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HKCGI Guidance Note – Climate Disclosure Requirements – Executive Summary (Part 1)

Introduction

Fully acknowledging the importance of sustainability disclosure, we aim to be among the first jurisdictions to align the local sustainability disclosure requirements with the ISSB Standards
- *Vision Statement*[1] *by the Hong Kong Financial Services and the Treasury Bureau, 25 March 2024*

Following Hong Kong's vision to be a first mover to align with International Sustainability Standards Board (**ISSB**) disclosure standards, on 19 April 2024, the Hong Kong Stock Exchange (**HKSE**) published its much-anticipated 'Consultation Conclusions on Enhancement of Climate-related Disclosures under the Environmental, Social and Governance Framework[2] (**consultation conclusions**) which sets out the new climate disclosure requirements and proposed changes to the Hong Kong Listing Rules to align with IFRS S2.

This guidance note is intended to provide the governance professional with an overview and executive summary in advising their chairpersons and boards of their listed issuers and to provide the background for further guidance. It will begin with a summary and then provide direct tips that the governance professional could provide to their listed issuers. There will then be a list of issues and analysis as further reference for the governance professionals, senior management and others interested in a more

1 https://www.info.gov.hk/gia/general/202403/25/P2024032500391.htm
2 https://www.hkex.com.hk/News/Regulatory-Announcements/2024/240419news?sc_lang=en

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detailed understanding of climate-related disclosures. This guidance note will be set out in two parts to keep them focused on related themes.

Key **ISSB Standards: IFRS S1** – General Requirements for Disclosure of Sustainability-related Financial Information[3] (June 2023) and **IFRS S2** – Climate-related Disclosures[4] (June 2023).

Under the consultation conclusions, HKSE will:

- Bring in new climate-related disclosure requirements (**New Climate Requirements**) to enhance climate-related disclosures under its environmental, social and governance (**ESG**) framework. Align more closely with the IFRS S2.

- Take into account the Hong Kong Government's vision and approach towards developing a comprehensive ecosystem for sustainability disclosure in Hong Kong.

Executive Summary

For the governance professional, the following are the practical applied governance tips that need to be considered now for their listed issuers.

1. **DO** a gap analysis of your listed issuer's sustainability disclosure to know what gaps you need to plug to satisfy the New Climate Requirements.

2. **ASSESS** your internal governance and risk management process, controls and procedures to make sure they are sufficient to allow your listed issuer and its board and committees to assess, report, monitor and manage climate-related risks and opportunities.

3. **USE** the New Climate Requirements as a fresh opportunity for your listed issuer to review its existing ESG disclosure. This process is to ensure that not only are the disclosures up-to-date, but greenwashing free and represent your company's best narrative in terms of business strategy, progress and challenges to help with your own climate-related targets, opportunities and risks and sustainability goals.

4. **START** planning for Scope 3 GHG emissions disclosure even if you are not a LargeCap issuer, as the direction of travel is very clear. Even if your listed company is on a "comply or explain" regime or will enjoy implementation reliefs, you are encouraged to provide information on the work plan, progress and timetable for making the required disclosure.

5. **USE** the New Climate Requirements as an excellent opportunity to edit, amend, rewrite and write your sustainability-related disclosure and to make them more stakeholders-focused and in particular investors-focused and user-friendly.

6. **REMEMBER** to reduce duplicative disclosures. The establishment of ISSB is in part to reduce the alphabet soup of sustainability reporting and to remove duplicative disclosures. HKSE has clarified that where an issuer manages its ESG-related (including climate-related) risks and opportunities on an integrated basis, which should normally be the case, it should provide one set of integrated governance disclosures that complies with the disclosure requirements under both paragraphs 13 and 19 of the ESG Code.

3 https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/

4 https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/

7. **DON'T FORGET** to start thinking of integrating sustainability reporting with financial reporting. The consultation conclusions make it clear that issuers are encouraged to follow the ISSB Standards and align the scope of entities or operations that are included in the ESG report (including the climate-related disclosures) with that of its financial statements. This may facilitate issuers' future reporting under the HK Standards, which are expected to align with the ISSB Standards.

