

Client Alert

Corporate Finance

19 April 2023

Hong Kong Stock Exchange proposes to make climate disclosures mandatory for all listed companies

On 14 April 2023, The Stock Exchange of Hong Kong Limited (**Exchange**) published a [consultation paper](#) seeking market feedback on proposals to enhance climate-related disclosures under the environmental, social and governance (**ESG**) framework.

Background

In December 2020, the Green and Sustainable Finance Cross-Agency Steering Group announced that climate-related disclosures aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (**TCFD**) will be mandatory across relevant sectors no later than 2025.

In March 2022, the International Sustainability Standards Board (**ISSB**), established by the International Financial Reporting Standards Foundation, published the “IFRS S2 Climate-related Disclosures Exposure Draft”, which, building on the principles of the TCFD recommendations, sets out the specific requirements for the identification, measurement and disclosure of climate-related financial information (**ISSB Climate Standard**). ISSB has been working towards issuing the final version by the end of the second quarter of 2023.

Mandatory climate-related disclosures in ESG reports

Appendix 27 to the Listing Rules currently contains certain elements of the TCFD recommendations, where issuers are required to disclose a board statement regarding the board’s governance and oversight of ESG issues. There are also requirements to disclose certain climate-related information on a “comply or explain” basis.

The Exchange proposes to mandate all issuers to make climate-related disclosures in their ESG reports (i.e. updating from “comply or explain”), and introduce new climate-related disclosures aligned with the ISSB Climate Standard to be set out in a new Part D of Appendix 27 to the Listing Rules.

Proposed implementation date

Subject to responses to the consultation, the revised Listing Rules and Appendix 27 will come into effect on **1 January 2024** and apply to ESG reports in respect of **financial years commencing on or after 1 January 2024**.

Acknowledging the readiness of the issuers and their concerns, the Exchange proposes interim provisions for certain disclosures for the **first two reporting years** following the effective date of 1 January 2024 (**Interim Period**).

Proposed climate-related disclosure requirements

A summary of the key proposals on the new climate-related disclosure requirements, categorised under four core pillars (namely, Governance, Strategy, Risk Management, and Metrics and Targets), is set out below:

<p style="text-align: center;">Governance</p> <ul style="list-style-type: none"> • Issuer’s governance process, controls and procedures used to monitor and manage climate-related risks and opportunities 	<p style="text-align: center;">Risk Management</p> <ul style="list-style-type: none"> • The process the issuer used to identify, assess and manage climate-related risks and, where applicable, opportunities
<p style="text-align: center;">Strategy</p> <ul style="list-style-type: none"> • Climate-related risks and opportunities: Material climate-related risks and, where applicable, opportunities faced by the issuer, and their impact on the issuer’s business operations, business model and strategy • Transition plans: Issuer’s response to the climate-related risks and, where applicable, opportunities identified above, including: <ul style="list-style-type: none"> ❖ any changes to the issuer’s business model and strategy, and any adaptation and mitigation efforts undertaken to address such risks and opportunities; and ❖ any climate-related targets the issuer has set for transition plans, and any greenhouse gases (GHG) emission targets the issuer is required to meet by local legislation • Climate resilience: Resilience of the issuer’s strategy (including its business model) and operations to climate-related changes, developments or uncertainties, which shall be assessed using a method of climate-related scenario analysis that is commensurate with the issuer’s circumstances • Financial effects of climate-related risks and opportunities: Current (quantitative where material) and anticipated (qualitative) financial effects of climate-related risks, and where applicable, opportunities on the issuer’s financial position, financial performance and cash flows <p style="border: 1px dashed orange; padding: 5px; margin-top: 10px;"><i>Interim Period: Issuers may provide qualitative disclosures on current financial effects. For anticipated effects of climate-related risks and, where applicable, climate-related opportunities, issuers may 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</i></p> 	<p style="text-align: center;">Metrics and Targets</p> <ul style="list-style-type: none"> • GHG emissions: Scope 1, scope 2 and scope 3 emissions <p style="border: 1px dashed orange; padding: 5px; margin-top: 5px;"><i>Interim Period: An issuer who has yet to disclose all the information in relation to scope 3 emissions 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</i></p> • Other cross-industry metrics: Cross-industry metrics such as the percentage of assets or business activities (i) vulnerable to transition/physical risks or (ii) aligned with climate-related opportunities, and the amount of capital expenditure deployed towards climate-related risks and opportunities <p style="border: 1px dashed orange; padding: 5px; margin-top: 5px;"><i>Interim Period: An issuer who has yet to make quantitative disclosures in respect of the above metrics should disclose: (a) a description of (i) the assets or business activities identified to be vulnerable to transition risks/physical risks or aligned with climate-related opportunities; or (ii) the types of activities requiring capital expenditure, financing or investment towards climate-related risks and opportunities; and (b) the work plan, progress and timetable for making the required disclosure</i></p> • Internal carbon price: For issuers who maintain an internal carbon price, the internal carbon price and how it is applied in the issuer’s decision-making • Remuneration: How climate-related considerations are factored into executive remuneration policy • Industry-based metrics: Industry-based disclosure requirements prescribed under international ESG reporting frameworks and disclosures as the issuer sees fit

The consultation period will end on 14 July 2023.

Want to know more?

Ronny Chow

ronny.chow@deacons.com
+852 2825 9435

Alexander Que

alexander.que@deacons.com
+852 2825 9770

Rhoda Yung

rhoda.yung@deacons.com
+852 2825 9624

Sabrina Fung

sabrina.fung@deacons.com
+852 2825 9478

Gary Wong

gary.wong@deacons.com
+852 2825 9798

Maynard Leung

maynard.leung@deacons.com
+852 2825 9415

Canny Lau

canny.lau@deacons.com
+852 2826 5346

The information contained herein is for general guidance only and should not be relied upon as, or treated as a substitute for, specific advice. Deacons accepts no responsibility for any loss which may arise from reliance on any of the information contained in these materials. No representation or warranty, express or implied, is given as to the accuracy, validity, timeliness or completeness of any such information. All proprietary rights in relation to the contents herein are hereby fully reserved.

0423© Deacons 2023

www.deacons.com