



18 July 2023

**Private & Confidential**

**By Email**

**Attention: Ms. Kelly Lee**

Senior Vice President  
Policy and Secretariat Unit, Listing  
Hong Kong Exchanges and Clearing Limited

Dear Kelly,

**HKICPA's submission on the HKEX's consultation on climate-related disclosures**

1. The Hong Kong Institute of Certified Public Accountants ("HKICPA") has supported initiatives of HKEX to introduce requirements for companies listed in Hong Kong to report ESG information in addition to annual financial reporting. As you may be aware, we first introduced an award for sustainability and social responsibility reporting in our Best Corporate Governance Disclosure Awards back in 2011 and, since then, the awards for sustainability/ ESG reporting have become a core part of what are now called the Best Corporate Governance and ESG Awards. Since the ESG reporting guide under the listing rules was first introduced in 2013 there have been further developments in HKEX ESG reporting requirements, up to the latest enhancement in 2020 that introduced key elements of the TCFD Recommendations to the ESG framework.
2. With the formation of the ISSB in November 2021 and the subsequent consultation on the first two ISSB standards in 2022 (which were published as final standards on 26 June 2023) it is appropriate for HKEX to further consider and take the opportunity to align Hong Kong ESG reporting requirements to the widely supported international standards. In view of Hong Kong's position as an international capital market, the HKICPA believes it is appropriate for Hong Kong listed companies to use internationally recognized and supported standards for ESG reporting in the same way that HKICPA issues standards, including financial reporting standards, that are converged with international standards and which are then mandated by law or regulation for use by reporting entities.
3. HKEX will be aware that the HKICPA has the statutory authority and is committed to take on the role of the sustainability standard setter for Hong Kong. We are establishing the related framework and processes to mirror the current arrangements for financial reporting, assurance and ethical standards setting. HKICPA's plans account for full convergence with ISSB standards and will provide a complete suite of local standards to be available for government and regulators to mandate for use as appropriate. However, it is not within the remit of HKICPA, as the standard setter, to require reporting entities to comply with the standards.



4. In the context of its standard setting role, and the policy of convergence with international standards, HKICPA would advocate for the full adoption of the local equivalent of ISSB standards by all relevant reporting entities. However, we acknowledge that practical considerations, including the very recent issue of the first ISSB standards (26 June 2023); the time and process required to issue the local version of the standards; and the state of preparedness of listed issuers, also need to be taken into account. Perhaps a practical approach to reconcile the aim of HKEX to make its proposed climate-related disclosure requirements effective from 1 January 2024, with the ambition to include all ISSB requirements in listed company reporting within an acceptable timescale thereafter, would be to adopt a phased/staged adoption, perhaps by size or sector analysis of issuers. It will be vitally important for all stakeholders to work together to develop a roadmap/timeline for transition from the HKEX's proposed reporting requirements to the use of the HKICPA reporting standards, under the authority of relevant regulators, and to identify clearly the affected reporting entities. This roadmap/timeline will need to encompass plans to support and build expertise in reporting entities to facilitate their compliance with reporting requirements. HKICPA is fully committed to participating in this initiative.
5. The HKICPA has recently received confirmation that it has been admitted into the ISSB Partnership Framework for capacity building. The aim of the Partnership is to support preparers, investors and other capital market participants as they prepare to use the ISSB standards. Membership of the partnership will facilitate access to resources and initiatives from other jurisdictions to enhance capacity building and support for stakeholders in Hong Kong.
6. Although this is not the subject of consultation, the HKICPA remains in favour of requiring independent assurance of mandatory climate-related and other sustainability disclosures. Recognising the importance that investors now place on climate-related and other sustainability reporting it is logical that assurance of this information is seen as being as important to the market as assurance of financial reporting has been for many years. We would hope that HKEX can turn its attention to this matter in the near future. IAASB and IESBA both have priority projects in progress on sustainability assurance and related independence requirements. Exposure drafts on standards from both boards are expected to be issued soon. HKICPA will be reviewing and commenting in accordance with established standard setting due process, with the objective of bringing the final international standards into Hong Kong assurance and ethical standards.
7. The HKICPA is generally in agreement with the specific consultation questions, subject to a few comments as included in the online response to specific questions. In addition the HKICPA has the following comments and observations in the nature of matters of principle for consideration by HKEX in determining consultation conclusions and next steps:
  - a) The HKICPA supports the intention of HKEX to enhance climate-related disclosures under the ESG reporting framework, to facilitate the introduction of mandatory disclosures that are consistent with the requirements of IFRS S2. Given that HKEX explains in the consultation paper that proposals are consistent with the exposure draft of IFRS S2, it would be of benefit to stakeholders for HKEX to explain how its final requirements have been updated following the issue of IFRS S2.



