<u>Submitted via Qualtrics</u>

Anonymous
Company / Organisation
Law Firm

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

Yes

Please provide reasons for your views.

Freshfields agrees.

This is the direction of travel of the global market and will help Hong Kong maintain its position as a green and sustainable international financial centre.

Please also refer to our response to Question 29 below.

<u>Question 2</u>
Do you agree to introduce new governance disclosures focusing on climate-related issues as set out in paragraph 1 of Part D of the Proposed Appendix 27?

Yes

Please provide reasons for your views.

Freshfields agrees.

Governance disclosures will allow investors and stakeholders to better understand and assess the roles of the board and management in overseeing, assessing or managing climate-related risks and opportunities.

Whilst a vast majority of issuers have disclosed their board's oversight of and management approach on ESG issues following the introduction of mandatory ESG governance disclosures, we note that most of the governance disclosures are still relatively broad and general which may not be able to allow investors to evaluate the governance processes, controls and procedures the issuers use to monitor, manage and oversee the ESG issues.

Therefore, enhancing the governance disclosure focusing on climate-related issues is vital and necessary and is in line with the global trend.

Additionally, Freshfields proposes the following.

1. That if an entity takes an integrated approach to monitor, manage and oversee its sustainability-related risks and opportunities and has disclosed the same in its ESG report, the entity should be allowed to avoid duplicating its governance disclosure for climate-related riskand opportunity.

We note that the proposal for existing ESG governance disclosures as set out under paragraph 13 of Appendix 27 will remain in place in respect of all ESG matters. As many entities structure their governance and management to address all sustainability-related issues in an integrated way, we propose that provided the ESG governance disclosures of an entity has satisfied the new requirements for the climate-related governance disclosures as set out in paragraph 1 of Part D of the Proposed Appendix 27, such entity is not required to repeat the governance structure for climate-related issues. This approach is also consistent with IFRS S2.

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.

Freshfields agrees.

Information about climate-related risks is useful to investors since a company's ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the company and its stakeholders, society, the economy and the natural environment throughout the company's value chain.

Therefore, requiring a company to disclose information about its climate-related risks will assist its investors and stakeholders in making more informed decisions relating to the company.

It will also help the management of the company to identify the climate-related risks and revisit the company's business model so as to adjust the development plan to cope with any climate-related risks, and thus contribute to the sustainable growth of the company.

Question 4

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

Yes

Please provide reasons for your views.

Freshfields agrees.

Additionally, Freshfields proposes the following to align Part D of the Proposed Appendix 27 with IFRS S2.

1. That disclosure of the actual and potential effects of climate-related opportunities shall be mandatory instead of optional.

As with climate-related risks, information about climate-related opportunities is increasingly important to investors for understanding and assessing a company's sustainability and business condition.

Climate-related risks and opportunities are distinct but are not always mutually exclusive and an entity might also take advantage of climate-related opportunities.

The relationship between climate-related risks and opportunities is important to redeliberate some of the requirements in Part D of the Proposed Appendix 27, such as those related to risk management and strategy, particularly in the area of climate resilience.

Mandatory disclosure of both climate-related risks and opportunities provides investors a full picture of the company's business status and growth capacity.

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.

Freshfields agrees.

Additionally, Freshfields proposes the following to align Part D of the Proposed Appendix 27 with IFRS S2.

1. That disclosure of the metrics when assessing and making disclosure of climate-related risks and opportunities shall be made mandatory.

Our proposal could be achieved by removing the words "consider the applicability and" from paragraph 4 of Part D of the Proposed Appendix 27 so that Part D of the Proposed Appendix 27 aligns with IFRS S2.

Accordingly, disclosure under paragraphs 2 and 3 of Part D of the Proposed Appendix 27 would have a quantitative basis and be more specific and reliable for users.

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.

Freshfields agrees.

Additionally, Freshfields proposes the following to align Part D of the Proposed Appendix 27 with IFRS S2.

1. That disclosure of how an issuer responds to climate-related opportunities shall be mandatory.

This disclosure will enable investors to understand the effects of significant climate-related risks and opportunities on the company's strategy and decision-making.

Additionally, this disclosure is essentially inter-related with the mandatory disclosure of climate-related risks and opportunities, which will allow investors to understand and assess a company's management approach and business strategy in a more comprehensive way.

2. That disclosure of information about key assumptions used in developing a transition plan shall be mandatory.

3. That disclosure of dependencies on which the issuer's transition plan relies shall be mandatory.

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.

