HKGFA Response to HKEX Consultation Paper – Enhancement of Climate-related Disclosures Under the Environmental, Social and Governance Framework

Summary Notes

Hong Kong Green Finance Association (HKGFA), on behalf of members welcome the opportunity to respond to HKEX consultation on "Enhancement of Climate-related Disclosures under the Environmental, Social and Governance Framework". The following paper summarizes key feedback and views based on both discussion calls and individual member submissions to HKGFA.

Overall support on proposal

Overall, most members are supportive of the proposed disclosures standards that would help increase transparency, availability, comparability and quality of climate-related disclosures that are financially material for investors and financial markets. Key areas that members appreciate include:

- **Governance & Remuneration:** Supportive as it helps align incentive of company's management to climate-related risks and opportunities and also enhances governance process and structure of issuers.
- **Strategy:** Supportive in particular of areas like transition plans and climate-related targets, risks and opportunities as it enables more information for investors analysis and assessment of issuer's resilience and credibility of transition plans.
- **Risk management:** Supportive as it helps enhance issuer accountability and helps financial institutions better understand robustness of issuers' internal risk management processes
- **Climate metrics:** Broadly supportive of requiring cross industry metrics including on emissions, capital deployment as these are generally considered to be widely recognized metrics globally that helps financial institutions and stakeholders better understand financially material climate impacts on the companies and encourage issuers to proactively manage these risks and opportunities.
- **Phased approach:** Supportive of 2-year interim provisions that is also directionally aligned to ISSB proposals of phased requirements allowing time for issuers to progressively implement areas of disclosures that might be more challenging or still evolving.

Selected areas for consideration

There are however a couple of areas that received more wide-ranging views across members; these include:

- **<u>Approach & Scope:</u>**
    - **Proportionality:**
        - Some members made references to the principle of proportionality emphasized in IFRS S1 and S2 standards that might be more appropriate than singular mandatory standards. In particular, some members note that some IFRS S2

requirements are either optional (e.g. climate-related opportunities/ targets) or omitted (e.g. third party certification) in the current proposals. Adopting a proportionality approach will help create flexibility for continual development of pragmatic best practices while also catering into consideration whether reporting creates undue costs or effort for some issuers.

- However, members also recognize about the need for a common baseline that necessitates mandatory reporting on common set of metrics and requirements. Focus should instead be on supporting issuers with implementation guidance.

- **S1 alongside S2:** Some members mention the importance of IFRS S1 going hand-in-hand with S2 to best improve availability, quality, comparability and interoperability of standards overtime and would suggest for the Exchange to consider alignment of S1 with the S2 ahead as well. This includes the disclosure of industry-specific metrics as a requirement. However members also mentioned that focus on climate is a good initial priority though this would need to be continually evolved overtime.

- **<u>Technical disclosure considerations</u>**
  - **Disclosure on amt/ % of assets vulnerable to physical risks/ aligned to opportunities:** range of views as quantification can help issuers in prioritization but we also recognize the challenges in quantification, potential breadth of underlying assumptions and also that disclosures of qualitative plans relating to mitigation of risks are equally if not more important than just the quantified impact.
  - **Internal carbon price:** Range of views regarding mandatory disclosure on internal carbon prices; on one-hand this is helpful for financial markets to understand how it impacts company decision making and operations, but we also recognize that this can include confidential and commercially sensitive information with degree of complexity and nuance especially given varying policies across regions.
- **<u>Other challenges</u>**
  - **Compatibility with other standards:**_as many issuers use a range of reporting standards now (like GRI); it would be helpful if the HKEx can highlight to issuers how proposed requirements map and align to other commonly recognized reporting standards
  - **Timeline/implementation:** There are divergent views re what is the appropriate timeline and phased-in periods. Whilst we should be mindful that sufficient lead time should be given to issuers, especially SMEs, we have to maintain competitiveness in a global context. It is imperative for issuers to start the disclosure journey ASAP; to demonstrate commitment from day 1 and to continually show progress on strategies going forward. It is imperative that the HKEX provides support to issuers. Sharing resources and common methodologies (e.g. for buildings- insurance, brokers might be good sources with deeper experiences with physical risks). Providing tools to guide issuers through the journey and providing platforms to share progress and challenges in disclosures would be helpful. GFA would be pleased to provide support in developing initiatives.
  - **Data challenges:** Various members shared on practical data challenges, such as on quantifying physical & transitions risks and climate opportunities and scope 3 emissions. There were also discussions on the challenges in ensuring repeatable and comparable analysis overtime and not seeing disclosures as a one-off exercise. Issuers also faces