- b) The HKEX consultation paper states that Appendix 27 prescribes general requirements and reporting principles regarding the presentation and relevance of information contained in an ESG report, consistent with the general features for reporting of sustainability-related financial information under IFRS S1. The extant Appendix 27 (of the Main Board Listing Rules) addresses presentation, frequency and location of reporting, as well as the reporting entity boundary. It is not clear whether the other fundamental principles of IFRS S1 (e.g. the disclosure of significant judgments, estimates and estimation uncertainty; significant differences between financial data and assumptions used in the sustainability report versus those used in the financial statements; how to deal with changes in estimates etc.) will be included in the implementation guidance which the HKEX intends to publish at the same time as the final revised Appendix 27; and if not, how these other general features in IFRS 1 will be reflected. The HKICPA encourages HKEX to re-consider adoption of IFRS S1, as this is a foundational document that provides general requirements and principles for all types of ESG and sustainability information, not just climate-related. Use of the ISSB approach would confirm HKEX's commitment to alignment with all ISSB reporting requirements and to a wider scope of local reporting requirements, beyond climate-related, in due course. Without adopting IFRS S1, the Hong Kong capital market may not be judged to be "ISSB compliant". On the other hand, applying both IFRS S1 and S2 on a phased basis, maybe commencing with a segment of listed companies whose industry/business has more impact on climate, may be a better option, to demonstrate commitment and satisfy any ISSB compliance assessment.
- c) The HKICPA suggests that HKEX clarify its focus on *financial* materiality (i.e. focus on investors) which is the basis of all ISSB standards, as opposed to *impact* materiality (i.e. multi-stakeholder focus). The current para 11(i) of Appendix 27 mentions ESG issues that are important to investors *and other stakeholders* which might imply a multi-stakeholder approach. With the intense debate in the last year or so on whether the investor-focused (ISSB and US SEC) or multi-stakeholder approach (ESRS and GRI) is more appropriate, the current wording may cause confusion in the market.
- d) The HKICPA notes that HKEX has explained in the consultation paper the concerns and practical difficulties that listed issuers may have with implementing the ISSB standard and that these have been taken into account when developing the consultation proposals. These very real issues cannot be adequately addressed by guidance and training alone: there must be appropriate market infrastructure to support implementation. The HKEX could work with the government and other relevant bodies to assist listed companies in collecting the necessary information, e.g. for scope 3 GHG emissions, create a central database where unlisted companies in the reporting entity's supply chain can easily obtain emission conversion factors so as to report the necessary figures to the listed entity; provide examples of likely material emissions for different industries to facilitate smaller companies' identification of climate risks; cross-reference to reliable sources of climate scenarios and the related underlying data, assumptions and drivers for resilience assessment purposes. There could also be consideration, during the development of a roadmap/timeline, as suggested above (paragraph 4), of a phased introduction of reporting requirements e.g. by size or industry classification of listed issuers.



