2.13a) regarding "a description of the current and anticipated effects of climate-related risks and opportunities on the entity's business model and value chain".
- We suggest adding to the proposed requirements an equivalent requirement to that in IFRS S2.13b) regarding "where in the entity's business model and value chain climate-related risks and opportunities are concentrated (for example, geographical areas, facilities and types of assets)".
- We note that IFRS S2.11 guidance is not replicated in the proposed disclosures. We believe it should be added as this would align with IFRS S2 and provide useful guidance on practical considerations as to the information that needs to be considered in identifying climate related risks and opportunities.

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Question 4

Do you agree that issuers may opt to disclose the actual and potential effects of climate-related opportunities they may have identified in response to climate-related risks disclosed as set out in paragraph 3 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We do not support the proposal because it will create a permanent difference with IFRS S2 in this area. We understand that some stakeholders may be concerned about greenwashing on potential opportunities, but this concern could equally apply in any other jurisdiction and may in part be over time dealt with through appropriate assurance (see our comment in the covering letter on this area). We also note that the Steering Group announcement ambition (see para 42 of the CP) regarding TCFD would not seem to be supported by this proposal given opportunities are a key element of strategy pillar of the TCFD recommendations. While we note the comment in para 59 of the CP that "not all issuers would have identified climate-related opportunities to pursue at this stage" we question whether making the disclosure of the information with respect to climate-related opportunities optional in para 3 of Part D as a permanent difference to the requirements of IFRS S2 is appropriate. We suggest that the Exchange consider instead aligning the requirement to that in IFRS S2 subject to giving relief to the requirements with respect to opportunities as an Interim Provision (if necessary for a number of years). Separately we also suggest the Exchange consider incorporating the relief given in IFRS S1.73 from the requirement to disclose information about sustainability-related opportunities (in this context climate-related opportunities) if that information is commercially sensitive.

Further, we question the appropriateness of wording in paragraph 3 where it refers to "opportunities in response to the provisions described in paragraph 2". We are concerned that, given paragraph 2 mainly focuses on risks, some climate-related opportunities may not be captured by the current proposals, for example, exploiting new technologies or increasing revenues from new products and services. We note that the requirements in IFRS S2.10-13 which the Exchange is wanting to align to are not limited only to those climate-related opportunities that arise in response to climate-related risks that the entity is subject to.

Question 5

Do you agree that an issuer shall consider the applicability of and disclose the metrics when assessing and making disclosure of climate- related risks and opportunities as set out in paragraph 4 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We agree with the proposals for the reasons explained in the CP.

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Question 6

Do you agree to require disclosure of how the issuer is responding to climate-related risks and, where an issuer chooses to, any climate-related opportunities as set out in paragraph 5 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We agree with the proposal in general subject to the concern regarding opportunities as explained in the first paragraph of our response to Q4. With regard to the detailed wording proposed, we suggest the following changes to achieve full alignment with the requirements of IFRS S2:

- We suggest changing the wording in the proposed paragraph 5b) from "undertaken or to be undertaken" to "current or anticipated" to be consistent with the form of wording in the proposed paragraph 5a) and with the wording in the IFRS S2.14a)ii) and iii).
- We suggest adding to the proposed requirements an equivalent requirement to that in IFRS S2.14a)iv) and v) regarding "any climate-related transition plan the entity has, including information about key assumptions used in developing its transition plan, and dependencies on which the entity's transition plan relies" and "how the entity plans to achieve any climate-related targets, including any greenhouse gas emissions targets" respectively.
- With respect to the wording in the proposed paragraph 5c) we would suggest that the current wording of "how these plans will be resourced" be changed to "how the entity is resourcing and plans to resource these activities" to leave no doubt about the fact that disclosure of how current activities are resourced is required in line with the aim of full alignment of the corresponding requirements in IFRS S2.14b)
- We note that the section of the Part D proposed requirements containing paragraphs 5, 6 and 7 has the heading of "Transition Plans". However, we note that the disclosure requirements in this section are broader than transition plans and therefore suggest that the Exchange reconsider the heading and may wish to align with the "Strategy and decision making" heading in IFRS S2.

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Question 7

Do you agree to require disclosure of climate-related targets set by the issuer as set out in paragraph 6 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We agree in principle with the proposed disclosure given they are generally aligned with IFRS S2 requirements. However, we note the lack of alignment with the requirements of IFRS S2 in the following respects:

