

Hong Kong Capital Markets Update

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HKEX consultation on climate-related disclosures under ESG framework

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

Summary

Mandate all issuers to make climate-related disclosures in their ESG reports

- **Proposed effective date:** 1 January 2024
- **First applicable ESG report:** For the financial year commencing on or after 1 January 2024

Introduce new climate-related disclosures aligned with the ISSB Climate Standard

Governance	Risk Management
<ul style="list-style-type: none"> ▪ Process, controls and procedures used to monitor and manage climate-related risks and opportunities 	<ul style="list-style-type: none"> ▪ Process to identify, assess and manage climate-related risks and, where applicable, opportunities
Strategy	Metrics and targets
<ul style="list-style-type: none"> ▪ Climate-related risks and opportunities ▪ Transition plans ▪ Climate resilience ▪ Financial effects of climate-related risks and opportunities 	<ul style="list-style-type: none"> ▪ Greenhouse gas emissions ▪ Cross-industry metrics ▪ Internal carbon price ▪ Remuneration ▪ Industry-based metrics

Provide interim provisions on certain climate-related disclosures

- **Interim provisions:** Issuers are allowed to provide qualitative disclosures with information that enable readers to understand the relevant item together with the work plan, progress and timetable for full compliance
- **Interim period:** For the first two reporting years following the effective date of 1 January 2024
- **Available for the following disclosures:** (i) financial effects of climate-related risks and opportunities, (ii) scope 3 emissions and (iii) certain cross-industry metrics including transition risks, physical risks, climate related opportunities and capital deployment

Background

To maintain Hong Kong’s competitiveness as an international financial centre, the Exchange conducted a comprehensive review of its ESG framework to ensure that it continues to keep pace with international developments, continues to reflect stakeholders’ expectations and facilitates capital allocation towards a more sustainable future.

Key proposals

The Exchange proposes to mandate all issuers to make climate-related disclosures in their ESG reports (i.e. upgrade from current “comply or explain”) and introduce new climate-related disclosures based on the ISSB Climate Standard which builds on the principles of the TCFD recommendations.

The new climate-related disclosures will be categorised under four core pillars, namely “Governance”, “Strategy”, “Risk management” and “Metrics and targets”. A summary of the key requirements is set out in the table on the next page.

<p>(i) Governance</p> <ul style="list-style-type: none"> Disclose the issuer’s governance process, controls and procedures used to monitor and manage climate-related risks and opportunities 	<p>(iii) Risk Management</p> <ul style="list-style-type: none"> Disclose the issuer’s process to identify, assess and manage climate-related risks and, where applicable, opportunities
<p>(ii) Strategy</p> <ul style="list-style-type: none"> Climate-related risks and opportunities - Disclose 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 - Disclose the issuer’s response to climate-related risks and opportunities identified, including any changes to its business model and strategy, adaptation and mitigation efforts, and climate-related targets set for such plans Climate resilience - Disclose 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 - Disclose 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>(iv) Metrics and targets</p> <ul style="list-style-type: none"> Greenhouse gas emissions - Disclose scope 1, scope 2 and scope 3 emissions Cross-industry metrics - Disclose the amount and 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 Internal carbon price - For issuers who maintain an internal carbon price, disclose the internal carbon price and explain how it is applied in the issuer’s decision-making Remuneration - Disclose how climate-related considerations are factored into executive remuneration policy Industry-based metrics - Consider industry-based disclosure requirements prescribed under international ESG reporting frameworks and make disclosures as the issuer sees fit

Proposed effective date and interim provisions

The revised Listing Rules for the new climate-related disclosure requirements will come into effect on 1 January 2024 and apply to ESG reports in respect of the financial years commencing on or after 1 January 2024. IPO applicants should also be mindful of the new climate-related disclosure requirements and commence necessary preparatory work to ensure compliance after listing once the new Listing Rules take effect.

Recognising that certain disclosure requirements (see “Summary” on page 1 for details) may require more time and work to comply with, interim provisions are provided for these requirements in issuers’ ESG reports covering the first two reporting years following the effective date of 1 January 2024. Issuers are expected to be in full compliance with all new climate-related disclosures in respect of the financial years commencing on or after 1 January 2026.

If you have any questions about the matters discussed in this publication, please feel free to contact the following capital markets partners and directors.

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