- e) The HKEX should consider how best to incorporate and/or cross-reference to the wealth of guidance accompanying IFRS S2 in its final reporting requirements/implementation guidance to expand the pool of guidance available to listed companies and avoid duplication.
- f) There are a number of proportionality reliefs provided in IFRS S2 – first year application reliefs and steady-state reliefs – that are not in the HKEX proposals. Will these be considered for inclusion in the final disclosure requirements?
- g) There are ten key differences from IFRS S2 comprising (i) three interim provisions that will expire by 1 Jan 2026 and (ii) seven other differences with no sunset dates (see appendix). The HKICPA believes it would be helpful for HKEX to explain how it will monitor listed issuers preparations to manage the interim provisions for implementation in 2026 and how omitting the seven other differences does not compromise alignment of the proposals with IFRS S2 requirements. A plan to gradually remove the differences and adopt the additional requirements of IFRS S2 would be helpful.
- h) Regarding the layout of the revised Environmental, Social and Governance Reporting Code, as it is proposed to be renamed: It may be clearer to place the mandatory climate-related disclosures (proposed Part D) immediately following the other mandatory disclosures in Part B (which include more general disclosures relating to climate change and the four core pillars), given that the intervening Part C disclosures, including other environmental-related disclosures, are non-mandatory, "comply or explain" requirements only.

If you have any questions regarding the matters raised in this letter, please contact me

[REDACTED]

Yours faithfully

[REDACTED]

[REDACTED]

Encl.

Appendix – key differences between HKEX proposals and IFRS S2

Three interim provisions (expiry date: FY beginning on/after 1 Jan 2026)			
	Aspect	ISSB	HKEX
1.	Current and anticipated financial effect	<p><b>Current effect</b></p> <p>Requires quantitative and qualitative disclosures unless unable to provide</p> <p><b>Anticipated effect</b></p> <p>Ditto</p>	<p><b>Current effect</b></p> <p>Quantitative disclosures not required</p> <p><b>Anticipated effect</b></p> <ul style="list-style-type: none"> <li>• Quantitative disclosures not required;</li> <li>• Only need to provide simplified qualitative disclosures highlighting which aspects of the financial statements will be most affected by climate risks</li> </ul>
2.	Scope 3 emissions	Quantitative disclosures (except for the first year of applying IFRS S2)	<ul style="list-style-type: none"> <li>• Quantitative disclosures not required;</li> <li>• only need to provide info about the entity’s relevant upstream and downstream activities and the work plan, progress and timetable for making the required disclosure</li> </ul>
3.	Amount and % of assets that are vulnerable to risks or that are aligned with opportunities; capital expenditure deployed towards climate risk/opportunities	Quantitative disclosures	<ul style="list-style-type: none"> <li>• Quantitative disclosures not required;</li> <li>• only need to describe the assets that are vulnerable to risks or that are aligned with opportunities; as well as the types of activities requiring investment towards addressing risks/opportunities and the work plan, progress and timetable for making the required disclosures</li> </ul>

### Seven other differences with no sunset date

1.	Almost a blanket exemption from disclosing anything on climate-related opportunities.
2.	Entities may defer disclosing any climate-related targets 'indefinitely' (although they need to disclose a timeline and progress towards full disclosure).
3.	Quantitative disclosures are not required for anticipated financial effects.
4.	Do not mandate entities to maintain an internal carbon price.
5.	No requirement to disclose % of remuneration linked to climate considerations.
6.	Only <i>encourage</i> entities to consider relevant industry-based metrics and disclose 'as they see fit'.
7.	No requirement to consider the connections between cross-industry metrics and the related info in the financial statements (FS), e.g. consistency in the data and assumptions used. This is a key issue as one of the key objectives of the ISSB Standards is to ensure connectivity between sustainability info and the FS.

**Question 1**

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

**Reply (and comment if appropriate)**

Agree.

This proposal is in line with progressive enhancement of climate-related disclosures in Hong Kong. Overall comments on the proposals are provided in a separately submitted letter. Therefore we have not provided reasons for all individual questions.

**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.

**Reply (and comment if appropriate)**

Agree.

**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.

**Reply (and comment if appropriate)**

Agree.