challenges in ensuring consistency of methodologies and likely resources and costs required.
    - **Assurance:** Members also made reference to the likely future industry need for audit and assurances as an additional gatekeeping to help ensure quality of disclosures.
    - **Resources & costs:** Members also shared on importance of recognizing the likely resources and costs that issuers would incur elevating disclosures to align with the new requirements.

Broader recommendations & Feedback

- **Recognizing issuers' challenges:** Members suggested it would be helpful to consider more of practical challenges faced by issuers in disclosures. This includes more technical areas like setting of internal carbon pricing, quantification of physical and transition risks that would likely require more capacity building on. Members also shared on the importance to recognize limited resources and costs especially for SMEs and on the existing regional state of disclosures. Understanding these challenges would better help the industry to know what content and resources are needed to support issuers in adoption.
- **Implementation Guidance:** Practical implementation guidance would be very helpful towards longer-term adoption and implementation of disclosures.
    - A good starting point would be identifying common challenges (as above); members also mentioned on the need for guidance to be principles-based (with examples) rather than being overly prescriptive; for example some helpful questions to guide issuers include:
        - What are challenges and limitations faced in preparing this year's disclosures?
        - What progress has been made since last year's consultation and how does it compare to previous targets?
        - What future targets (and timeline) does the issuer have for the coming period?
    - Areas that would benefit from more detailed guidance particularly best practices and common challenges include:
        - Quantification of physical and transition risks impact on business as well as quantification of opportunities
        - Setting of internal carbon prices
        - Disclosures on targets and progress; especially if targets are being revised or methodologies have been changed
- **Capacity Building and Promotion:** particularly with SMEs, industry would benefit from greater a) awareness raising on benefits of the new disclosure standards, b) industry sharing of best practices and common challenges. HKEX can also partner with industry bodies and financial institutions to help support implementation capacity building for listed issuers
- **Broader engagement with investors:** As the standards go-live, financial institutions and investors can play a key role in helping with issuers implementation and the Exchange can consider how to collaborate more with investors and encouraging investors to use the standards as part of stewardship and engagement with issuers.
- **Connecting to other financial markets:** A core vision of ISSB is in creating an interoperable global baseline standard. As one of the regions that would be the first globally to implement ISSB-aligned disclosures, the Exchange has a unique opportunity to take the lead in interfacing

with other financial markets to share implementation learnings and best practices and also to keep an eye on similar regulatory developments in other regions.

- **Maintaining global competitiveness:** Finally, while it will definitely take time for issuers to adopt and improve depth and robustness in disclosures; the industry should encourage issuers to start on their disclosure journey early and that making a commitment from day 1 and then continually working to improve disclosures would be crucial for the region to maintain global competitiveness longer-term.

Towards implementation through providing guidance & support

Overall, members of HKGFA believe that adoption and implementation of ISSB standards will increase transparency and comparability of financially material information for investors and the implementation depth and speed would also play a key role in maintaining competitiveness of our region. HKGFA however also recognizes the practical challenges in implementation and in that regard would be very open to collaborating with HKEX and the industry to best provide implementation guidance and support for issuers ahead.

Hong Kong Green Finance Association (HKGFA)

14 July 2023

HKEX Consultation Paper on Enhancement of Climate Disclosure under its ESG Framework

Consultation Paper on Enhancement of Climate Disclosure under its ESG Framework:

Responses are received from anonymous HKGFA members *A, B, C, D, E*, *F*, and *G,* covering considerations from the perspectives of corporate finance firm/ bank, investment manager, carbon market participant, service providers, and non-governmental organization/think tank.

