

**HKEX Consultation Paper on Enhancement of Climate-related Disclosures
under the Environmental, Social and Governance Framework
Submission by The Hong Kong General Chamber of Commerce**

Introduction

1. HKGCC welcomes the opportunity to respond to this consultation paper (“the CP”).
2. Reporting on environmental, social and governance (“ESG”) is now a widely-accepted practice in Hong Kong, and other jurisdictions. HKGCC supports this practice. We also support international efforts to develop common standards for ESG reporting (including on climate-related issues), which balance the interests of investors and issuers. Such standards provide a useful reference guide for investors seeking ESG disclosure, and for issuers on the types of information some investors may wish or expect them to provide, subject to the issuer’s own particular circumstances and limitations.
3. The CP proposes that the ISSB climate-reporting standard be imposed as mandatory requirements in the listing rules with effect from the accounting year beginning 1 January 2024, with certain exceptions where the implementation date is two years later, i.e. accounting year beginning 1 January 2026.
4. Our view is that the proposed implementation dates for these requirements could pose a challenge for some issuers, which may need more time to prepare for the compliance with such requirements. Secondly, the imposition of mandatory requirements (as opposed to the current “comply or explain” approach) would need to take account of considerations such as practicability and proportionality (as recognised in the guidance to the recently-adopted ISSB standard IFRS 52). This is to ensure that issuers are not placed in breach of the listing rules, in spite of their best efforts to comply with them. Thirdly, members have expressed certain concerns with the content of the proposed requirements, which we recommend be considered before the decision is taken to implement these requirements.
5. We explain our views on each of these three matters below.

Timing

6. The CP proposes that the ISSB climate reporting standard be implemented for the most part in Hong Kong with effect from the accounting year beginning 1 January 2024, and that this be done by means of new mandatory listing requirements (roughly-speaking 70 in total). For some of such requirements, the implementation date would be deferred to accounting year beginning 1 January 2026.

7. While some issuers are in an advanced state of readiness for the implementation of mandatory climate-related reporting standards, and may be able to meet these deadlines, we are concerned that some would not, especially smaller cap issuers. We believe that sufficient time should be given to all companies to comply with any new climate-reporting requirements before they are imposed. Otherwise, some companies may be placed in the unavoidable position of breaching the listing rules, in spite of their best endeavours to comply.
8. There are two other factors that would favour an extension of the proposed deadlines in the CP:
- The contents of the ISSB climate standard itself have only very recently been finalised. HKEX will presumably have to consider whether any amendments in the contents of ISSB's final standard need to be reflected in any amendments to HKEX's proposed new Appendix 27. This in turn means that Hong Kong issuers could have considerably less than six months before the start of the proposed first relevant accounting year to analyse and implement the finalised Appendix 27 and related guidance (see below).
 - The CP makes clear that HKEX will be giving "implementation guidance" on various matters, and requests comments on whether there are any further matters on which consultees suggest guidance should be given.¹ Presumably such guidance can only be finalised once the contents of the finalised ISSB standard have been examined, and conclusions drawn from such examination, which will be in the third quarter of 2023 at the earliest. Issuers would then need time to analyse the contents of the guidance, and make any necessary adjustments to their internal policies and procedures. Matters on which guidance should be given include, we submit, (a) how to assess the current and anticipated financial effects of climate-related risks, and where applicable, opportunities; (b) how to assess materiality in quantifying financial effects; (c) how to assess the amount of assets which is vulnerable to climate-related risk; (d) how to address data availability problems, such as where emissions data is required at the level of a subsidiary, but is only available at the consolidated group level; (e) the requirements of scenario analysis which are expected, such as the scenario to be adopted, relevant timespan, and review frequency; and (f) whether issuers which are currently producing a TCFD report will also be obliged to produce a separate report on compliance with the new requirements.
9. We therefore submit that it would be more realistic and reasonable to defer the proposed deadlines to allow all market participants, whatever their size or industry sector, sufficient time to start the new reporting regime on a level playing field. A

¹ CP para 140

deferment would also allow time for the concerns that have been raised by our members, regarding the contents of some of the proposed new mandatory requirements, as discussed below, to be addressed, and for guidance on all relevant matters (such as those listed in paragraph 8 above) to be drafted and analysed.²

Practicability, Proportionality, etc

10. The recently-finalised ISSB standard IFRS S2 on climate-related disclosures recognises that the disclosure requirements in the standard are not absolute, and have to be qualified by considerations such as proportionality, practicability, materiality, relevance, etc. This is made clear in Appendix B of the standard (“Application Guidance”). For example, it is reasonable to consider whether the information required in principle by the standard can be made available without undue cost and effort, and whether it is relevant to the issuer in question: if not, concessions are allowed. Given that HKEX intends to incorporate the contents of IFRS S2 in the new Appendix 27 of the listing rules, it is essential that these qualifications in the IFRS guidance are also reflected in the new Appendix 27 (or the guidance in respect thereof). Otherwise, issuers may find themselves in breach of the listing rules, in spite of their best efforts to comply with them. We also recommend that (a) as with Appendix B of IFRS S2, it is clearly stated that, if such qualifications to the requirements are contained in guidance to the requirements of Appendix 27, such qualifications will be regarded as forming an integral part of, and carry equal legal weight to, Appendix 27 itself; and (b) HKEX consults the market before such guidance (and Appendix 27 itself) is published in a final form.

Content

11. Given that the CP proposes that the existing “comply or explain” reporting provision on climate-related matters be replaced by approximately 70 climate-related reporting requirements, it is not surprising that there are concerns about the contents of some of the proposed requirements. By way of example, some areas of concern include the following:

- More attention should be given to the circumstances of different industry sectors: the proposed requirements appear to follow a “one-size-fits- all” approach. As well as the examples listed in paragraph 8 above on which guidance would be appreciated, guidance would also be welcome on the application of the new requirements to particular industry sectors. To give one example, the view has been expressed to us that assessing the financial effects of material climate-related risks requires sector-specific quantification guidance and minimum disclosure requirements, such as a list of material risks that are commonly faced by certain industries. This is to

² Examples of these concerns are provided in the bullets under paragraph 11 below.

make sure that the information presented by issuers is comparable and complete, and to eliminate the risk of “greenwashing”.

- The degree of granularity in reporting which is expected, and whether qualitative rather than quantitative reporting is acceptable, is not always clear in the proposed new Appendix 27.
 - Companies should be allowed to issue a simple statement if the reporting structure is identical to their ESG governance framework, to avoid unnecessary and onerous duplication.
 - As regards disclosure of Scope 3 emissions, there are concerns that, given the challenges in quantifying Scope 3 emissions (including the evolving methodology to quantify such emissions) such disclosure could expose the issuer to the risk of legal challenges, either by the regulator or third parties. Consideration needs to be given as to how to eliminate this risk, and thereby facilitate such disclosure.
 - There are concerns that some disclosures would involve confidential and commercially-sensitive information, for example the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities, and the issuer’s “internal carbon price”.³ Disclosure of such information to competitors (which by definition would involve public disclosure) is discouraged under the Competition Ordinance. How should this apparent conflict be resolved?
12. Deferring the proposed target dates for implementation in the CP, in the way we have recommended in paragraph 9 above, would allow time for the above concerns to be addressed.

HKGCC Secretariat
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³ CP para 19 of Part D of proposed Appendix 27.