

MEMO# 35261

April 25, 2023

Asia ESG: Hong Kong Consults on Mandatory Climate Disclosure for Listed Issuers

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TO: ICI Global Members

Asia Regulatory and Policy Committee

ESG Task Force SUBJECTS: ESG

International/Global RE: Asia ESG: Hong Kong Consults on Mandatory Climate Disclosure for Listed Issuers

On April 14, 2023, the Stock Exchange of Hong Kong Limited (HKEX) released a consultation paper^[1] seeking feedback on mandatory climate disclosure requirements for all Hong Kong-listed issuers. HKEX proposes to transition its current "comply-or-explain" climate disclosure provisions to become mandatory requirements, and introduce new disclosures to align requirements with the International Sustainability Standards Board (ISSB) Climate-related Disclosure Standard.^[2]

Categorized under four core pillars, namely, (i) governance, (ii) strategy, (iii) risk management, and (iv) metrics and targets, the proposed climate disclosure requirements are largely in line with the ISSB Climate-related Disclosure Standard exposure draft published in March 2022, and the subsequent ISSB deliberations up to April 2023. HKEX will provide principles, guidelines, and illustrative examples to assist issuers in understanding and complying with the new climate disclosure requirements.

The proposed requirements do not make any reference to issues specific to asset managers as listed entities.^[3] ICI Global has argued to the ISSB that any required reporting standards for asset managers as public companies should be calibrated to serve the intended audience (i.e., disclosures for the benefit of their shareholders), and that any mandatory greenhouse gas emissions (GHG) reporting in this context should exclude assets managed on behalf of clients.^[4]

The new climate disclosure requirements will come into effect on January 1, 2024, i.e., applying to ESG reports produced in 2025 for financial years beginning on or after the effective date, the same as the ISSB Climate-related Disclosure Standard.^[5] HKEX proposes a two-year transition period, during which interim provisions will be provided for certain

disclosures, e.g., Scope 3 GHG reporting. In other words, all Hong Kong-listed issuers will be expected to be in full compliance with all the new climate disclosures from January 1, 2026, i.e., the first ESG reports fully compliant with the new climate disclosure requirements will be produced in 2027.

The HKEX consultation will close on July 14, 2023, allowing respondents to consider the final ISSB Climate-related Disclosure Standard, which is expected in mid-2023. ICI Global will continue to track the development of these rules and assess potential implications on global asset managers. We also will continue to engage with the ISSB as it finalizes its sustainability disclosure standards.

NOTABLE DIFFERENCES WHEN COMPARED TO THE ISSB PROPOSALS

Allow Qualitative Disclosures on Certain Cross-Industry Metrics Disclosure During Transition Period

Under the ISSB's proposals, companies will be required to disclose seven cross-industry climate-related metrics.^[6] Acknowledging the data gaps and challenges, HKEX proposes that, instead of quantitative metrics, Hong Kong-listed issuers may provide qualitative disclosures on the cross-industry metrics in relation to transition risks, physical risks, climate-related opportunities, and capital deployment. HKEX also indicates that issuers should provide the work plan, progress, and timetable for making the required disclosures on these cross-industry metrics.

With respect to Scope 3 GHG emissions disclosure, while the ISSB will exempt companies from Scope 3 GHG emissions disclosure in their first year of reporting,^[7] HKEX proposes that, during the two-year transition period, Hong Kong-listed issuers will only be required to provide reasonably available information that may enable investors to understand the relevant upstream or downstream activities along their value chains.

Adapted Disclosures on Metrics Regarding Internal Carbon Price and Remuneration

Given the absence of a mature carbon market, in contrast to ISSB's proposals, HKEX will require disclosure on the price for each metric ton of GHG emissions that a Hong Kong-listed issuer uses to assess the cost of its emissions only if such issuer maintains internal carbon prices.

Further, Hong Kong-listed issuers will only need to disclose how climate-related considerations are factored into their remuneration policies, instead of disclosing the percentage of executive remuneration linked to climate-related considerations as proposed by the ISSB.

No Mandatory Disclosures of Industry-Based Metrics

The ISSB proposed mandatory disclosures based on industry-specific metrics. Contrary to the ISSB approach, HKEX will not mandate such disclosure at this stage. Yet, it will encourage Hong Kong-listed issuers to take into consideration industry-based disclosures prescribed under other international sustainability reporting frameworks, for instance, the Sustainability Accounting Standard Board (SASB) Standards, from which ISSB's proposed industry-based disclosure requirements are derived, and to make relevant industry-specific disclosures as they see fit.

