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HKCGI Guidance Note – Climate Disclosure Requirements – Executive Summary (Part 2)

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 Statement⁵ by the Hong Kong Financial Services and the Treasury Bureau, 25 March 2024*

Part 2 of the guidance note on the topic dwells into a more detailed and technical analysis of key material disclosure requirements to align with IFRS S2 by listed

issuers pending the eventual adoption of Hong Kong's accounting reporting standards, as will be set out below.

1. Exactly what are the non-GHG emissions New Climate Requirements?

In summary, disclosure of the following information will form the New Climate Requirements:

- Governance process, controls and procedures to monitor and manage climate-related risks and opportunities.

⁵ <https://www.info.gov.hk/gia/general/202403/25/P2024032500391.htm>

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- Climate-related risks and opportunities and their impact on the issuer’s business operations, business model and strategy.
- Transition plans, progress of transition plans and climate-related targets.
- Assessment of climate resilience to the issuer’s strategy (including business model) and operations.
- Financial effects of climate-related risks and opportunities and anticipated financial effect.
- Risk management process to identify, assess and manage climate-related risks and opportunities.
- Non-GHG cross-industry metrics.
- Internal carbon price or a negative statement if an issuer does not apply a carbon price in decision-making.
- How climate-related considerations are factored into remuneration policy or a negative statement.
- Consider industry-based disclosure requirements prescribed under international ESG reporting frameworks and make disclosures as the issuer sees fit.

There will be implementation reliefs (see below) available to assist listed issuers onto their journey of sustainability reporting in Hong Kong.

2. Where do these climate-related disclosure requirements come from?

The New Climate Requirements are developed based on IFRS S2. IFRS S1 and IFRS S2 are a pair of two sustainability disclosure standards published by ISSB, a new standard setting board established on 3 November 2021 under the **IFRS Foundation**. IFRS S1 and IFRS S2 aim to serve as a global baseline of sustainability reporting standards for entities worldwide to prepare consistent, comparable and reliable sustainability disclosures.

The ISSB Standards have been endorsed by the International Organisation of Securities Commissions (**IOSCO**) in June 2023 and IOSCO has called on its members comprising more than

95% of the world’s exchanges to consider ways in which they might adopt, apply or otherwise be informed by the ISSB Standards within the context of their jurisdictional arrangements.

The New Climate Requirements are part of Hong Kong’s roadmap to prepare listed companies towards eventual sustainability reporting in accordance with Hong Kong sustainability standards. The **Hong Kong Institute of Certified Public Accountants (HKICPA)** will assume the role of sustainability reporting standards setter in Hong Kong to develop local sustainability reporting standards aligned with the ISSB Standards.

3. Can listed issuers use other international ESG reporting guidance like the ISSB Standards?

An issuer can choose to use international ESG reporting guidance, including the ISSB Standards, so long as it includes comparable disclosures to those required under the ESG Code in their ESG reports.

To avoid duplicate reporting, the ESG Code makes it clear that **ESG reports prepared in compliance with the ISSB Standards (i.e. both IFRS S1 and IFRS S2) are considered to have complied with the New Climate Requirements.**

The existing requirements in Part A (Introduction), Part B (one page on Mandatory Disclosure Requirements) relating to governance structure, reporting principles and reporting boundary) and Part C (a few pages of “Comply or explain” Provisions) like hazardous and non-hazardous waste, water consumption, health and safety and labour standards will continue to apply but these are not obstacles to using the ISSB Standards.

4. What is the definition of “materiality” for the New Climate Requirements?

The ESG Code was developed in 2012 with reference to the Global Reporting Initiative (GRI) standards.

The materiality reporting principles under the ESG Code is not being changed at this juncture, and the Hong Kong Listing Rules do not prevent boards from applying a financial materiality threshold (as required under the ISSB Standards) in determining disclosure of a climate-related risk or opportunity.

In fact, Part A of the ESG Code has included an amendment that for the purpose of Part D i.e. the New Climate Requirements, an issuer **must disclose** information about climate-related risks and opportunities that could reasonably be expected to affect its cash flows, its access to finance or cost of capital over the short, medium or long term.

5. What are the Hong Kong implementation reliefs?

In addition to the reasonable information relief, the following reliefs are available:

Capabilities relief – An issuer’s skills, capabilities, and available resources when assessing and disclosing climate-related information are acknowledged.

Commercial sensitivity relief – An issuer is allowed to withhold disclosure of commercially sensitive information regarding climate-related opportunities, given specific conditions are met.

Financial effects waiver – An issuer can provide qualitative information instead of quantitative information when disclosing climate-related impacts, provided that certain conditions are satisfied.

New Climate Requirement	Reasonable information relief	Capabilities relief	Commercial sensitivity relief	Financial effects waiver
All paragraphs with respect to climate-related opportunities			✓	
Identification of climate-related risks and opportunities	✓			
Determination of the scope of the value chain	✓			
Qualifications of current and anticipated financial effects		✓ (Anticipated financial effects only)		✓
Preparation of disclosures on anticipated financial effects	✓	✓		
Use of climate-related scenario analysis	✓	✓		
Measurement approach, inputs, and assumptions of Scope 3 GHG emissions	✓			
Calculation of metrics in particular cross-industry metric categories	✓			

6. What help can we expect from HKSE?

HKSE has published a 140-page Implementation Guidance to accompany the New Climate Requirements.

Chapter 1 of the Implementation Guidance makes it very clear that issuers are strongly encouraged to prepare climate-related disclosures under Part D of the ESG Code following the conceptual foundations and general requirements set out

under IFRS S1 and to refer to IFRS S1 for details.

The Implementation Guidance also includes illustrative examples, step-by-step workflows and external frameworks and tools which would be helpful in the preparation of disclosures.

The Implementation Guidance does not constitute part of the Hong Kong Listing Rules.

7. Differences between IFRS S2 and the ESG Code

HKSE has very helpfully prepared a very detailed comparison between the requirements of IFRS S2 and mapped it against the relevant paragraphs in the ESG Code (not just against the New Climate Requirements in Part D).

This comparison shows that the New Climate Requirements are very closely aligned with IFRS S2. There are only a handful of departures from IFRS S2 as follows:

- No requirement to disaggregate, for Scope 1 and Scope 2 GHG emissions disclosure purposes, the information between the consolidated accounting group e.g. if using IFRS Accounting Standards, the parent and its consolidated subsidiaries, and the unconsolidated investees e.g. associates, joint ventures and unconsolidated subsidiaries.

- Disclosure of additional information about an issuer’s category 15 GHG emissions or those associated with its investments (financed emissions) is encouraged but not mandatory.
- Disclosure of percentage of remuneration linked to climate-related considerations is not required.
- Positive requirement of a negative statement to clarify that an issuer is only required to make relevant disclosure if it has factored climate-related considerations into its remuneration policy.
- Disclosure of industry-based metrics is on a voluntary basis only.

8. What about IPO Applicants?

IPO applicants should embrace the New Climate Requirements and start the necessary work to ensure that they have the relevant systems, policies and processes in place to ensure compliance after listing as the New Climate Requirements will become effective on 1 January 2025.

IPO applicants should also consult Chapter 4.3 of HKSE's Guide for New Listing Applicants, which provides principles and guidance on prospectus disclosures concerning ESG matters.