- IFRS S2 paragraphs 33(a) in respect of metrics used to set the target and 33(h) in respect of how the latest international agreements on climate change (currently the Paris Agreement) including jurisdictional commitments that arise from that agreement has informed a target are not replicated in the proposed disclosures, thereby creating misalignment. With respect to the latter requirement (how international agreements and jurisdictional commitments inform an issuer's targets) we note the Exchange's commentary in the comparison table in Appendix III of the CP which states: "As most of our issuers have just started to set and disclose targets, we prefer to have disclosures with more certainty". However, we are not sure we understand the rationale and question whether this provides adequate justification (given issuers on other exchanges would presumably face same issues) and therefore whether the omission of this and the other requirement (in respect of metrics used) relative to the IFRS S2 requirements is justified. If the Exchange remains convinced that such an area of misalignment is required then we advocate either creating an Interim Provision in this respect, or (if it may be difficult to set that given issuers may be at different stages of their sustainability reporting journey) that the Exchange revisit this area through a post implementation review of the requirements and how they are operating within a relatively short period of time after the effective date. In the latter case we would suggest that when publishing the changes to Appendix 27 as a result of the CP the Exchange could specify the timeline for such post implementation review.
- The requirements of IFRS S2.34 regarding details of approach to setting and reviewing each target seem not to be replicated in the proposed disclosures. We recommend inserting such disclosures to ensure alignment on this point.
- The proposed disclosure in paragraph 6h) in relation to GHG emission targets (including planned use of carbon credits) is not fully aligned with the requirements of IFRS S2.36. We observe that the quality and integrity of carbon credits as well as an entity's reliance on them to achieve any net GHG emission targets is an area of investor focus with this being catered for in IFRS S2. We urge the Exchange to amend the proposed requirements so as to achieve full alignment, noting in particular the following requirements:
    - IFRS S2.36a) b) and e) i) iv) requirements seem to have no equivalent in the proposed disclosure. We therefore recommend including corresponding requirements.
    - With respect to the requirement in IFRS S2.36d) to disclose "whether the target was derived using a sectoral decarbonisation approach" we note the comment in the Comparison Table in Appendix III of the CP which states that "As most of our issuers have just started to set and disclose targets, we prefer to have disclosures with more certainty". However, we question whether this is sufficient justification for not including this requirement when disclosure of whether a sectoral decarbonisation approach is used should be just a matter of fact given that the entity would not be required to disclose the details of the derivation from such sectoral approach.

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Question 7 – continued

- o With respect to the proposed paragraph 6h)ii) the terminology is not fully aligned with the wording in IFRS 2.36e)ii) and iii). In order to avoid confusion, questions during implementation and potential divergence of disclosure outcomes we recommend fully aligning the wording including with respect to requirement to disclose which third party schemes will verify or certify the carbon credits.

- With respect to the first sentence of the proposed paragraph 6 we would suggest that the wording of "targets the issuer is required to meet by local legislation" be widened to include "regulation" since there may be significant regulations that are binding but are not in the form of legislation in some jurisdictions. We also suggest that the reference of the laws and regulations be more general with respect to climate risk rather than only GHG emissions as the current drafting would suggest. In this respect we would suggest aligning the wording with the corresponding wording in IFRS S2.33.

Question 8

Do you agree that where an issuer has yet to disclose climate-related targets, it should make alternative disclosures as set out in note 2 to paragraph 6 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We recognise the reasoning for the proposals as explained in the CP especially on paragraphs 77 and 78. We also recognise that, given some issuers may require more time to determine meaningful and achievable climate-related targets, the alternative disclosure serves to ensure that this area is on the issuers' continuing sustainability agenda. Given that IFRS S2.BC141 makes clear that for the disclosures equivalent to the proposed paragraph 6, IFRS S2 does not require an entity to have climate-related targets, but simply requires disclosure of information when an entity has such targets, we observe the proposed disclosure is an additional requirement beyond what is required under IFRS S2 but one that may be useful to investors.

Also, we suggest that wording referring to "issuers who have not set specific targets as described in note 6" rather than the current wording of "issuers who do not provide information in relation to paragraph 6" be used to make clear that an issuer who has set specific targets is required to disclose them under the proposed paragraph 6. We believe this was the Exchange's intention given that paragraph 78 refers to "issuer may not have set climate-related targets for the current reporting year".

Question 9

Do you agree to require disclosure of progress made in the most recent reporting year in respect of plans disclosed as set out in paragraph 7 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We note that the final wording with regard to these requirements used in IFRS S2.35 has changed since the publication of the CP with the result that the proposed disclosure is no longer fully aligned. We recommend that the wording of paragraph 7 be fully aligned with that of IFRS S2.35.

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Question 10

Do you agree to require discussion of the issuer's climate resilience as set out in paragraph 8 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We agree in principle, given it is largely aligned with IFRS S2. However, we note several areas of detail where the specific words used do not align to those of IFRS S2 (in some cases as a result of changes made to the ISSB's standard between publication of the CP and issuance of IFRS S2) and would therefore suggest the following changes:

- In the proposed paragraph 8b) we suggest that the wording on implications should refer to "business model" in addition to "strategy" to ensure full alignment with the requirement in IFRS S2.22a)i) on this point. Also given that the equivalent IFRS S2 requirement refers to "including how the entity would respond to the effects identified in climate related scenario analysis" we question why the equivalent wording in the proposed paragraph 8b) refers to the "anticipated effects on the issuer during its transition to a lower carbon economy"
- We note that the wording of the proposed paragraph 8d) is broadly aligned with types of disclosure required under IFRS S2.22a)iii) however with much less detailed wording is significantly missing the mention of "over the short, medium and long term". We would suggest that the proposed wording is fully aligned with the equivalent IFRS S2 wording.

Furthermore, we note that requirement in paragraph 8(a) is in addition to those in IFRS S2 and it seems that no reason is given in the CP or in the Appendix III comparison table. We believe it would be useful for the Exchange to explain why they believe this additional requirement is justified before mandating it.

