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Submitted by completing the  
questionnaire: [https://surveys.hkex.com.hk/jfe/form/SV\\_bwQHMcfUq0rpHWC](https://surveys.hkex.com.hk/jfe/form/SV_bwQHMcfUq0rpHWC).

14 July 2023

Dear HKEX Exchange Representative,

**Re: Consultation Paper on Enhancement of Climate-related Disclosures under the Environmental, Social and Governance Framework**

The International Corporate Governance Network (ICGN) appreciates the opportunity to comment on the Consultation Paper on Enhancement of Climate-related Disclosures under the Environmental, Social and Governance Framework (Consultation Paper).

Led by investors responsible for assets under management of \$77 trillion, ICGN is a leading authority on global standards of corporate governance and investor stewardship. First published in 2001, the ICGN Global Governance Principles<sup>1</sup> are widely used by our members in their company assessments and voting decisions, and by regulators when developing corporate governance rules.

We acknowledge the progress achieved by HKEX over many years to enhance the quality of climate-related disclosures by HKEX listed companies. In this regard, we welcome harmonisation of HKEX listing requirements with internationally accepted frameworks such as those published by the Taskforce for Climate related Financial Disclosures (TCFD), and the Climate Standard published by the International Sustainability Standards Board (ISSB). We would also encourage coordination between HKEX and the Hong Kong Institute of Certified Public Accountants (HKICPA), which covers the HK Financial Reporting Standards. We have been informed that HKICPA will be undertaking its own consultation on the ISSB Standards, which will be released as soon as possible. We would kindly ask HKEX, the Securities and Futures Commission, and the Hong Kong Government to consider these standards and whether the HKICPA standards will also be mandatory or voluntary.

In our many comment letters to the international standard setters in this past year<sup>2</sup>, we have emphasised that these efforts to create globally harmonized corporate sustainability reporting standards, will enable more efficient reporting by companies. This will also lead to higher-quality, consistent and comparable disclosure enabling investors to make more informed stewardship, investment, and risk management decisions, and for their own reporting purposes.

Alongside these efforts, ICGN also advocates for globally harmonised auditing and assurance standards to verify the reliability of corporate sustainability reporting information and we welcome the work being undertaken by the International Auditing and Assurance Standards Board (IAASB) in this regard.

The speed of development of corporate sustainability reporting standards and frameworks is impressive. We acknowledge this will require increased reporting by companies, but it is anticipated that this will be reduced over time as global efficiencies are realised. In this regard, while we recognise that some HKEX listed companies are calling for more time to comply, we urge caution because extensive delays by companies may complicate their own sustainability journeys and potentially cause investors to demand acceleration of their climate-disclosure



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plans. With the publication of the IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information and IFRS 2 Climate-related Disclosures by ISSB, and the mandatory disclosure requirements noted in this Consultation Paper, companies have had “fair warning” that non-compliance will likely have consequences such as heightened investor and stakeholder advocacy, the filing of shareholder proposals, offering alternative slates for board members, and encouraging “Vote No” campaigns against existing board directors.

### **Consultation Paper Questions**

#### **Question 1 Do you agree to upgrade climate-related disclosures to mandatory from “comply or explain”? Please provide reasons for your views.**

Yes, ICGN supports mandatory climate-related reporting requirements as clarified in our previous commentary to HKEX.

We observe that a “comply or explain” standard has been in place for several years, and whilst many companies have moved forward with more robust disclosure reporting, there are those who have not provided sufficient explanation why they are unable to comply. The ISSB Climate Standard supports the recommendations under the TCFD framework for detailed mandatory climate-related disclosure requirements. For the HKEX to maintain its global presence as a premier exchange, investors will expect mandatory disclosures from listed companies in alignment with these standards.