Below are the high-level responses collected from members *A*, *B* and *G*:

Member A response:

- Appreciate the HKEx's work to engage with the market and to consider ISSB as the starting point;
- Would not object to the interim provisions proposed as it would reflect the HKEx's desire to listen to the market so as to alleviate challenges from data availability and quality issues;
- However, the permanent differences proposed (e.g. all disclosures relating to opportunities, anticipated financial effect, etc.) can be mitigated by simply also include them as interim provisions. 2 years should really be enough for the market to overcome those challenges;
- In addition, climate disclosures cannot work without the general standard. It is imperative that the HKEx to include key elements of IFRS S1 General Requirements into App 27;
- The HKEx should also have a blueprint as to when App 27 would be ISDS-converged. This will not disadvantage HK issuers from using the same ESG report to file in other jurisdictions;
- At the same time, HKEx should also more explicitly allow ISDS and the future HKSDS to be used by HK issuers as a terms of reference when preparing their ESG reports.

Member B Response:

- We note a few IFRS S2 requirements that are either optional (e.g. climate-related opportunities and targets) or omitted (e.g. whether targets are certified by a third party) in the Exchange's proposals. We believe a "comply or explain" regime can encourage more issuers to provide such disclosures over time, while creating the flexibility necessary for continuing development of pragmatic best practices.
- We welcome the Exchange's proposals of certain interim provisions, as we recognize the need for flexibility in areas where relevant science, standards, and reporting methodologies are still evolving and may diverge among different sectors. We consider it reasonable for the Exchange to review readiness of issuers by sector to comply by the end of the Interim Period and examine whether an extension of the Interim Period or a "comply or explain" approach is warranted.
- We view both IFRS S1 and IFRS S2 as important contributions to a multi-year, multi-jurisdictional effort towards improving the availability, quality, comparability, timeliness, and interoperability of sustainability-related disclosures. To ensure issuers provide investors with comparable information based on the global baselines, we encourage the Exchange to prioritize alignment with IFRS S1 following the integration of IFRS S2 into Appendix 27.

- We support the creation of global baseline standards with industry-specific guidance. Instead of simply encouraging issuers to consider the industry-based disclosure requirements prescribed under other international ESG reporting frameworks, we recommend the Exchange align with the ISSB to make the disclosure of industry-specific metrics a requirement, while allowing issuers flexibility to decide the specific metrics to be disclosed. We also urge the Exchange to work with market participants and standard setters, like the ISSB, to continue developing industry-specific guidance.
- We recognize that the liability attached to sustainability reporting will depend on national regimes. In our view, liability should be commensurate with the evolving nature of climate-related disclosure, to encourage rather than discourage higher quality disclosure. We urge the Exchange to adopt liability frameworks that provide meaningful protection from legal liability for disclosures provided in good faith while standards continue to evolve.

Member G Response:

- **Implementation in FY2024** - The proposed implementation of climate-related financial information disclosure requirements in FY 2024 poses a major challenge, particularly for small and mid-cap companies, in data collection, analysis, establishing reporting systems, and building internal capabilities for sustainability reporting. HKEX may implement the framework in phases, first requiring bigger issuers then smaller ones to start disclosing.
- **Support to smaller companies** - Providing support to smaller companies is crucial. HKEX may consider providing resources, and training sessions (e.g. hotlines dedicated to ISSB's implementation, workshops, webinars, and guidance materials that provide instructions on data collection, reporting methodologies, and best practices for sustainability reporting) - particularly to small and mid-caps. Other initiatives may include subsidizing issuers for consulting services, and for internal costs incurred in complying with the new disclosure requirements.
- **More standard comparison across companies** - To enhance the comprehensiveness and comparability of sustainability-related financial disclosures across issuers, HKEX may educate the issuers and promote the use of different standards (e.g. SASB could be helpful in intra-industry comparison). Extra guidance from HKEX on (e.g. climate-related scenario analysis / the financial impact of climate risks / scope 3 etc.) would also facilitates the comparability of disclosures.
- **Phase in ESG report auditing** - In the long run, we urge HKEX to actively consider the gradual implementation of ESG report auditing (third-party verification) to ensure the accuracy and reliability of the ESG reports.

Below are by-organization responses received from members *C, D, E,* and *F.*

Part B

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

☐ Yes ☐ No

- *Member C*: No
- *Member D*: Yes
- *Member E*: Yes
- *Member F*: Yes

Please provide reasons for your views.