Question 11

Do you agree to require issuers to apply a climate-related scenario analysis that is commensurate with the issuer's circumstances, and to require disclosure of information on climate-related scenario analysis as set out in paragraph 9 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We agree in principle given it is largely aligned with IFRS S2. However, we also note that as a result of the issues noted in the first bullet point of our response to Q7 with respect to "international agreements" there will be a consequential lack of alignment relative to the requirement under IFRS S2 paragraph 22(b)(i)(4). Please refer to our comment made on Q7 in this respect. In addition, we have the following comments on the detailed wording:

- We note that the wording in the proposed paragraph 9a), 9b) and 9g) while it was aligned with the proposals in the Exposure Draft of IFRS S2, is no longer aligned with the wording in the final standard issued by the ISSB. We recommend aligning the wording fully with the requirements in IFRS S2.22b)i) (7) and IFRS S2.22b)ii).
- We also note that the proposed disclosure seems not to include equivalent requirements to those in IFRS S2.22b)i)2), IFRS S2.22b)i)4) and IFRS S2.22b)iii) and we would therefore suggest replicating those requirements in the proposed disclosures to ensure full alignment with IFRS S2 in this area.

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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.

We agree in principle, however, we note that the proposed disclosure carries over the difference on disclosing climate-related opportunities between CP's optional disclosure requirement and IFRS S2's mandatory disclosure requirement. Please refer to our response to Q4 in this respect (which recommends aligning, subject to necessary Interim Provisions, with the requirements of IFRS S2 which do require disclosure in respect of climate-related opportunities subject to the relief granted in IFRS S1.73) which would have a consequential effect here. We also question whether the inclusion of the words "where material" in proposed paragraph 10a) is necessary given the materiality principle we note that this is already embedded in para 11 of Part A of Appendix 27 as part of the general Reporting Principles issuers should follow in preparing ESG Reports with specific wording on "threshold at which ESG issues determined by the board are sufficiently important to investors and other stakeholders that they should be reported". We recommend the Exchange to include in its final guidance the provisions of IFRS S2.17 perhaps as part of implementation guidance. Crucially, given it provides relief versus the challenges of practical application in certain scenarios, we also recommend inclusion of exemptions together with alternative disclosures that are equivalent to the provisions of IFRS S2.19 and IFRS S2.21 with respect to current financial effects. We note that, given the fact that these are ongoing provisions in IFRS S2 rather than transitional relief, once these requirements are aligned the Exchange may wish to re-evaluate the detail of the Interim Provisions proposed in this area.

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.

We recognize the concerns raised by issuers during the Exchange's engagement with them over this requirement as well as the Exchange's reminder that under IFRS issuers are already required to quantify and account for material current financial effects of climate related matters as discussed in paragraph 94 of the CP. In this regard we note that in the finalized requirements of IFRS S2.19 and IFRS S2.21 there is some measure of relief provided from the need to disclose the current financial effects in specific circumstances along with accompanying disclosures an entity should provide in case it chooses not to provide such disclosure. This is in the form not of a transitional provision but a permanent allowance in IFRS S2. We therefore urge the Exchange to firstly replicate these provisions in the proposed disclosure requirements and then to consider (if need be, based on outreach with issuers) whether, in the presence of such permanent relief provisions, the proposed Interim Provisions are still necessary.

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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.

We agree with the proposal in principle given the goal of alignment with IFRS S2. However, we note that there are some specific areas of the proposed wording that are not aligned with the exact requirements of IFRS S2 as follows, which we urge the Exchange to consider in the interests of full alignment with the ISSB requirements:

- IFRS S2.15b) requires that in disclosing the anticipated financial effects of climate related risks and opportunities the entity should take into consideration how those risks and opportunities are included in the entity's financial planning. We suggest that this wording also be replicated in the wording of the proposed paragraph 11.
- We note that the while the requirements of IFRS S2.16c) d) are partly reflected in the wording of the proposed paragraphs 11a) and b) the wording and hence the requirements are not fully aligned. In the absence of full alignment of the wording we would anticipate confusion as to whether meeting the disclosure requirements proposed would amount to compliance with the equivalent requirements in IFRS S2. For instance IFRS S2.16c)i) requires an entity to consider its investment and disposal plans (with a list of examples) in giving the required disclosures, while the equivalent proposed disclosure in paragraph 11 refers only to "current and committed plans". Also, the proposed paragraph 11a) refers to "financial performance" while the equivalent requirement in IFRS S2.16d) refer to "financial performance and cash flows". We urge the Exchange to reconsider the exact wording compared to the final requirements in IFRS S2 and would recommend aligning the wording fully.
- We suggest adding to the proposed requirements equivalent requirements to those in IFRS S2.17-21 regarding a single amount or a range for quantitative information (IFRS 2.17), as well as crucially the additional guidance and exemptions regarding providing quantitative disclosures of anticipated financial effects and alternative disclosures applicable (IFRS S2.18-21). We note that, given the fact that these are ongoing provisions in IFRS S2 rather than transitional relief, once these requirements are aligned the Exchange may wish to re-evaluate the detail of the Interim Provisions proposed in this area.

