

Update on Consultation Paper of HKEX's ESG Reporting Requirement

The Growing Significance of ESG

In view of increasing investors' demand for high quality, transparent, consistent, and comparable reporting by companies on climate and other Environmental, Social, Governance (ESG) matters, global ESG disclosure standard has been evolving quite rapidly. In June 2023, the International Sustainability Standards Board (ISSB) released its inaugural standards, namely IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures. The ISSB Climate Standard builds on the principles of the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations and sets out detailed climate disclosures. These standards mark an important milestone in the field of sustainability reporting and aim to establish a framework for consistent and transparent disclosure of sustainability-related financial information and climate-related disclosures.

Introduction of HKEX's New ESG Disclosure Requirements

In view of the need for an enhanced ESG disclosure framework for Hong Kong listed issuers to keep up with its international counterparts, the Hong Kong Stock Exchange (HKEX) released a Consultation Paper¹ on 14 April 2023 with an aim of substantially enhancing reporting requirements concerning climate risk and greenhouse gas (GHG) emissions to align with IFRS S2 Climate-related Disclosures (ISSB Climate Standard). The proposed enhancements cover specific disclosure mandates across four key areas: governance, strategy, risk management, and metrics and targets.

HKEX published a newsletter² on 3 November 2023 stating that the implementation date of the Listing Rule amendments would be postponed by one year, from 1 January 2024 to 1 January 2025. HKEX offers an interim provision period of two years following the effective day for companies to comply with the addition requirements.

Key Proposed Changes in the Consultation Paper on ESG Reporting Requirements

A new "Part D" of Appendix 27 of Listing Rules will outline the new disclosure requirements across the four key areas used in ISSB standards: governance, strategy, risk management, and metrics and targets.

Climate-related Disclosures - Governance

The governance disclosures include the identification of board committees or members overseeing climate-related issues, detailed discussions on addressing climate matters, ensuring appropriate skills and competencies, considering climate risks and opportunities, and outlining governance processes and controls for monitoring and managing climate-related issues.

Climate-related Disclosures - Strategy

Regarding strategy, the proposed disclosures encompass climate-related risks and opportunities, transition plans, climate resilience, climate scenario analysis, and the financial effects of climate-related risks and opportunities.

Climate-related Disclosures - Risk Management

Regarding risk management, the proposed disclosures cover the processes of identifying, assessing, managing, and monitoring climate-related risks and opportunities.

Climate-related Disclosures - Metrics and Targets

The proposed disclosure on metric and targets covers greenhouse gas scope 3 emissions, details disclosures on transition risks, physical risks, climate-related risk and opportunities, internal carbon prices and executive remuneration linked to climate-related considerations.

HKEX is establishing "Interim Provisions" for the first two years of an entity's reporting, known as the Interim Period.



¹ <https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/April-2023-Climate-related-Disclosures/Consultation-Paper/cp202304.pdf>

² https://www.hkex.com.hk/News/Regulatory-Announcements/2023/231103news?sc_lang=en



BTCGL's suggestions on what companies should do

In order to meet the heightened expectations of investors and comply with enhancement of ESG reporting requirements, listed issuers should integrate climate risks into their long-term strategies to create value for their businesses. To ensure compliance with the HKEX proposed rules, specifically Part D of Appendix 27 and the ISSB Climate Standard, the company should consider the following actions:



- Develop a Climate and Sustainability-related Governance Plan

To develop a climate and sustainability-related governance structure plan that clearly identifies and discloses the responsibilities of the board and its committees in overseeing climate risk, developing strategies, managing risks, and setting metrics and targets. This includes disclosing how climate-related performance metrics are included in remuneration policies, identifying management's role in assessing and managing climate-related risks and opportunities, outlining the scope of climate-related responsibilities and duties of management-level positions or committees, explaining how the board oversees such positions or committees.



- Develop a Strategy Towards Long-term Action Plan

The Board is responsible for developing the transition plans and climate resilience strategies, conducting climate scenario analyses, and assessing the financial effects of climate-related risks and opportunities. It is required to disclose its assessment of climate-related risks that could reasonably have a material impact on the company's business model, strategy, cash flows, access to finance, and cost of capital in the short, medium, or long term. Company should disclose identified physical or transition risks, considering both acute and chronic risks, and explain how these risks are linked to strategic planning horizons and capital allocation plans. The disclosure should include an action plan outlining adaptation and mitigation efforts, climate-related targets, the objectives and scope of the targets, significant areas of uncertainty in climate resilience analysis, changes in financial performance related to climate risks.



- Establish a Climate Risk Management Framework

Company should develop and implement appropriate mechanisms and policies to effectively monitor and manage climate-related risks. These mechanisms and policies should include integrating the process of identifying, assessing, and prioritizing climate-related risks into the company's overall management process.



- Establish a Monitoring Plan for Climate-related Metrics and Targets

Company is required to identify metrics and targets to measure, monitor, and manage climate-related risks and opportunities. It should also disclose its Scope 3 greenhouse gas emissions, including significant emission activities throughout the value chain. In addition, the company needs to assess the vulnerability of its assets and business activities to both transition and physical risks, as well as identify the portion of assets or business activities aligned with climate-related opportunities. Last but not the least, it should disclose the allocation of capital expenditure, financing, or investment towards addressing climate-related risks and opportunities.

About BT Corporate Governance Limited

BT Corporate Governance Limited (BTCGL) established in 2004, at that point in time, we were one of six professional accounting firms which set up a separate risk advisory department in Hong Kong. BTCGL is well recognised in the Asia-Pacific region for our work in financial and risk advisory, such as pre-IPO internal control review, IT General Control and Application Control review, Cyber-security advisory services, ESG reporting services, financial and resumption due diligence services etc.

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