Freshfields agrees.

Additionally, Freshfields proposes the following to align Part D of the Proposed Appendix 27 with IFRS S2.

1. That disclosure of climate-related targets set by the issuer shall include both quantitative and qualitative targets on a mandatory basis.

Requiring an issuer to disclose quantitative and qualitative climate-related targets will serve to guide the sustainable development of a company by urging the management to consider such targets during the decision-making procedure, and revisit the targets and measures periodically.

The differentiation between climate-related targets and GHG emissions targets is also consistent with the requirement under IFRS S2, so the disclosure framework is in line with international trend.

2. That disclosure of the metric used to set the climate-related target set by the issuer shall be mandatory.

3. That, if the climate-related target set by the issuer is quantitative, disclosure of whether the target is an absolute target or an intensity target shall be mandatory.

4. That disclosure of how the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement, has informed the climate-related target set by the issuer shall by mandatory.

<u>Question 8</u>

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

Yes

Please provide reasons for your views.

Freshfields agrees.

This interim provision will enable investors to understand the company's readiness of setting climate-related targets, and ensure that the setting of climate-related targets would be on the company's sustainability agenda.

Additionally, Freshfields proposes the following.

1. That an issuer which has yet to set climate-related targets should disclose the reasons for failing to set any climate-related targets.

2. That a reasonable interim period for the alternative disclosures should be imposed on the issuer to prevent it from avoiding setting targets in a long term.

<u>Question 9</u>

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.

Freshfields agrees.

Disclosure of progress will be helpful for the management to assess the effectiveness of the sustainability measures taken during the year and make appropriate adjustment to the measures or the plans where necessary.

With this requirement, companies will be more motivated to carry out the sustainability plans in order to achieve the milestone targets.

Additionally, Freshfields proposes the following to align Part D of the Proposed Appendix 27 with IFRS S2.

1. That disclosure of information about an issuer's performance against each climate-related target and an analysis of trends or changes shall be mandatory and should form part of the disclosure required in paragraph 7 of Part D of the Proposed Appendix 27.

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.

Freshfields agrees.

The information related to the climate resilience of an entity's strategy and business model will inform investors and stakeholders about the entity's ability to cope with and withstand the effects of climate-related risks and uncertainties in different scenarios, and allow investors and stakeholders to evaluate whether a company's business model is sustainable.

Additionally, Freshfields proposes introducing the methodologies of the climate-related scenario analysis, which is a tool proposed to be applied by issuers pursuant to paragraph 9 of Part D of the Proposed Appendix 27, into paragraph 8(b) of Part D of the Proposed Appendix 27, so that the provision will be read as “the implications, if any, of the issuer’s findings for its strategy, including how it would need to respond to the anticipated effects on the issuer identified in the climate-related scenario analysis”. Such climate-related scenario analysis should meet the requirements of paragraph 22(b) of IFRS S2 which include specific requirements for disclosure of information inputs used, key assumption and reporting period of the climate-related scenario analysis. Such amendment aligns with the requirement under paragraph 22(a)(i) of IFRS S2 and will enhance the consistency of the climate-related discussion and assessment of an issuer.

Freshfields further proposes the following to align Part D of the Proposed Appendix 27 with IFRS S2.

1. That disclosure of the issuer’s capacity to adjust or adapt its strategy and business model to climate change over the short, medium and long term shall be mandatory and that this requirement shall include disclosure of:

a. the availability of, and flexibility in, the entity’s existing financial resources to respond to the effects identified in the climate-related scenario analysis, including to address climate-related risks and to take advantage of climate-related opportunities;

b. the issuer’s ability to redeploy, repurpose, upgrade or decommission existing assets; and

c. the effect of the issuer’s current and planned investments in climate-related mitigation, adaptation and opportunities for climate resilience.

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.

Freshfields agrees.

We note that climate-related scenario analysis is a key tool for assessing financial risks arising from climate change, as standard risk modelling cannot adequately capture the unprecedented nature of climate risks and the inherent uncertainty of future climate-related events. Climate-related scenario analysis can help a company and its investors understand how climate-related events and their associated risks and opportunities may impact the company's business model, strategy and financial performance over time.

Additionally, Freshfields proposes the following to align Part D of the Proposed Appendix 27 with IFRS S2.

1. That the Exchange publish an implementation guide and / or provide relevant trainings for issuers to familiarise themselves with climate-related scenario analysis.