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Question 15

Do you agree that during the Interim Period, where an issuer has yet to provide information required in paragraph 11 of Part D of the Proposed Appendix 27, it should make the interim disclosures as set out in the paragraph immediately following paragraph 11 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We do not agree with the proposals as they provide Interim Provisions for both qualitative and quantitative information on anticipated effects. We believe issuers should be in a position to disclose qualitative information on anticipated financial effects (even if they are not yet able to provide quantitative disclosures) without the need for Interim Provisions given the fact that issuers have already issued ESG reports for a number of years. Therefore, we recommend a consistent requirement with IFRS S2 paragraphs 19 to 21 as a permanent requirement rather than Interim Provision. Those requirements effectively allow qualitative disclosures for cases where specific criteria per IFRS S2.19-20 (which we believe are wide enough to cater for the circumstances of a wide variety of issuers) regarding the difficulty of providing quantitative disclosures are met. In particular IFRS S2.20 provides relief for instances when an entity may conclude it does not have the appropriate skills, capabilities or resources to meet these requirements. We believe alignment with IFRS S2 is desirable here especially given that TCFD guidance has for a long time suggested disclosure of financial effects of climate risk and investors have been vocal in making their expectations on this point clear.

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.

We agree in principle given it is largely aligned with IFRS S2. However, we urge the Exchange to review the proposed disclosure compared to the final requirements of IFRS S2 and align the requirements and wording fully given the analysis in the Comparison Table in Appendix III of alignment in this area. There are a number of areas where the requirements are not fully aligned as follows:

- Disclosure of input and parameters used as well as whether and how climate related scenario analysis has been used to inform the identification of risks (as required by IFRS S2.25a)i) and IFRS S2.25a)ii) respectively has no equivalent in the proposed disclosures
- With regard to the requirement in IFRS S2.25c) the words "the extent to which" are not replicated in the equivalent proposed requirement in para 12a)iv)
- The exact wording of IFRS S2.25a)iii) including "nature" and "magnitude" is not replicated in the equivalent proposed requirement in para 12a)iii)

APPENDIX - continued

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.

Please refer to our comments (i.e. first paragraph) made on Q4 (which recommends aligning, subject to necessary Interim Provisions, with the requirements of IFRS S2 which do require disclosure in respect of climate related opportunities subject to the relief granted in IFRS S1.73) which would have a consequential effect here.

Question 18(a)

Do you agree with the proposed approach for the disclosure of scope 1 and scope 2 emissions and the related information as set out in paragraphs 13 to 14 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We appreciate the Exchange's efforts at alignment with the requirements of IFRS S2 in this area but have some specific concerns. According to paragraph 14 of Part D, the GHG emissions would be measured in accordance with the GHG Protocol. The GHG Protocol has specific requirements for the entity boundary, either equity share, or financial control, or operation control. However, according to paragraph 15 in Part B, the issuer can decide the reporting boundary by explaining it. Thus, there may be significant differences between the GHG emission calculation boundary and the reporting boundary which we believe could result in non-comparability of disclosures between entities reporting under IFRS2 and IFRS1 and the Exchange's proposed disclosures. We note further that paragraph 14c) of the proposed disclosures stipulates disclosure of a "summary of specific exclusion of sources, facilities, and/or operations with a justification for their exclusion" while there is no equivalent disclosure in IFRS S2 as presumably such specific exclusions are not explicitly envisaged. It is suggested that Exchange should reconsider the interaction of these paragraphs as we are concerned that this could in practice lead to reporting outcomes that are not aligned with IFRS S2 reporters given the latter standard does not include a provision equivalent to paragraph 15 in Part B of the Exchange's requirements.

In addition, we suggest the Exchange consider the following differences between the proposed disclosures and the equivalent IFRS S2 requirements with a view to aligning to the ISSB requirements unless otherwise justified:

- Proposed disclosure in paragraph 14a) refers to "local legislation" whereas the local requirements may not come always from legislation with this being reflected in the equivalent IFRS S2.29a)ii) disclosure which refers to "required by jurisdictional authority or exchange"
- While paragraph 14b) of the proposed disclosures does require disclosure of what in IFRS S2.29 is described as the measurement approach (with paragraph 14b) referring to it instead as the "consolidation approach" IFRS S2.29a) also requires disclosure of "inputs and assumptions" (IFRS S2.29a)iii)1), "reason why the entity has chosen the measurement approach, inputs and assumptions" (IFRS S2.29a)iii)2) as well "any changes the entity made to the measurement approach, inputs and assumptions during the reporting period and the reasons for those changes" (IFRS S2.29a)iii)3). These latter requirements are not present in the Exchange's proposed disclosures.

APPENDIX - continued

Question 18(a) - continued

- Regarding Scope 1 and 2 emissions, the proposed requirements do not include disclosure of disaggregated emissions between consolidated accounting group and unconsolidated investees as required by IFRS S2 paragraph 29(a)(iv). This will reduce comparability with entities reporting under IFRS S2 when an entity chooses to consolidate GHG emissions using equity approach, since under such approach no disaggregation between GHG emission information of the consolidated accounting group and for other investees (i.e. associates, joint ventures and unconsolidated subsidiaries) will be disclosed under proposed requirements of Paragraph 13 and 14 of Part D.
- With respect to the detailed disclosure requirements of IFRS S2.29a)v) regarding Scope 2 emissions (pertaining to location based scope 2 emissions and information about contractual instruments necessary to understand those) we note that there are no equivalent requirements in the proposed disclosures.