**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.

**Reply (and comment if appropriate)**

Agree.

Subject to a planned transition to full ISSB S2 disclosures.

**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.

**Reply (and comment if appropriate)**

Agree.

Subject to a planned transition to full ISSB S2 disclosures.

**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.

**Reply (and comment if appropriate)**

Agree.

Subject to a planned transition to full ISSB S2 disclosures in respect of climate-related opportunities.

**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.

**Reply (and comment if appropriate)**

Agree.

**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.

**Reply (and comment if appropriate)**

Agree.

Subject to a planned transition to full ISSB S2 disclosures.

**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.

**Reply (and comment if appropriate)**

Agree.

**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.

**Reply (and comment if appropriate)**

Agree.

**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.

**Reply (and comment if appropriate)**

Agree.

Subject to adequate support and guidance is provided for issuers to fully understand this complex area.

**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.

**Reply (and comment if appropriate)**

Agree.

Subject to a planned transition to full ISSB S2 disclosures.

**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.

**Reply (and comment if appropriate)**

Agree.

Subject to a planned transition to full ISSB S2 disclosures.

**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

**Reply (and comment if appropriate)**

Agree.

**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 out in the paragraph immediately following paragraph 11 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

**Reply (and comment if appropriate)**

Agree.

Subject to a planned transition to full ISSB S2 disclosures and provision of adequate support and guidance for issuers.

**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.

**Reply (and comment if appropriate)**

Agree.

**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.

**Reply (and comment if appropriate)**

Agree.

**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.

**Reply (and comment if appropriate)**

Agree.

**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.

**Reply (and comment if appropriate)**

Agree.

Subject to a planned transition to align with ISSB S2 disclosures.

**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.

**Reply (and comment if appropriate)**

Agree.

Subject to a planned transition to full ISSB S2 disclosures and provision of adequate support and guidance for issuers.

**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.

**Reply (and comment if appropriate)**

Agree.

**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.

**Reply (and comment if appropriate)**

Agree.

Subject to a planned transition to full ISSB S2 disclosures and provision of adequate support and guidance for issuers.

**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.

**Reply (and comment if appropriate)**

Agree.

**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.

**Reply (and comment if appropriate)**

Agree.

Subject to a planned transition to full ISSB S2 disclosures and provision of adequate support and guidance for issuers.

**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.

**Reply (and comment if appropriate)**

Agree.

**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.

**Reply (and comment if appropriate)**

Agree.

Subject to a planned transition to full ISSB S2 disclosures and provision of adequate support and guidance for issuers.

**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.

**Reply (and comment if appropriate)**

Agree.

**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.

**Reply (and comment if appropriate)**

Agree.

Subject to a planned transition to full ISSB S2 disclosures and provision of adequate support and guidance for issuers.

**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.

**Reply (and comment if appropriate)**

Agree.

Subject to provision of adequate support and guidance for issuers in a complex area that has no single agreed methodology.

**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.

**Reply (and comment if appropriate)**

Agree.

Subject to a planned transition to full ISSB S2 disclosures.

**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.

**Reply (and comment if appropriate)**

Agree.

**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.

**Reply (and comment if appropriate)**

The lack of defined time horizons could lead to inconsistent reporting and difficulties of comparisons between entities and across sectors. Provision of benchmarks and guidance would be helpful in improving consistency.

**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.

**Reply**

Please refer to comments above and separate submission letter, in addition to the two points below.

We agree that there will be a need for capacity building and development of expertise and support for listed issuers. There will be a particular demand for guidance especially by smaller listed companies, including examples of best practices; further guidance on scenario analysis; and recommended tools and methodologies for assessing climate-related risks, opportunities, GHG emissions and data sources.

For disclosures where quantification is required, it would be helpful to require companies to disclose the basis of calculation, methodology and assumptions used to enhance transparency to enable investors to make comparisons between companies.

**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.

**Reply (and comment if appropriate)**

Please see comments in our separate submission letter.