Member C:

Implementation timeline

We strongly believe that sufficient lead time should be considered post the finalisation of the ISSB IFRS S1 and S2 standards, expected to be published on 26 June 2023, before the requirements under the HKEX listing rules are adopted, at a minimum with an effective date of accounting year beginning 1 January 2025. This would allow issuers to build capacity and capabilities to operationalize these new requirements.

Proportionality

We recommend that the proposed change to remove the reference to "Comply or Explain" be replaced with the proportionality decisions made in the finalised IFRS S1 and S2 standards. To satisfy the proposed new disclosures would require significant resources, both in a transition phase and more permanently. On this basis the mechanisms to address proportionality challenges in the final ISSB standards introduce the concept of 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' consideration of skills, capabilities and resources, and the concept of 'unable to do so' etc. The approach would be based on proportionality and practicality of the disclosures and be assessed based on the circumstances of a company.

Member D:

Mandatory climate-related disclosures can provide a standardized framework for companies and investors to report on their climate-related risks and opportunities. This can increase transparency and accountability, allowing stakeholders to make more informed decisions about their investments and partnerships.

Member E:

Exclude large MNC, most of the company didn't disclosures this information on their ESG report, unless it is mandatory. Why is it so important? Objective to disclosures this information is let the market to understand how the company's ESG performance.

Member F:

There are practical difficulties in implementing the ISSB Climate Standard, such as: 1. Difficulties in obtaining data, especially related to Scope 3 emissions and scenario analysis; 2. No harmonized and standardized methodology for calculating scenario analyses or quantifying financial impacts; 3. Lack of technical knowledge and expertise internally and externally; 4. Disclosure of data that involves corporate privacy and sensitive information; 5. Providing the required disclosures requires investments in the systems, processes, and appropriate expertise necessary for better and timely access to climate risk data. This requires investment in time and management efforts, as well as seeking external assistance and advice, which can be challenging and costly for some businesses.

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

   ☐ Yes ☐ No

   - *Member E*: Yes
   - *Member D*: Yes
   - *Member F*: No

   Please provide reasons for your views.

   Member E:

   The ESG management approach and strategy disclosed under current governance disclosures may not be an effective or appropriate response to real world scenarios of climate change. Thus, shifting focus to climate-related issues for management and strategic planning may be more suitable for company risk and opportunity management.

   Member D:

   This disclosure would provide stakeholder an overview on the board governance and its role on climate-related risk and opportunities.

   Member F:

   1(c) The source of board information should not be disclosed, which sould be commercial privacy.

   1(d) This is highly sensitive information about board/committee decision-making processes, and climate factors are not the only factors in decision-making, and disclosure of this information is of questionable relevance to investors in terms of whether or not to invest

   Some board members do not have a systematic understanding of climate-related risks and opportunities, and companies still need to provide relevant knowledge training to board members and management, which requires time, human resources and financial costs. As a result, there are difficulties with this disclosure.

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 ☐ No

   - *Member E*: Yes
   - *Member D*: Yes
   - *Member F*: No

   Please provide reasons for your views.

   Member E:

The new disclosure requirements allow a more comprehensive understanding on a company's risks on their operation under effects of climate change. Impacts of climate-related risks can be better assessed and communicated.

Member D:
This disclosure would provide stakeholder an overview on material climate risks and opportunities to the issuer's business.

Member F:
The impact of climate risk on the business is mostly uncertain, and the disclosure applies to the board of directors' decision-making, but has limited significance for investors' reference, and may even be misleading to investors.

There is a reluctance to disclose private and sensitive information relating to the business.

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 ☐ No

- *Member E*: Yes
- *Member D*: Yes
- *Member F*: No

Please provide reasons for your views.
Member E:
Not all companies benefit from climate-related opportunities. In contrast to climate-related risks which should be addressed as soon as possible to align with climate actions, climate-related opportunities may not be top priority for companies to handle.

Member D:
The opt out options would provide flexibility for issuers, especially small and mid-cap listed companies which may not have the capability or access to specialized data and reporting tools.

Member F:
There is a reluctance to disclose private and sensitive information relating to the business.