Whilst the usefulness and importance of climate-related scenario analysis is well-recognised, most issuers listed in Hong Kong are still unfamiliar with the steps and methodologies to conduct the analysis. We also note that the minimum information required to be disclosed under paragraph 9 of Part D of the Proposed Appendix 27 is different from the requirements under paragraph 22(b) of IFRS S2, which may cause confusion to the public.

Many of our clients have raised questions regarding how to conduct the analysis during our preliminary discussion with them. Therefore, we suggest that additional guidance and clarity on the use of the climate-related scenario analysis is needed, and the Exchange may publish more implementation guide or provide relevant trainings to issuers to enable them to get familiar with this tool.

2. That it shall be mandatory for issuers to adopt the methodology set out in paragraph 22(b) of IFRS S2 when conducting climate-related scenario analysis.

<u>Question 12</u>
Do you agree to require disclosure of the current financial effects of climate-related risks, and where applicable, climate-related opportunities as set out in paragraph 10 of Part D of the Proposed Appendix 27?

Yes

Please provide reasons for your views.

Freshfields agrees to require disclosure of the current financial effects of climate-related risk.

Additionally, Freshfields proposes the following to align Part D of the Proposed Appendix 27 with IFRS S2.

1. That disclosure of the current financial effects of climate-related opportunities shall also be mandatory.

Disclosure of the financial effects of climate-related opportunities as important to investors as disclosure of the financial effects of climate-related opportunities. Accordingly, disclosure of the financial effects of climate-related opportunities should also be mandatory.

Please see also our response to Question 4 above.

2. That the Exchange issue relevant implementation guide or provide relevant trainings to issuers or audit firms on preparing quantitative information on current financial effects.

The proposed disclosure requires quantitative information on the current financial effects. Some of our clients have raised concerns and questions regarding how to quantify the data to satisfy the disclosure requirements.

<u>Question 13</u>
Do you agree that during the Interim Period, where an issuer has yet to provide quantitative disclosures pursuant to paragraph 10(a) of Part D of the Proposed Appendix 27, it should make the interim disclosures as set out in the paragraph immediately following paragraph 10 of Part D of the Proposed Appendix 27?

Yes

Please provide reasons for your views.

Freshfields agrees.

Whilst some issuers may not be able to quantify the current financial effects associated with climate change within a short time, the interim provision will enable them to continue to work on the full compliance with the disclosure requirements and ensure that useful information can be provided to investors during the Interim Period.

<u>Question 14</u>

Do you agree to require disclosure of anticipated financial effects of climate-related risks and, where applicable, climate-related opportunities as set out in paragraph 11 of Part D of the Proposed Appendix 27?

Yes

Please provide reasons for your views.

Freshfields agrees.

Additionally, Freshfields proposes the following to align Part D of the Proposed Appendix 27 with IFRS S2.

1. That disclosure of quantitative information on the anticipated financial effects of climate-related risks and opportunities shall be mandatory.

As set out in our response to Question 12 above, the financial effects of both climate-related risks and opportunities is important to investors. Disclosure of both current and anticipated financial effects associated with climate change in a quantitative way will enable investors to better assess the sustainability capability and financial prospects of a company and make informed decisions.

The purpose of our proposal is to produce information that supplements or expands upon information provided in the related financial statements, identifying and explaining the connections between climate-related risks and opportunities and the information reported in the financial statements.

2. That, in preparing disclosures about the anticipated financial effects of a climate-related risk or opportunity, it shall be mandatory for an issuer to:

a. use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort; and

b. use an approach that is commensurate with the skills, capabilities and resources that are available to the entity for preparing those disclosures.

<u>Question 15</u>
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.

Freshfields agrees.

Additionally, Freshfields proposes the following.

1. That during the Interim Period, where an issuer has yet to provide quantitative information on the anticipated financial effects of climate-related risks and opportunities, it shall provide qualitative disclosure on a mandatory basis.

This allows issuers that are unable to quantify the anticipated financial effects associated with climate change within a short timeframe to put the issue on their agenda and allow investors to understand their readiness to fully comply with the disclosure requirements.

<u>Question 16</u>
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.

Freshfields agrees.

This information will enable investors to have a better understanding and assessment on the procedure and methodologies adopted by an issuer in its climate-related risk management. In particular, climate-related scenario analysis is a useful input to the identification and assessment of climate-related risks and opportunities.