#### **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.**

Yes, however, we recommend that the HKEX revise the proposed governance disclosures with more stringent requirements, aligned with the ISSB Standards. The ISSB requires more detailed disclosures related to a board’s governance processes, the controls it has established, and the procedures used to by the board and management to monitor and address climate-related issues, including the:

- (a) identity of the governance body;
- (b) process and frequency by which climate-related issues are discussed;
- (c) how the governance body ensures that appropriate skills and competencies are available to oversee strategies designed in response to climate-related issues;
- (d) how performance metrics are included in remuneration policies; and
- (e) how climate-related risks and opportunities are considered when overseeing a company’s strategy, decisions on major transactions and risks management policies.<sup>3</sup>

More generally the ICGN Global Governance Principles are cited as an authoritative global governance framework of most relevance to users in the EU Corporate Sustainability Reporting Directive. We encourage companies to be aware of ICGN’s governance standards given that this reflects the views of ICGN Members, the majority of whom are institutional investors with globally diversified portfolios.

In relation to corporate sustainability reporting the ICGN Global Governance Principles clarifies that a board of directors should oversee all financial reporting and incorporate sustainability-related information into integrated reports. As stated in the ICGN GGP:

Principle 7.4 Sustainability reports. The board should provide sustainability reporting to reflect the complexities inherent in a contemporary business by blending financial, human and natural capital considerations in the context of a company’s current and



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future strategic direction. Sustainability reporting should support and enhance the information in the financial statements and help investors to form an assessment of the company's position, performance and long-term prospects.<sup>4</sup>

**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.**

Yes, we agree that climate-related risks should be properly disclosed, however, the proposed disclosure requirements as set out on the Consultation Paper are not adequate. The requirements as currently drafted do not provide the level of detail under the ISSB Climate Standard, which requires a more detailed disclosure on the “actual and potential impacts of climate-related risks and opportunities on the issuer’s business, strategy and financial planning.”<sup>5</sup> We encourage the HKEX to adopt the more stringent ISSB standard.

ICGN understands that a company may have different climate-related risks than other companies within its industry or sector. To the extent that actual or potential impacts can be identified, a company should be able to disclose these risks to its investors. These risks impact a company’s long-term strategy, decisions on capital allocation, its workforce, and the communities in and around its facilities. Companies have been asked to identify climate-related risks under a “comply or explain” standard for many years. The requirements are relevant and necessary and provide a company with the opportunity to customize its reporting and disclosures.

**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.**

ICGN believes that all issuers should disclose actual and potential effects of climate-related opportunities. “Opting” to do so is not a mandatory requirement and will not achieve a global baseline, potentially negatively impacting the company’s prospects with investors.

**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.**

Yes, investors would find the information related to the metrics used by a company when assessing and disclosing climate-related risks and opportunities. In this way, investors will be able to make valuable comparisons between companies in the same industry or sector, which will enhance their own due diligence reviews.

**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.**

HKEX has made the distinction that these disclosures would not be mandatory for companies. ICGN encourages the HKEX to require the disclosure of climate-related opportunities, which will help inform investors in their own review and valuation of a company. Such opportunities could help mitigate risks, provide financial incentives for a company if it pursues such opportunities, and give investors a full assessment of a company’s climate-related strategy. Global standards are moving in this direction.



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**Question 7 Do you agree to require disclosure of climate-related targets set by the issuer as set out in paragraph 6 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

**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.**

For Questions 7 and 8, ICGN recognizes that all companies are at different stages of their journeys towards the adoption, implementation and reporting of sustainability related goals aligned with corporate purpose and long-term strategy. Notwithstanding this, companies should be able to disclose progress towards climate-related targets by January 2025, if not the actual targets, as set out in the Consultation Paper. If a company is not able to provide such a work plan, then it should disclose the progress made toward implementation and a reasonable timeline for setting and disclosing climate-related targets in the most recent reporting year. Investors will expect any company in this situation to establish a timeline that moves expeditiously towards full disclosure of targets.

**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.**

Yes, please refer to the response to Questions 7 and 8.

**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.**

Yes. The ISSB Climate Standard requires that a company should disclose information regarding the resilience of the company's strategy (including its business model) to climate-related changes, developments, or uncertainties, taking into consideration its significant climate-related risks and opportunities.<sup>6</sup> ICGN believes that a company's resilience in the face of climate change is an important disclosure for investors.

**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.**

Yes. As the Consultation Paper mentioned, the ISSB will provide further guidance on the selection of climate scenarios depending on individual circumstances, including industry and country exposure. With the Consultation Paper's reference to the ISSB's Standards, companies and investors will be looking for additional guidance from HKEX and ISSB to support the preparation of climate-related scenario analyses.