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 ☐ No

- *Member E*: Yes
- *Member D*: Yes
- *Member F*: No

Please provide reasons for your views.
Member E:
It is difficult to quantify the amount and percentage of assets or business activities vulnerable to physical/transition risks. To have an accurate representation of the impacts

brought by risks, the significance of the impacts, importance of affected business activities should also be considered instead of just the amount of percentage of assets and business activities.

Member D:
Metrics provide a standardized framework for measuring and disclosing climate-related risks and opportunities. This can help ensure consistency and comparability across different companies and sectors, making it easier for stakeholders to understand and compare information.

Member F:
Unclear definitions, i.e. to what extent will climate change have financial, operational impacts and to what extent can they be categorized as vulnerable? The lack of clarity affects the validity of the disclosure and the validity of the indicators.

There is a reluctance to disclose private and sensitive information relating to the business.

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 ☐ No

- *Member E*: Yes
- *Member D*: Yes
- *Member F*: No

Please provide reasons for your views.
Member E:
Action plan addressing climate-related risks should be required.

Member D:
Disclosure of responses to climate-related risks and opportunities provides transparency on how companies are managing the impacts of climate change on their business. This can help investors and other stakeholders make informed decisions about their investments and partnerships.

Member F:
Measures related to risk response, in particular, business model adjustments and resource allocation involve the issuer's operations and personnel mobilization, which are more likely to be exploited by competitors than disclosed to investors as a reference, which is unfavorable in the long run.

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 ☐ No

- *Member E*: Yes
- *Member D*: Yes

- *Member F*: Yes

Please provide reasons for your views.

Member E:

Target setting can help establish clear performance goals for a company to achieve and can drive strategic planning for adaptation and mitigation efforts addressing climate-related risks.

Member D:

Reporting climate-related targets can be challenging for small-cap companies, as they may lack the resources, expertise, and data necessary to establish and report on such targets. We suggest keeping this item to "comply or explain" to provide flexibility for issuers and align to KPI A1.5, A1.6, A 2.3, A2.4 in Part C of the code.

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

☐ Yes ☐ No

- *Member E*: Yes
- *Member D*: No
- *Member F*: Yes

Please provide reasons for your views.

Member E:

Ultimately, if companies have the resources, target setting should be required for all companies to better plan their climate-related management strategies, as well as to communicate with stakeholders on the goals and their progress. So if they do not have climate-related targets, they should also communicate with stakeholders their plan in disclosing such targets.

Member D:

Same reason above as set in question 7.

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

☐ Yes ☐ No

- *Member E*: Yes
- *Member D*: No
- *Member F*: Yes

Please provide reasons for your views.

Member E:

So stakeholders can see the trend and compare the actual performance to the plan. This can help spot performance or management issue if there are any abnormalities in the comparison.

Member D:

Same reason above as set in question 7.

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 ☐ No

    - *Member E*: Yes
    - *Member D*: Yes
    - *Member F*: Yes

    Please provide reasons for your views.

    Member E:

    But I do not think it is required to report all the items listed in paragraph 8. Not all companies, especially SMEs have the resources to quantify and address uncertainties in climate resilience. They may also not be certain of their resources available for developing business strategy in terms of future scenarios.

    Member D:

    Climate change can pose significant financial risks to companies, including physical risks from extreme weather events, regulatory risks from climate-related policies, and transition risks from changes in market demand and technology. By understanding an issuer's climate resilience strategy, investors can assess the company's ability to manage these risks and mitigate potential financial impacts.

    Member F:

    Climate resilience should be evaluated with the involvement of independent third-party organizations.

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 ☐ No

    - *Member E*: Yes
    - *Member D*: Yes
    - *Member F*: Yes

    Please provide reasons for your views.

    Member E:

    Climate-related scenario analysis is already widely used in other reporting frameworks. It provides more realistic identification of risks and opportunities for developing effective adaptation and mitigation efforts.

    Member D:

    By applying a scenario analysis that is commensurate with the circumstances, issuers can provide investors with a more accurate and relevant picture of issuer's environmental performance and risk management strategies.

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?

☐ Yes ☐ No

- *Member E*: Yes
- *Member D*: Yes
- *Member F*: No

Please provide reasons for your views.

Member E:

Financial effects are results of current risk and opportunity management which indicates a company's sustainability and is strongly focused on by investors.