We note that a requirement has been introduced in paragraphs 24-26 of IFRS S2 for an entity to describe whether and how it uses climate-related scenario analysis to inform the process. In this regard, we suggest the Exchange may consider adding a similar requirement to paragraph 12(a) of Part D of the Proposed Appendix 27.

Additionally, Freshfields proposes the following to align Part D of the Proposed Appendix 27 with IFRS S2.

1. That disclosure of the policies related to the processes the issuer uses to identify, assess and manage climate-related risks shall be mandatory.

2. That disclosure of the inputs and parameters the issuer uses (for example, information about data sources and the scope of operations covered in the processes) shall be mandatory.

3. That disclosure of whether and how the issuer uses climate-related scenario analysis to inform its identification of climate-related risks shall be mandatory.

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.

Freshfields agrees.

Additionally, Freshfields proposes the following to align Part D of the Proposed Appendix 27 with IFRS S2.

1. That disclosure of the process used to assess and manage climate-related opportunities shall be mandatory.

This is proposed to be disclosed mandatorily under our response to Question 4 above.

Considering that changes in climate conditions and the transition to a lower carbon economy can produce opportunities for companies, it is important for issuers to identify, assess and manage their climate-related opportunities in order to find out the best development strategy during the process of adapting to climate-related effects and events.

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.

Freshfields agrees.

The proposed requirement is a reasonable enhancement from the current disclosure requirement to align with the requirement under paragraph 29(a) of IFRS S2. Considering that issuers have worked on reporting Scope 1 and Scope 2 emissions for several years since 2016, they should have accumulated relevant knowledge and experiences and develop the capacity to comply with the upgraded disclosure requirements.

However, in respect of the measurement standard of the GHG emissions as set out under paragraph 14(a) of Part D of the Proposed Appendix 27, some clients operating in specific industries would like the Exchange to consider if they can accept other industry standards or metrics which is not the GHG Protocol or a protocol the companies are required to use by local legislation for measuring GHG emissions.

For example, a Singapore company primarily engaged in the leasing of aircraft and other related activities enquires if it can use industry carbon calculators, such as AWG Carbon Calculator or other aviation related metrics, to measure the GHG emissions.

Additionally, Freshfields proposes the following to align Part D of the Proposed Appendix 27 with IFRS S2.

1. That disclosure of the approach an issuer uses to measure its greenhouse gas emissions shall be mandatory, including:

a. the measurement approach, inputs and assumptions the issuer uses to measure its greenhouse gas emissions;

b. the reason why the entity has chosen the measurement approach, inputs and assumptions it uses to measure its greenhouse gas emissions; and

c. any changes the entity made to the measurement approach, inputs and assumptions during the reporting period and the reasons for those changes.

2. That, for Scope 1 and Scope 2 greenhouse gas emissions disclosed, it shall be mandatory to disaggregate emissions between:

a. the consolidated accounting group (for example, for an entity applying IFRS Accounting Standards, this group would compromise the parent and its consolidated subsidiaries); and

b. other investees excluded from the consolidated accounting group (for example, for an entity applying IFRS Accounting Standards, these investees would include associates, joint ventures and unconsolidated subsidiaries).

3. That, for Scope 2 greenhouse gas emissions disclosed, disclosure of an issuer's location-based Scope 2 greenhouse gas emissions, and information about any contractual instruments that is necessary to inform users' understanding of the entity's Scope 2 greenhouse gas emissions shall be mandatory.

4. That, for Scope 3 greenhouse gas emissions disclosed, disclosure of the following shall be mandatory:

a. the categories included within the entity's measure of Scope 3 greenhouse gas emissions, in accordance with the Scope 3 categories described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011); and

b. additional information about the entity's Category 15 greenhouse gas emissions or those associated with its investments (financed emissions), if the entity's activities include asset management, commercial banking or insurance.

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.

Freshfields agrees.

Freshfields supports Exchange's proposal to report on Scope 3 emissions since Scope 3 emissions, which include indirect emissions from a company's value chain, often represent the largest portion of corporate-related emissions but the disclosure of which is often neglected or largely limited by companies.

The lack of transparency leaves investors in the dark when assessing the real climate risk exposure of their portfolios. Improved reporting will enable investors to better identify sources of emissions and potential solutions, ultimately contributing to a more accurate assessment of climate risks. Disclosure of Scope 3 emissions also aligns with the disclosure requirement under paragraph 29(a) of IFRS S2.