**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.**

Yes. ICGN has noted that HKEX has proposed to modify the ISSB Climate Standard requirements by stating that (a) an issuer is only required to quantify the effect of climate-related risks and, where applicable, climate-related opportunities on the issuer's financial position, financial performance and cash flow for the most recent reporting period, where such



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effect is material; and (b) during the Interim Period, where an issuer has yet to provide quantitative information, it should provide qualitative disclosures.

ICGN believes that most climate-related risks and opportunities may reach a “material” threshold and should be reported. The overarching theme of the ISSB sustainability standards is to integrate the sustainability-related information into the financial statements. The HKEX should require that companies disclose the effects of climate related risks and opportunities, whether they are material or not, and ensure this is linked to the financial statements.

**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.**

Yes. For companies that are relatively new in their sustainability journeys, under the ISSB Standards and HKEX Consultation Paper, they should be well aware that the reporting of disclosures should commence in the next reporting cycle. If an interim disclosure is all that can be provided, it will serve as a marker for future reporting and improvement.

**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.**

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

In response to Questions 14 and 15, ICGN has noted that the Consultation Paper modifies the ISSB Climate Standard requirements by stating that (a) issuers are only required to describe in qualitative terms the anticipated financial effects of climate-related risks and, where applicable, climate-related opportunities; and (b) during the Interim Period, where an issuer has yet to provide disclosures on the anticipated effects of climate-related risks and, where applicable, climate-related opportunities, it should disclose: (i) information, to the extent reasonably available, that may enable investors to understand the aspects of the financial statements that are most affected; and (ii) the work plan, progress and timetable for making the required disclosure.<sup>7</sup>

In the interviews with companies, the HKEX noted that some issuers expressed concerns on data accuracy, transparency and needing more time to build models to analyse the anticipated financial impact of climate-related risks. ICGN believes that these concerns may be met by the HKEX’s solution to require companies to provide information, to the extent reasonably available, that may enable investors to understand the aspects of the financial statements that are most affected; and (ii) the work plan, progress, and timetable for making the required disclosure. ICGN recommends that this interim reporting level be time limited.

**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.**



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**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.**

For Questions 16 and 17, ICGN notes that the HKEC provisions allow for companies to opt out of disclosing the processes used to identify, assess, and manage climate-related opportunities. Respectfully, ICGN prefers the ISSB Standard and encourages the HKEX to adopt a similar requirement that a company identify, assess and prioritise climate-related risks; b) disclose how the company monitors and manages its climate-related risks; (c) how such a process is integrated into the company's overall risk management process; and (d) processes to identify, assess, prioritise and manage such opportunities, and how such processes are integrated into the company's overall management process.

**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.**

**(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.**

**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.**

For Questions 18 and 19, ICGN notes that the HKEX has modified the ISSB Standards to allow a company to either apply (i) the GHG Protocol; or (ii) the protocol prescribed by local legislation for measuring GHG emissions. While ICGN would prefer the adoption of the GHG Protocol, we recognize that some jurisdictions have legislative requirements that may need to be taken into consideration.

In relation to scope 3 emissions, if a company needs time during an interim period, they should disclose (i) information, to the extent reasonably available, that may enable investors to understand the issuer's relevant upstream or downstream activities along the value chain; and (ii) its work plan, progress, and timetable for making the required disclosure.

**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. (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.**

**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.**

**(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.**



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**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.**

**(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.**

**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.**

**(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.**

For Questions 20 through 23, ICGN's investor members expect companies to disclose risks related to the physical transition of business activities due to climate change, costs, capital expenditures necessary, and financing considerations.<sup>8</sup> We support robust reporting, including metrics and better data for investors, who are making decisions on their investment strategies based in part upon company disclosures. In our letter to ISSB in June, we said:

We believe the adoption of the ISSB standards will contribute to greater transparency on companies' exposure to and management of sustainability risks and opportunities. This is an important step for efficient capital markets and sustainable economies. We hope IFRS S1 and IFRS S2 will be endorsed by the International Organisation of Securities Commission Organisations (IOSCO), and that regulatory authorities worldwide will refer to these standards in their reporting requirements. We invite companies to start reporting according to these standards.<sup>9</sup>