8. **CONSIDER** using the ISSB Standards on a voluntary basis as HKSE has made it very clear that the New Climate Requirements are, in the words of Ms Julia Leung, CEO of the Hong Kong Securities and Futures Commission, "*a head-start in speaking the common international language of the ISSB to the investing public and capital markets*".

Detailed Analysis

1. What are the New Climate Requirements?

A new Part D will be introduced to Appendix C2 to the Hong Kong Listing Rules setting out the environmental, social and governance reporting guide which will be changed to environmental, social and governance reporting code (**ESG Code**).

This Part D of the ESG Code sets out disclosure requirements for climate-related risks and opportunities to which issuers are exposed under four core pillars, namely governance, strategy, risk management and metrics and targets.

All Hong Kong listed issuers will be divided into:

- **LargeCap issuers**, defined as Hang Seng Composite LargeCap Index (HSCLI) constituents throughout the year immediately prior to the relevant reporting year. This means if your company is in the HSCLI throughout 2025, you will be a LargeCap issuer for the purpose of the New Climate Requirements and your first reporting under the new Part D will appear from 2026 onwards. The new rules are clear that once a LargeCap issuer, you must continue to disclose information according to the New Climate Requirements even if you subsequently ceases to be an HSCLI constituent.

- Main Board issuers other than LargeCap issuers.

- GEM issuers.

Different categories of listed issuers will be subject to start reporting on the New Climate Requirements at different times, with a phased-in approach and different degree of compliance requirements i.e. mandatory, "comply or explain" or voluntary.

2. Let's start with Scope 1, 2 and 3 GHG emissions

Scope 1 and Scope 2 GHG emissions disclosure will be **mandatory for ALL listed issuers** in Hong Kong (i.e. both Main Board and GEM listed issuers) in respect of financial years commencing on or after **1 January 2025**. Issuers are required to:

- Use the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004), unless required by a jurisdictional authority or an exchange on which the entity is listed to use a different method, to mirror the wording of IFRS S2.

- Disclose the measurement approach, inputs and assumptions used to measure GHG emissions.

- In disclosing Scope 2 GHG emissions, use the location-based method and provide information about any contractual instruments that is necessary to enable an understanding of their Scope 2 GHG emissions.

Scope 3 GHG emissions disclosure will be **mandatory for LargeCap issuers** in respect of financial years commencing on or after **1 January 2026**, subject to the following:

- Reasonable information relief will be available – this means that an issuer is required to use all reasonable and supportable information without undue costs and effort when the issuer selects the measurement approach, inputs and assumptions it uses in measuring in Scope 3 GHG emissions.

- Issuers may use information from a reporting period that is different from that of the issuer if that information is obtained from entities in its value chain with reporting periods that are different from the issuer's reporting period, subject to certain specified criteria.

- Issuers should disclose the categories included in the issuer's Scope 3 GHG emissions in accordance with the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).

- Financed emissions disclosure is encouraged: where an issuer's activities include asset management, commercial banking or insurance, the issuer is encouraged to disclose additional information about the issuer's Category 15 greenhouse gas emissions or those associated with its investments.

Scope 3 GHG emissions will be required to be disclosed on a "**comply or explain**" basis in respect of financial years commencing on or after **1 January 2025** for **all Main Board issuers**.

In any event, issuers are urged to start identifying the carbon intensive activities along their value chain and engage with these value chain entities as soon as possible to raise their awareness of, and secure their support for, the New Climate Requirements.

3. **What is the phased-in approach for the non-GHG emissions New Climate Requirements?**

	In respect of financial years commencing on or after:
LargeCap issuers	1 January 2025 – "Comply or explain" 1 January 2026 – Mandatory disclosure
Non-LargeCap Main Board issuers	1 January 2025 – "Comply or explain"
GEM issuers	1 January 2025 – Voluntary disclosure

Non-climate-related disclosure requirements as set out in Parts A to C of the ESG Code will continue to apply.

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