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? Please provide reasons for your views.

With respect to the proposed disclosures, specifically in respect of Scope 3 emissions, while the proposed disclosures were aligned on the basis of the best information available at time of publication of CP (IFRS S2 Exposure Draft and subsequent ISSB decisions) the proposed disclosures are no longer aligned on the basis of the final requirements of IFRS S2.29a)vi). We urge the Exchange to align the proposed disclosure requirements with the exact words of those requirements subject only to necessary changes given this is a key area of reporting regarding climate risks expected by investors and other stakeholders. We also note that there is considerable application guidance in IFRS S2 backing these requirements (IFRS 2.B38-63) which we believe the Exchange should replicate, again subject only to necessary changes, in its planned implementation guidance.

Question 19

Do you agree with the proposed approach for the interim disclosures in respect of scope 3 emissions during the Interim Period as set out in the paragraph immediately following paragraph 15 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Given the practical difficulties in collecting Scope 3 data noted by issuers in paragraph 114 of the CP, the fact that IFRS S2.C4b) provides an exemption during the first annual period of application of that standard from disclosing Scope 3 GHG emissions, and the fact that the proposed Interim provision does still require issuers to disclose information reasonably available and a work plan, progress and timetable to make the disclosures, we believe the proposed Interim Provision is reasonable. We believe it represents a reasonable compromise between the goal of eventual full alignment with the requirements under IFRS S2 and the short-term challenges issuers will face in meeting the requirements.

APPENDIX - continued

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.

We agree with the proposal given it is aligned with the requirements in IFRS S2.29b). For the sake of clarity and to avoid any imprecision and confusion we would suggest that in the proposed paragraph "transition risk" be replaced with "climate-related transition risk". We suggest adding to the proposed requirements an equivalent requirement to that in IFRS S2.30 which states that "an entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort" when preparing disclosures to meet this requirement.

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.

We agree with the proposals for the reasons explained in the CP. We also note that, although for the Interim Period the Exchange is proposing in effect an exemption from the ongoing requirements, this does come with the condition that an entity that does take advantage of the Interim Provision has to disclose information which at minimum includes the location, nature of assets/business activities and transition risk involved as well as disclosing work plan, progress and timetable for making the required disclosures. We therefore believe this is a reasonable compromise between the goal of eventual full alignment with the requirements under IFRS S2 and the short-term challenges issuers will face in meeting the requirements.

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.

We agree with the proposal given it is aligned with the requirements in IFRS S2.29c). For the sake of clarity and to avoid any imprecision and confusion we would suggest that in the proposed paragraph "physical risk" be replaced with "climate-related physical risk". We suggest adding to the proposed requirements an equivalent requirement to that in IFRS S2.30 which states that "an entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort" when preparing disclosures to meet this requirement.

APPENDIX - continued

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.

We agree with the proposals for the reasons explained in the CP. We also note that, although for the Interim Period the Exchange is proposing in effect an exemption from the ongoing requirements, this does come with the condition that an entity that does take advantage of the Interim Provision must disclose information which at a minimum includes the location, nature of assets/business activities and physical risk involved as well as disclosing work plan, progress and timetable for making the required disclosures. We therefore believe this is a reasonable compromise between the goal of eventual full alignment with the requirements under IFRS S2 and the short-term challenges issuers will face in meeting the requirements.

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.

We agree with the proposal given it is aligned with the requirements in IFRS S2.29d). We suggest adding to the proposed requirements an equivalent requirement to that in IFRS S2.30 which states that "an entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort" when preparing disclosures to meet this requirement.

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.

We agree with the proposals for the reasons explained in the CP. We also note that although for the Interim Period the Exchange is proposing in effect an exemption from the ongoing requirements this does come with the condition that an entity that does take advantage of the Interim Provision must disclose information which at a minimum includes the location, nature of assets/business activities and opportunity involved as well as disclosing work plan, progress and timetable for making the required disclosures. We therefore believe this is a reasonable compromise between the goal of eventual full alignment with the requirements under IFRS S2 and the short-term challenges issuers will face in meeting the requirements.

APPENDIX - continued

Question 23(a)

Do you agree to require disclosure of the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities as set out in paragraph 19 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We agree with the proposal given it is aligned with the requirements in IFRS S2.29e).

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? Please provide reasons for your views.

We agree with the proposals for the reasons explained in the CP. We also note that although for the Interim Period the Exchange is in effect proposing an exemption from the ongoing requirements this does come with the condition that an entity that does take advantage of the Interim Provision must disclose the types of activities requiring capital expenditure, financing or investment towards climate related risks and opportunities as well as disclosing work plan, progress and timetable for making the required disclosures. We therefore believe this is a reasonable compromise between the goal of eventual full alignment with the requirements under IFRS S2 and the short-term challenges issuers will face in meeting the requirements.