Adapted Disclosures under the Strategy Pillar

Under the ISSB proposals, companies will be required to disclose the effects of both significant climate-related risks and opportunities on their (i) business models, (ii) strategies and cash flows, and (iii) their access to finance and costs of capital over the short, medium, and long term. HKEX recognizes that not all Hong Kong-listed issuers would have identified climate-related opportunities to pursue at the current stage. Thus, it proposes to adapt the relevant disclosure requirements such that disclosures on the effects of climate-related opportunities will be optional.

A Hong Kong-listed issuer will be required to disclose its transition plan, and the climate-related targets it has set for the plan, consistent with the ISSB's proposals. Yet, acknowledging that some issuers may take additional time to determine meaningful and achievable climate-related targets for their transition plans, HKEX proposes that where an issuer has not yet set climate-related targets for the current reporting year, it instead will be required to disclose the work plan, progress, and timetable for setting and disclosing such targets.

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Notes

[1] See Consultation Paper on Enhancement of Climate-related Disclosures under the Environmental, Social and Governance Framework, April 2023, available at https://www.hkex.com.hk/News/Regulatory-Announcements/2023/230414news?sc_lang=en.

[2] ISSB consulted the exposure drafts for its first two sustainability disclosure standards - General Requirements for Disclosure of Sustainability-related Financial Information, and Climate-related Disclosures in 2022. ICI Global submitted comments on the consultation, supporting the ISSB's efforts to develop a common foundation of sustainability reporting standards to increase comparability while expressing our concerns on Scope 3 greenhouse gas emissions disclosures. See ICI Memorandum [34115], dated April 19, 2022, available at <https://www.ici.org/memo34115>.

[3] Separately, the Securities and Futures Commission (SFC) published climate-related disclosure requirements for asset managers in 2021, covering disclosures related to fund assets and intended for the benefit of clients. These requirements largely follow the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) but are not linked to the ISSB proposals. The SFC requires Scope 1 and Scope 2 greenhouse gas emissions associated with the fund's underlying investments, where data is available or can be reasonably estimated, and encourages disclosure on Scope 3 emissions. See Circular to licensed corporations - Management and disclosure of climate-related risks by fund managers (August 20, 2021), available at <https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=21EC31>, and ICI Memorandum [33739], dated August 31, 2021, available at <https://www.ici.org/memo33739>.

[4] See ICI Comment Letter on ISSB General Requirement for Disclosure of Sustainability-related Financial Information, and Climate-related Disclosures, dated July 29, 2022, available at <https://www.ici.org/system/files/2022-07/22-icig-cl-issb.pdf>.

[5] ISSB announced that its two sustainability disclosure standards will be finalized at the end of Q2 2023, and become effective starting from January 1, 2024. See ISSB ramps up activities to support global implementation ahead of issuing inaugural standards end Q2 2023, dated February 17, 2023, available at https://www.ifrs.org/news-and-events/news/2023/02/issb-ramps-up-activities-to-support-global-implementation-ahead-of-issuing-inaugural-standards-end-q2-2023/?utm_medium=email&utm_source=website-follows-alert&utm_campaign=immediate.

[6] The seven cross-industry metrics are (i) GHG Emissions - absolute Scope 1, Scope 2, and Scope 3, emissions intensity; (ii) Transition Risks - amount and extent of assets or business activities vulnerable to transition risks; (iii) Physical Risks - amount and extent of assets or business activities vulnerable to physical risks; (iv) Climate-related Opportunities - amount and percentage of assets or business activities aligned with climate-related opportunities; (v) Capital Deployment - amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities; (vi) Internal Carbon Prices - price for each ton of GHG emissions used to assess the cost of an entity's emissions, and an explanation of how the carbon price is applied in decision-making; and (vii) Remuneration - percentage of executive management remuneration linked to climate-related considerations.

[7] See ISSB decides to prioritize climate-related disclosures to support initial application, dated April 4, 2023, available at https://www.ifrs.org/news-and-events/news/2023/04/issb-decides-to-prioritise-climate-related-disclosures-to-support-initial-application/?utm_medium=email&utm_source=website-follows-alert&utm_campaign=immediate.