In addition, the data and methodologies necessary to calculate Scope 3 emissions are important to ensure that Scope 3 emissions disclosures are reliable, consistent, and comparable for investors.

Additionally, Freshfields proposes the following to align Part D of the Proposed Appendix 27 with IFRS S2.

1. That, with respect to Scope 3 emissions, disclosure of the categories included within the entity's measure of Scope 3 greenhouse gas emissions, in accordance with the Scope 3 categories described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) shall be mandatory.

We note that this requirement, provided in paragraph 29(vi)(1) of IFRS S2, was not included in the exposure draft of IFRS S2 but was added to the final version of IFRS S2.

Separately, Freshfields also proposes the following.

2. That additional guidance on implementation is provide in respect of calculation and reporting of Scope 3 emissions.

3. That the Exchange clarify whether external assurance or verification is needed in terms of disclosure of Scope 3 emissions.

Please also see our response to Question 18(a) in respect of the measurement of GHG emissions.

<u>Question 19</u>
Do you agree with the proposed approach for the interim disclosures in respect of scope 3 emissions during the Interim Period as set out in the paragraph immediately following paragraph 15 of Part D of the Proposed Appendix 27?

Yes

Please provide reasons for your views.

Freshfields agrees.

The proposed approach would give issuers more time to familiarise with the calculation methodologies, explore ways to address the concerns on data accuracy and credibility, and make appropriate arrangement to fully comply with the disclosure requirements without undue burden and cost.

<u>Question 20(a)</u>
Do you agree to require disclosure of the amount and percentage of assets or business activities vulnerable to transition risks as set out in paragraph 16 of Part D of the Proposed Appendix 27?

Yes

Please provide reasons for your views.

Freshfields agrees.

The proposed disclosure aligns with the disclosure requirements under paragraph 29(b) of IFRS S2 and is a reasonable next step for issuers to enhance their ESG disclosure standards.

<u>Question 20(b)</u>
Do you agree with the proposed interim disclosures during the Interim Period in respect of the metric regarding transition risks as set out in the paragraph immediately following paragraph 16 of Part D of the Proposed Appendix 27?

Yes

Please provide reasons for your views.

Freshfields agrees.

The proposed interim provision allows issuers to familiarise themselves with the calculation methodologies, obtain data and address the issues regarding data accuracy and credibility, and make appropriate arrangement to fully comply with the disclosure requirements without undue burden and cost.

<u>Question 21(a)</u>
Do you agree to require disclosure of the amount and percentage of assets or business activities vulnerable to physical risks as set out in paragraph 17 of Part D of the Proposed Appendix 27?

Yes

Please provide reasons for your views.

Freshfields agrees.

The proposed disclosure aligns with the disclosure requirements under paragraph 29(c) of IFRS S2 and is a reasonable next step for issuers to enhance their ESG disclosure standards.

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

Yes

Please provide reasons for your views.

Freshfields agrees.

The proposed interim provision allows issuers to familiarise with the calculation methodologies, obtain data and address the issues regarding data accuracy and credibility, and make appropriate arrangement to fully comply with the disclosure requirements without undue burden and cost.

<u>Question 22(a)</u>
Do you agree to require disclosure of the amount and percentage of assets or business activities aligned with climate-related opportunities as set out in paragraph 18 of Part D

of the Proposed Appendix 27?

Yes

Please provide reasons for your views.

Freshfields agrees.

The proposed disclosure aligns with the disclosure requirements under paragraph 29(d) of IFRS S2 and is a reasonable next step for issuers to enhance their ESG disclosure standards.

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.

Freshfields agrees.

The proposed interim provision allows issuers to familiarise with the calculation methodologies, obtain data and address the issues regarding data accuracy and credibility, and make appropriate arrangement to fully comply with the disclosure requirements without undue burden and cost.

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.

Freshfields agrees.

The proposed disclosure aligns with the disclosure requirements under paragraph 29(e) of IFRS S2 and is a reasonable next step for issuers to enhance their ESG disclosure standards.

<u>Question 23(b)</u>
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.

Freshfields agrees.

The proposed interim provision allows issuers to familiarise with the calculation methodologies, obtain data and address the issues regarding data accuracy and credibility, and make appropriate arrangement to fully comply with the disclosure requirements without undue burden and cost.