Question 24

Do you agree that where an issuer maintains an internal carbon price, it should disclose the information as set out in paragraph 20 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

We do not agree with the detailed wording proposed in paragraph 20 and instead recommend full alignment with the wording of IFRS S2.29f). We note the comment in paragraph 129 of the CP whereby the Exchange is proposing not to "mandate issuers to maintain an internal carbon price at this stage" given the difficulties in this area. However, in this respect, we observe that the IFRS S2 final requirements do not mandate issuers to maintain an internal carbon price: the ISSB has made a change since the proposals in their Exposure Draft of S2 in so far as the final requirement of IFRS S2.29f)i) refers to "an explanation of *whether* and how the entity is applying a carbon price..." (*italics* for emphasis). In particular, we recommend that this wording be replicated in the proposed disclosures through full alignment of wording, and the Exchange introduce additional wording requiring an entity that does not maintain an internal carbon price to disclose this fact. This would be aligned with the guidance in the final sentence in IFRS S2.BC130.

APPENDIX - continued

Question 25

Do you agree with the proposed approach for the disclosure of how climate-related considerations are factored into remuneration policy as set out in paragraph 21 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

With respect to the proposed requirement to disclose "how climate related considerations are factored into remuneration policy" in the proposed paragraph 21 we have two specific comments aimed at aligning the requirement fully to the equivalent IFRS S2 requirement:

- We recommend aligning the scope of the disclosure more precisely to the words in IFRS S2.29g) which refer specifically to "executive management remuneration"
- We recommend amending the requirement to refer to "whether and how climate-related considerations..." to align with the requirements of IFRS S2.29g)i) and thereby also help to clarify that when climate related considerations are not factored into executive remuneration this fact in itself should be disclosed.

We acknowledge and agree with the comment made in paragraph 133 of the CP that "companies consider a range of factors in determining the remuneration package, and it might not be practical to quantify the actual percentage or amount of remuneration linked to a particular factor." However, in a situation where a part of executive remuneration is linked solely to climate-related considerations there appear to be no practical issues, yet such disclosure would not be required under the proposed paragraph (in contrast to IFRS S2.29 requirements), despite our understanding that such information is of interest to investors and other stakeholders. We can envisage situations where a certain part of executive remuneration is discretionary and dependant on a balanced scorecard assessment of a number of factors which could explicitly include climate-related considerations without any allocation of percentages between those factors (and hence no percentage in respect of climate-related considerations). We believe that in that situation an entity would not be required to disclose a percentage linked solely to climate-related considerations (since there is no such percentage) but should still disclose the part of remuneration to which climate-related considerations are an input along with other considerations. We also note that in this regard, issuers on the Exchange are not in a fundamentally different position to other entities who might be applying the requirements in IFRS S2 in other jurisdictions. Therefore we suggest that the Exchange consider aligning the wording to IFRS S2 requirements, including provisions equivalent to those in IFRS S2.29g)ii) but also provide implementation guidance on this topic that would explain how issuers should deal with cases such as the situation we have outlined in this paragraph and the Exchange alludes to in paragraph 133 of the CP.

APPENDIX - continued

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.

Whilst we agree that, consistent with the requirements in IFRS S2, an issuer should not be required to disclose specified industry-based metrics (e.g. metrics based on SASB Standards) we note that IFRS S2.32 does require that "An entity shall disclose industry-based metrics that are associated with one or more particular business models, activities or other common features that characterise participation in an industry" and that an entity shall "refer to and consider the applicability of the industry-based metrics associated with disclosure topics described in the *Industry-based Guidance on Implementing IFRS S2*." We therefore suggest that a similar form of wording could be incorporated into the proposed paragraph 22 with the reference to what entities should consider in addition to or as part of the current reference to "industry-based disclosure requirement prescribed under other international ESG reporting frameworks such as the SASB Standards and the GRI Standards, and make disclosures as they see fit." This would have the benefits of alignment to IFRS S2 provisions, embedding a requirement to carry on with existing industry disclosure metrics but not requiring the entity to apply particular metrics. We suggest in particular that one of the materials referenced is the *"Industry-based Guidance on Implementing IFRS S2"* as this was specifically created by the ISSB (derived from SASB Standards) to suggest industry-specific metrics relevant to climate-related matters, relevant to the disclosure requirements of IFRS S2 to which the Exchange is intending to align its new requirements. In addition, we note that IFRS S2.23 does require an entity to refer to and consider the applicability of cross-industry metric categories when disclosing information in relation to business model, value chain, strategy, financial effects and climate resilience.

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.

Given many issuers are operating in the PRC and may at the same time be dual listing in the PRC, we recommend the Exchange monitor the development of PRC sustainability reporting requirements and consider in the future updating paragraph 8 of Appendix 27 for reference to such standards once they have been issued.

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.

We believe the following considerations should influence the Exchange's planned development of further guidance:

- In terms of structure and form of further guidance, the Exchange should consider the further guidance in IFRS S2 (in addition to the requirements in the main body of the standard) which includes: application guidance, implementation guidance, illustrative examples, as well as specific industry based guidance (for consideration only).