Member D:

Investors are becoming more interested in comprehending the financial impact of climate-related risks for companies. Issuers can meet this demand by disclosing the current financial effects of these risks, which will enable investors to make informed investment decisions.

Member F:

Without harmonized quantification methods and standards, companies cannot quantify climate-related risks accurately.

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?

☐ Yes ☐ No

- *Member E*: Yes
- *Member D*: Yes
- *Member F*: Yes

Please provide reasons for your views.

Member E:

Qualitative statements can be made during the Interim period for companies to plan on their risk and opportunity management for future reporting, but at the same time providing stakeholders with related information and plans.

Member D:

As an interim disclosure, providing qualitative disclosures can provide a more comprehensive and transparent view of a company's exposure to climate-related risks and the potential financial impact on the business.

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

☐ Yes ☐ No

- *Member E*: Yes
- *Member D*: Yes
- *Member F*: No

Please provide reasons for your views.

Member E:

This is also a part of climate-related transition risks or opportunities to be addressed.

Member D:
Same reason above as set in question 12.

Member F:
Until there is a reliable or standardized methodology for assessing forecasts, this type of information has a greater potential to mislead investors

Companies are unable to use current circumstances and short-term data to accurately analyze and assess the expected impact of changes in the long-term financial position and related expectations, but disclosure of the expected impact in the medium and short term is achievable.

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

☐ Yes ☐ No

- *Member E*: Yes
- *Member D*: Yes
- *Member F*: Yes

Please provide reasons for your views.

Member E:
Qualitative statements can be made during the Interim period for companies to plan on their risk and opportunity management for future reporting, but at the same time providing stakeholders with related information and plans.

Member D:
Same reason above as set in question 13.

16. Do you agree to require disclosure of the process an issuer uses to identify, assess and manage climate-related risks as set out in paragraph 12(a) of Part D of the Proposed Appendix 27?

☐ Yes ☐ No

- *Member E*: Yes
- *Member D*: Yes
- *Member F*: Yes

Please provide reasons for your views.

Member E:
This is widely used in other reporting frameworks or management approach for risk assessment. This is more comprehensive and gives better justification than the current disclosure.

Member D:
Disclosure of the process used to identify, assess, and manage climate-related risks can enhance accountability and encourage companies to take a more proactive approach to

managing these risks. By disclosing this information, issuers can demonstrate their commitment to sustainability and provide stakeholders with the information they need to hold them accountable for.

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 ☐ No

- *Member E*: Yes
- *Member D*: Yes
- *Member F*: Yes

Please provide reasons for your views.

Member E:
Methodology should be provided to maintain and justify for consistency in reporting.

Member D:
Same reason above as set in question 16

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 ☐ No

- *Member E*: Yes
- *Member C*: N/A
- *Member D*: Yes
- *Member F*: Yes

Please provide reasons for your views.

Member E:
GHG Protocol is already widely used, and they provide diverse GHG calculation tools which companies of all sizes should find it the most convenient and easy to use.

Member C:
Some metrics require information for reporting periods that are different from the companies' own reporting period (such as information arising from entities in the value chain). We suggest the HKEX explicitly allow this practice, consistent with the ISSB Standards.

Member D:
This is similar to the requirement of current ESG Guide and global approach.

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 ☐ No

- *Member E*: Yes
- *Member C*: N/A
- *Member D*: Yes

- *Member F*: No

Please provide reasons for your views.

Member E:
Scope 3 GHG accounting is always neglected by companies as there were no requirements for disclosing respective emissions due to complication in calculations. By adopting calculation guidelines established by GHG Protocol, this will be easy for companies to report their Scope 3 emissions.

Member C:
Some metrics require information for reporting periods that are different from the companies' own reporting period (such as information arising from entities in the value chain). We suggest the HKEX explicitly allow this practice, consistent with the ISSB Standards.

Member D:
This is similar to the requirement of current ESG Guide and global approach.

Member F:
In addition to the difficulty of collecting data from upstream and downstream companies that do not have control and the need to consider the industry of the issuer, as mentioned in Discussion and Recommendation 14, upstream and downstream companies provide services to a wide range of customers, making it difficult to compile statistics on the emissions generated in the course of providing services to a particular customer. The financial industry is also different from the industrial sector, and the emissions generated from its investment and business processes are even more difficult to calculate, and it is not possible to spend time reviewing them.