**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.**

ICGN acknowledges that there are challenges to ascertaining an internal carbon price in the absence of a mature carbon market, however, the HKEX will not be mandating that companies maintain an internal carbon price at this time. HKEX has proposed to incorporate the ISSB Climate Standard requirements with the modifications that where an issuer maintains an internal carbon price, it should disclose (i) the price for each metric tonne of GHG emissions that the issuer uses to assess the costs of its emissions; and (ii) an explanation of how the issuer is applying the carbon price in decision-making (for example, investment decisions, transfer pricing, and scenario analysis). ICGN prefers that the HKEX require a company to disclose its internal carbon price to provide investors and relevant stakeholders with data to determine whether a company's plans are being managed against the climate-related strategy.

**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.**



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Investors are keenly aware that remuneration should be tied to the long-term sustainable business prospects of a company. Principle 5 of the ICGN Global Governance Principles states:

Remuneration should be designed to equitably and effectively align the interests of the CEO, executive officers and workforce with a company's strategy and purpose to help ensure long-term sustainable value preservation and creation. Aggregate remuneration should be appropriately balanced with the payment of dividends to shareholders and retention of capital for future investment and the level of quantum should be defensible relative to social considerations relating to income inequality.

The Consultation Paper does not require that companies disclose the percentage of remuneration linked to climate-related considerations. HKEX incorporates the ISSB Climate Standard requirements but modifies the company's responsibility to only disclose how climate-related considerations are factored into the remuneration policy under the "Governance" pillar. ICGN does not believe that this gives investors enough information how climate-related considerations are factored into the full remuneration package.

Ultimately, both climate and non-climate-related business activities over the long-term should be incorporated into a company's remuneration policy. Until sustainability is fully absorbed into the financial incentives of a company, many investors will expect companies to disclose how climate-related considerations are included as a separate item.

**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.**

The Consultation Paper states that "As international ESG reporting frameworks are still evolving and following the ISSB's deliberations, we would not mandate the disclosure of industry-based metrics at this stage. Nonetheless, we agree with the ISSB that they can serve as a useful reference for issuers to provide industry-specific information."<sup>10</sup>

ICGN is fully supportive of a globally harmonized corporate sustainability reporting standard and we encourage companies to commence reporting to the newly released ISSB Standards. This is echoed in our letter to ISSB:

We believe the adoption of the ISSB standards will contribute to greater transparency on companies' exposure to and management of sustainability risks and opportunities. This is an important step for efficient capital markets and sustainable economies. We hope IFRS S1 and IFRS S2 will be endorsed by the International Organisation of Securities Commission Organisations (IOSCO), and that regulatory authorities worldwide will refer to these standards in their reporting requirements. We invite companies to start reporting according to these standards.<sup>11</sup>

**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.**

ICGN appreciates that with the issuance of the IFRS S1 and S2 Standards, the HKEX will need to review the Amendments and revise any ambiguities or unintended consequences. We would say again that a global approach, with regard to national considerations, removes inconsistencies for international companies and their investors.





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**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.**

ICGN appreciates the full scope of the proposals in the Consultation Paper. One area that could be further expanded is the area of remuneration, as noted in our comments to Question 25.

With respect to carbon offsets, it would be helpful for a company (that uses offsets) to disclose information on their price, verification or assurance, and other critical information. It would also be helpful to understand if offsets or participation in voluntary carbon markets play any role in a company's transition plan.

**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.**

As with all markets around the world, Hong Kong has its own unique circumstances, business traditions and legal / regulatory framework within which HKEX listed companies are accustomed to operating. While this must be prioritised in the development of national standards, it is in the interests of all companies to adhere to globally accepted standards of corporate governance, financial and sustainability reporting, and assurance to remain globally competitive.

ICGN is encouraged by the HKEX's initiative to make climate reporting mandatory for listed companies, as considered under IFRS S2. We believe international investors are also looking for HKEX to adopt the requirements under IFRS S1 as soon as possible and look forward to this consultation by HKEX.

Thank you again for the opportunity to share our perspective on the Consultation Paper. If you would like to follow up with questions or comments, please contact our [REDACTED],

[REDACTED]

Yours faithfully,

[REDACTED]