APPENDIX - continued

Question 28 - continued

- In terms of the content including the actual wording of any further guidance we urge the Exchange to consider carefully the relevant additional guidance (as listed in the bullet point above and in particular the application guidance in Appendix B) in IFRS S2 and its Basis of Conclusions (see example in our response to Q25), and make efforts to align with that including using same wording (excluding references to paragraphs) as far as possible. Following this principle should ensure that the any further guidance created by the Exchange is aligned with that in IFRS S2 and does not lead to differing disclosure outcomes due to differing detailed guidance, or indeed the Exchange through its guidance inadvertently ending up providing a jurisdictional interpretation of IFRS S2 provisions that could undermine the goal of achieving a consistent and comparable global baseline in this area. Most importantly we would like to draw the Exchange's attention to the fact that the Application Guidance in IFRS S2 has the same authority as the main body of the standard as the ISSB have placed directly underneath the "Appendix B: Application Guidance" heading the wording of "This appendix is an integral part of IFRS S2 and has the same authority as the other parts of the Standard". We believe that it is especially critical therefore that the Application Guidance from IFRS S2 is recreated in the Exchange's proposed implementation guidance on the same basis (i.e. having the same authority as the main requirements in Part D) and with wording aligned as closely as possible.
- The Exchange could contemplate including the further guidance that would allow entities to consider other guidance that may be helpful on specific areas. For example, for the setting of climate targets considering the recommendations on target setting methods stated in Science Based Targets initiative (SBTi) criteria V5.1 (recently published in April 2023) may be useful.

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.

Please see our individual responses to earlier questions which consider the final text of IFRS S2 as issued on 26 June 2023 and in many cases make recommendations based on alignment with those requirements. As a general comment we urge the Exchange to align the wording fully to the text of IFRS S2 subject to further reliefs and transitional arrangements that are deemed appropriate to local circumstances, and any other necessary minimum changes necessary due to specific paragraph references and differences in paragraph structure. We believe this would best serve the interests of investors and other stakeholders, help to maintain and strengthen the Exchange's position as a leading capital market, as well as supporting the goal to achieve a baseline of consistent and comparable sustainability information which is essential to enable global flows of capital to sustainable businesses.

APPENDIX - continued

Other comments

Equivalent requirements to IFRS S1

We believe that there are several reasons why the Exchange should consider incorporating the requirements of IFRS S1 into its own Code requirements.

Firstly, we note that, in the context of the aim of aligning the proposed climate risk disclosures to the requirements of IFRS S2, multiple paragraphs in that standard make references to specific paragraphs and requirements of IFRS S1. This reflects the fact that the ISSB expects the requirements of IFRS S2 to be applied together with the general framework and requirements of IFRS S1. In certain cases, this could mean that an entity applying the requirements of both IFRS S1 and IFRS S2 (as it is required or chooses to report in accordance with the IFRS Sustainability Disclosure Standards) could disclose different information or perhaps additional information with respect to climate-related matters relative to an issuer complying with the proposed disclosure requirements in Part D (even assuming they are fully aligned with IFRS S2) when combined with the proposed requirements of Part A and B (which are not aligned with the provisions of IFRS S1). Put another way, there is a danger that two entities, facing exactly the same set of facts and circumstances, reporting under the two sets of requirements (the Exchange's proposed requirements as compared to IFRS S1 and IFRS S2) would lead to different disclosures in respect of climate-related matters. One overarching source of such differences could be the fact that the guidance on materiality as a Reporting Principle in Appendix 27 (and the backing guidance in the Exchange's publication "How to Prepare an ESG report") is not fully aligned with the definition of materiality and guidance on materiality assessments in IFRS S1. We also note that another source of difference could come from the fact that the guidance on Reporting Boundary in paragraph 15 in Part B of Appendix 27 is not aligned with equivalent specification of the reporting entity in IFRS S1. Yet another source could come from the fact that IFRS S1 has detailed guidance on comparative amounts (especially with regard to metrics) and errors which may not have an aligned equivalence in Appendix 27. A further, more detailed example of such a situation could be with regards to the disclosure on internal carbon prices. Even assuming full alignment of the proposed disclosure in Part D with IFRS S2.29f)i) requirements an entity also reporting under IFRS S1 may be required to disclose how it arrives at the internal carbon price and inputs used under IFRS S1.50 with no equivalent requirement under the ESG reporting requirements of the Exchange as those do not incorporate provisions equivalent to IFRS S1 on general disclosure of metrics.

Secondly, we note that the ISSB plans (subject to input in the recent Agenda consultation) to gradually produce topical disclosure standards dealing with other areas of sustainability in addition to climate-related matters (for instance, human capital). Even assuming the Exchange may want to mirror those requirements in its own ESG guidance (following similar route to that proposed in the current CP with respect to IFRS S2) this process of issuance of such standards by the ISSB will take time with there being a further period needed for the Exchange to propose disclosures, consider feedback from constituents and issue changes to the Listing Rules to algin to these. In the meantime, an entity reporting under IFRS S1 would have guidance requiring disclosures in relation to other areas of sustainability using the general framework in that standard which in turn is based on TCFD principles. We therefore believe that incorporating IFRS S1 into the Exchange's requirements would aid comparability and strengthen the Exchange's attractiveness and competitiveness as an international capital market. In addition to a general framework modelled on TCFD in particular we believe that the following guidance and requirements in IFRS S1 would be especially useful:

APPENDIX - continued

Other comments - continued

Equivalent requirements to IFRS S1 - continued

- reporting entity;
- location and timing of disclosures;
- core content;
- connected information;
- value chain;
- time horizons;
- guidance to identify sustainability risks and opportunities;
- materiality/material information;
- qualitative characteristics

We note that under the proposed revisions to paragraph 8 of Part A of Appendix 27, the Exchange is proposing that an issuer "may adopt international ESG reporting guidance, including the IFRS Sustainability Disclosure Standards, so long as it includes comparable disclosure provisions to the provisions set out in this Code". The Exchange is therefore proposing that an issuer could adopt IFRS Sustainability Disclosure Standards (currently S1 and S2) as long as it is satisfied that this will include providing all the disclosures specified in the Exchange's code or provides any additional disclosures necessary to do so. Whilst we believe that this is appropriate as a short-term measure beyond that it has two major drawbacks as compared to requiring compliance with requirements equivalent to IFRS S1. Firstly, an issuer wanting to pursue this path will need to spend time, resources and effort ascertaining any possible differences between the requirements of IFRS S1 and S2 (and in future other ISSB standards) and the requirements of the Code. Secondly comparability to issuers in other jurisdictions reporting in accordance with IFRS Sustainability Disclosure Standards would only be achieved for those Exchange issuers who voluntarily take advantage of the provisions in the above-mentioned proposed paragraph 8 of Part A. Therefore, we believe that the Exchange should have as its aim the full alignment to the requirements of IFRS Sustainability Disclosure Standards (crucially including IFRS S1) in order to fully realise the potential of its issuers reporting according to the global baseline as established by the ISSB.

We also note that the requirements of IFRS S1 with respect to sustainability-related risks and opportunities in general (other than climate related risks and opportunities) could be usefully combined with the existing provisions of Part C of Appendix 27 with the latter being gradually replaced as the Exchange would in the future align with the requirements of new IFRS Sustainability Disclosure Standards as the ISSB issues these (e.g. pertaining to environment/biodiversity/ecosystem or human capital) in a similar way to what the Exchange has proposed to do in this CP with respect to the climate risk material in Part C. We also note that incorporating the requirements of IFRS S1 on an aligned basis would not prevent the Exchange from being able to retain additional specific requirements in the Code or accompanying guidance that it deems necessary that do not conflict with those requirements (for instance material on stakeholder engagement).

Thirdly, requirements equivalent to those in IFRS S1 would have the benefit of making the Exchange's ESG reporting requirements subject to the same general requirements in IFRS S1 that may be useful to issuers and investors in dealing with the practical challenges of sustainability reporting. For example we believe the requirements regarding judgements, uncertainties and errors in IFRS S1.74-86 would fall into this category and would be welcomed by investors and issuers.

APPENDIX - continued

Other comments - continued

Equivalent requirements to IFRS S1 - continued

While we understand the priority given to climate-related risks with this being demanded by investors, regulators and other stakeholders and therefore support the proposed disclosures aligned with IFRS S2 for the reasons given above, we believe that the Exchange should proceed as fast as possible to incorporate on an aligned basis the requirements of IFRS S1 to the extent these are not already present in its ESG guidance in Appendix 27. As this would involve a detailed comparison of the requirements of IFRS S1 with the equivalent current provisions of Appendix 27 and presumably require a separate Consultation Paper we would not suggest this delay the adoption of the proposals in the CP but would rather recommend the Exchange to investigate this as a separate project. We recommend that the Exchange consider this as a priority project and work towards issuing a Consultation Paper on this in the near future. We would hope that incorporating the requirements of IFRS S1 could be carried swiftly such that any period of operation of the proposed requirements of Part D (designed to align with IFRS S2) combined with the current Part A not aligned to IFRS S1 guidance as per the proposals in the CP which leads to the issues we highlight above could be kept to a minimum.

Other recommendations on wording:

We have the following additional recommendations on issues of wording that affect a number of the proposed paragraphs in Part D in the same way:

- In a number of the proposed paragraphs (2, 8, 11, 12) after the first sentence the formulation "this envisages disclosure of" is used before a list of what we believe to be the detailed requirements (subject to any separate Interim Provisions). To avoid any possible ambiguity as to whether "envisages" is equivalent to a formal requirement we would recommend the formulation "specifically this requires disclosure of" be used instead which would be aligned with the form of wording used in IFRS S2.
- In a number of places in the IFRS S2 requirements the ISSB purposefully used wordings of "whether x..." and "whether, and how x...." with the implication that if the subject matter "x" is not maintained/performed/not present then the issuer should disclose this fact. An example of such an instance is described in our response to Q24 but we note that there a number of other uses of this wording within the final requirements of IFRS S2. We think this form of wording is therefore important and we suggest that the Exchange consider such instances carefully when it aligns its proposed requirements to the final text of IFRS S2.

Chinese translation

Some of the Chinese translation in proposed requirements are inconsistent with the Chinese translation in the Chinese versions of TCFD and IFRS S2 published on the official websites of the respective organizations, for example, physical risks (實體風險 vs 物理風險), transition plan (過渡計畫 vs 轉型計畫) and transition risks (過渡風險 vs 轉型風險). We recommend that the Exchange's translation be aligned with those official translations.