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

☐ Yes ☐ No

- *Member E*: Yes
- *Member D*: Yes
- *Member F*: Yes

Please provide reasons for your views.

Member E:
Company should make plans for developing data collection measures for Scope 3 emissions during their interim period. Companies should also be required to work on the minimum boundaries as listed in GHG Protocol Scope 3 calculations guidance first, before proceeding to full boundaries.

Member D:
This is similar to the requirement of current ESG Guide and global approach.

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

☐ Yes ☐ No

- *Member E*: No
- *Member D*: Yes
- *Member F*: No

Please provide reasons for your views.

Member E:

Quantifying the amount and percentage of assets or business activities cannot fully reflect the susceptibility of the operation to transition risks. Qualitative disclosure may seem more feasible for different types of companies.

Member D:

By understanding the extent of issuer's exposure to transition risks, issuers can prioritize actions to mitigate these risks and improve their resilience to the impacts of climate change.

Member F:

Unharmonized identification and valuation methods and different standards of disclosure among issuers may mislead investors' perception of their financial condition and peer comparison.

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

☐ Yes ☐ No

- *Member E*: Yes
- *Member D*: Yes
- *Member F*: Yes

Please provide reasons for your views.

Member E:

Same as above. Qualitative statements describing vulnerability sometimes can be more accurate than incomprehensive quantification.

Member D:

As an interim disclosure, providing qualitative disclosures can provide a more comprehensive and transparent view of a company's exposure to transition risks.

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

☐ Yes ☐ No

- *Member E*: No
- *Member D*: Yes
- *Member F*: No

Please provide reasons for your views.

Member E:

Same as Q20.

Member D:
By understanding the extent of issuer's exposure to physical risks, issuers can prioritize actions to mitigate these risks and improve their resilience to the impacts of climate change.

Member F:
Physical risks are varied and the gap between impact and timeliness can be significant, making disclosure difficult given the impact of disclosure.

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

☐ Yes ☐ No

- *Member E*: Yes
- *Member D*: Yes
- *Member F*: Yes

Please provide reasons for your views.

Member E:
Same as Q20.

Member D:
As an interim disclosure, providing qualitative disclosures can provide a more comprehensive and transparent view of a company's exposure to physical risks.

22. (a) Do you agree to require disclosure of the amount and percentage of assets or business activities aligned with climate-related opportunities as set out in paragraph 18 of Part D of the Proposed Appendix 27?

☐ Yes ☐ No

- *Member E*: Yes
- *Member D*: Yes
- *Member F*: No

Please provide reasons for your views.

Member E:
Same as Q20.

Member D:
By understanding the extent of issuer's exposure to climate-related opportunities, investors can prioritize investment decision in relations to the potential opportunities.

Member F:
In general, climate-related business is not the main business of most issuers, and its financial impact is relatively small, which does not reflect the issuer's business and financial position well..

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 ☐ No

- *Member E: Yes*
- *Member D:* Yes
- *Member F*: Yes

Please provide reasons for your views.

Member E:

Same as Q20.

Member D:

This provides alternative information for investors in understanding issuer's exposure to climate-related opportunities.

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 ☐ No

- *Member E: Yes*
- *Member D:* Yes
- *Member F*: Yes

Please provide reasons for your views.

Member E:

Let stakeholders know the financial management on handling climate-related risks, and can further analyse and discuss the need for more or less resource input.

Member D:

Disclosure of the amount of capital expenditure, financing, or investment deployed towards climate-related risks and opportunities can enhance accountability and encourage issuer to take a more proactive approach to managing these risks and opportunities.

23. (b) Do you agree with the proposed interim disclosures during the Interim Period in respect of the metric regarding capital deployment as set out in the paragraph immediately following paragraph 19 of Part D of the Proposed Appendix 27?

☐ Yes ☐ No

- *Member E: Yes*
- *Member D:* Yes
- *Member F*: Yes

Please provide reasons for your views.

Member E:

Should give similar information to the disclosure itself but should be easier to handle for companies with less resources in reporting and ESG performance efforts.