<u>Question 24</u>
Do you agree that where an issuer maintains an internal carbon price, it should disclose the information as set out in paragraph 20 of Part D of the Proposed Appendix 27?

Yes

Please provide reasons for your views.

Freshfields agrees.

We note that this proposed disclosure is less stringent than the requirement under IFRS S2 and is more suitable to the current situation in Hong Kong, where the carbon market is still at a relative early stage of development as compared with Europe and the United States.

We also recognise that maintaining an internal carbon price will be conducive for the long-term success of issuers by helping them progress towards net-zero targets, as setting a price on carbon enables companies to test and assess the profitability of projects in different scenarios to make better decisions to future-proof their business. They can also serve to stimulate innovative ideas on who to best allocate capital to deliver higher returns in a lower economy.

We believe that encouraging issuers to disclose the internal carbon price will motivate them to set an internal carbon price, through which they will understand their exposure to external carbon pricing schemes, revisit their business decisions and investments, and develop global strategy to become more resilient to regulatory climate policies and more favourable to emission reductions.

An internal carbon price can be used as a decision-making tool to understand issuers’ exposure to external carbon pricing schemes and guide their business decisions on investments, and also serve as a risk management tool enabling the company’s global strategy to become more resilient to regulatory climate policies and more favourable to emission reductions.

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.

Freshfields agrees.

We agree that in general, incorporating climate-related consideration into remuneration policy will incentivise management to place more weight on their efforts to climate-related issues though there may be practical difficulties in accurately quantifying the actual percentage or amount of remuneration linked to a particular factor in determining the remuneration package.

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?

Yes

Please provide reasons for your views.

Freshfields agrees.

Additionally, Freshfields proposes the following to align Part D of the Proposed Appendix 27 with IFRS S2.

1. A mandatory requirement for issuers to refer to and consider the applicability of the industry-based disclosure topics defined in the Industry-based Guidance on Implementing IFRS S2 when:

a. identifying climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects;

b. preparing disclosures to meet business model and value chain, and strategy and decision-making disclosure requirements; and

c. determining industry-based metrics that the entity is required to disclose.

<u>Question 27</u>
Do you have any comments regarding whether the manner in which the proposed consequential amendments are drafted will give rise to any ambiguities or unintended consequences?

Yes

Please elaborate.

Freshfields proposes that the Exchange adopt the IFRS Standards as a baseline for climate and sustainability-related disclosure, in line with developments around the world and commensurate with Hong Kong's status as an international financial centre.

Adopting the IFRS Sustainability Disclosure Standards as a baseline to reduce ambiguity or unintended consequences because the Exchange's proposed climate-related disclosure is only aligned with the final version of the IFRS S2.

Another potential source of ambiguity or unintended consequence arising from the manner in which the proposed consequential amendments are drafted is that the proposed consequential amendments have been prepared on the basis of the exposure draft of the IFRS S2. As the final versions of S1 and S2 differ from the Exposure Drafts, it is important that the final Rules are brought in line with S1 and S2 to remove ambiguity or unintended consequences if the changes between the exposure draft and final version of the IFRS S2 are not reflected in the proposed consequential amendments.

<u>Question 28</u>
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.

Please see Question 1.

<u>Question 29</u>
Do you have any feedback on the new developments announced by the ISSB subsequent to the publication of this paper that may impact on the proposals in this paper?

Yes

Please share your views with us.

Freshfields is aware that the Exchange has adopted a “climate-first” approach in its Consultation Paper which only builds on the exposure draft of IFRS S2 with certain relaxation of the IFRS S2 climate-related disclosure requirements but has not taken into account the IFRS S1. We also understand that they also are aware that IFRS S1 and S2 have to work as a pair.

Freshfields is of the view that IFRS S1 and S2 have to work as a pair i.e., a listed issuer can only call itself to be “ISSB compliant” if it complies with both the IFRS S1 and S2.

Freshfields trusts that there are listed issuers which are more ready to comply with both the IFRS S1 and S2 in full and could get the benefits of this in terms of attraction to investors and lenders. The Exchange should encourage listed issuers to be ahead of the curve i.e., encourage voluntary adoption of both the IFRS S1 and S2 on a company-by-company basis.

In light of the above, Freshfields proposes the following.

1. That if any issuer chooses to comply with and has complied with the IFRS Standards in full (i.e., both IFRS S1 and S2), then it should be deemed as having full compliance with all the requirements under the Hong Kong Listing Rules in relation to ESG.