Member D:

Same reason above as set in question 23

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

☐ Yes ☐ No

- *Member E*: Yes
- *Member C*: No
- *Member D*: No
- *Member F*: Yes

Please provide reasons for your views.

Member E:

Transparency of internal carbon price is important to justify decision-making as well as its effects on company operations.

Member C:

Issuers are concerned that disclosures of Internal carbon price would involve confidential and commercially-sensitive information. We suggest internal carbon pricing disclosure should be considered voluntary.

Member D:

Setting an internal carbon price can be a complex process that requires significant resources and expertise. Regulatory change can impact the effectiveness of an internal carbon price, it would be challenging to companies operate in multiple regions. Changes in government policies or regulations can impact the cost of emissions and fluctuations in the company's internal carbon price.

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 ☐ No

- *Member E: Yes*
- *Member D:* Yes
- *Member F*: Yes

Please provide reasons for your views.

Member E:

Remuneration policy is also a clear indicator of a company's management approach.

Member D:

This aligns to global reporting practice like SFDR.

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 ☐ No

- *Member E: Yes*
- *Member D:* Yes
- *Member F*: Yes

Please provide reasons for your views.

Member E:

Other international ESG reporting framework can provide industry-specific disclosures that seem more applicable to different industries. They may also have higher credibility to international investors and be beneficial to MNCs.

Member D:
Materiality: Industry-based disclosure requirements are designed to focus on the most material ESG issues for a specific industry. This can help companies identify and prioritize the most important ESG issues for their industry and take action to address these issues.

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?

☐ Yes ☐ No

- *Member E: No*
- *Member D: No*
- *Member F*: No

Please provide reasons for your views.
Click or tap here to enter text.

28. Do you have any comments regarding the topics/matters that we intend to give guidance on?

☐ Yes ☐ No

- *Member E: No*
- *Member D: No*
- *Member F*: No

Is there any particular topic/matter you consider further guidance to be helpful?

☐ Yes ☐ No

- *Member E: Yes*
- *Member D: Yes*
- *Member F*: Yes

Please elaborate
Member E:
How to accurately quantify the amount and percentage of assets or business activities vulnerable to transition and physical risk.

Member C:
We request guidance from HKEX that is applicable across industries e.g.:
o how to assess and present the current and anticipated financial effects of climate-related risks, and where applicable, climate-related opportunities; and
o clarify the materiality assessment for quantifying current financial effects is consistent with that for other parts of Appendix 27 under the existing materiality principle; and
o how to assess the amount of assets vulnerable to transition / physical risk e.g. whether assessments based on country of incorporation of counterparties would be sufficient, and how to assess transition risk in view of the lack of building energy efficiency certification standards in many Asian countries; and
o tackling data availability problems such as when emissions data is required at the subsidiary level; however, data may only be available at the consolidated level of a counterparty and not at the legal entity level; and

o how the progress of a target should be disclosed if the target has been revised during a year, and the number of years of comparatives required to disclose the progress made.

Member D:
A practical guideline and methodology on explaining how to set an internal carbon price as required in paragraph 20 of Part D of the Proposed Appendix 27

Member F:
Clear definitions and recognized standards for calculations or projections should be provided for aspects such as climate finance assessments, so that issuers with little prior exposure to climate finance can better disclose the relevant information in accordance with the regulations, and it will be more convenient for investors to analyze and compare the same industry.

Disclosure issuers should be categorized by industry, and disclosures should be formulated with different focuses based on the characteristics of the industry. For example, if financial issuers do not have much upstream and downstream demand and their emissions are much smaller than those in the industrial sector, the focus of disclosure should be on investment and financing, whereas the focus of disclosure for issuers whose main business is production should be on financial and emissions improvement, etc. It is necessary to categorize the industry characteristics and incorporate them into the disclosure content for consideration.

It is suggested that if issuers have purchased CERs, they should disclose information about the relevant emission reduction projects, such as whether the project is a high-quality carbon emission reduction project, the methodology used in the project, and the rating of the independent organization.

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?
☐ Yes ☐ No
    - *Member E: No*
    - *Member D: No*
    - *Member F: No*

Please share your views with us.
Click or tap here to enter text.

Hong Kong Green Finance Association (HKGFA)
14 July 2023