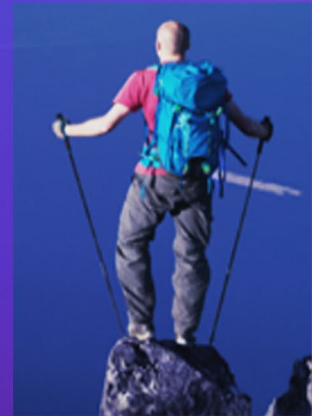




# ESG Governance: Navigating HKEX climate disclosure requirements



With effect from 1 January 2025, the HKEX's ESG Code will require issuers to make climate-related disclosures in phases, covering Governance, Strategy, Risk Management and Metrics and Targets (referred to as "the new Climate Disclosure Requirements").

## What is 'Governance' in ESG?

The 'G' in ESG refers to the governance factors that are needed to **deliver on an organisation's ESG ambition in the long term**. It requires the incorporation of sustainability considerations into the organisational structure, roles and responsibilities, decision-making, operations, risk management, board leadership and company culture. It **promotes transparency and accountability** across the entire organisation and drives the ESG transformation journey.

### Key Governance principles

### What do you need to consider?

#### Structure & Oversight

- Board role & composition
- Managerial structure & responsibilities
- Policies & procedures
- Collaboration

#### Culture & Values

- Board Leadership
- Business ethics
- Employee engagement & incentivisation
- Organisational culture

#### Transparency & Reporting

- Transformation integrity
- Reporting structures & roles

#### Risk Management

- Risk Management & Internal Controls
- Regulatory compliance
- Technology & cybersecurity
- Internal Audit
- Tax strategy / Tax governance

# Why is effective ESG Governance important?

ESG governance is foundational in the execution of ESG strategy and the realisation of sustainable growth. It enables companies to make **informed and future-proof decisions** that are economically sound and socially accepted and provides organisations with a comprehensive view and deep understanding of ESG **impacts, risks and opportunities** for their operations.

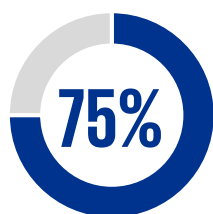


## Regulatory background at a glance: How do they compare?

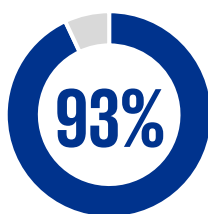


The new Climate Disclosure Requirements in Hong Kong are more closely aligned with IFRS S2 issued by the ISSB. Based on internal research conducted by KPMG in 2023, a line-by-line comparison of the requirements revealed that the three main themes—Governance, Strategy, and Risk Management—are at least **75% consistent across the three major rulesets**.

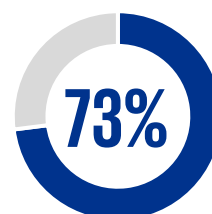
The convergence percentages shown below are **approximations** and will **need to be re-assessed** as industry-specific standards and additional ESG regulations will be issued in the near future.



Governance



Strategy



Risk Management

# How can you prepare?

As Governance is seen as the required foundation to ensure that ESG strategy translates into concrete action, it is important to have a **well-developed Governance structure** in place that provides the right oversight and steering-mechanisms.

To drive the ESG transformation journey in an effective way, every organisation requires an **end-to-end approach** that includes ESG strategy, ESG implementation and transformation plans, ESG tax strategy and governance, and ESG legal risk mitigation.

In the process of undertaking an ESG transformation, the organisational structure stands out as a crucial element for governance considerations. Recognising that a one-size-fits-all approach may not be suitable, it becomes imperative to **assess the existing organisational structure** to determine what aligns best with the organisation's unique needs.

**Assessment of the organisational structure** involves – amongst others – evaluating the maturity on ESG matters, the ESG ambition and commitments, the Risk Management & Internal Controls on ESG-related topics, ESG internal audit, and ESG leadership.

## ESG Governance Framework

- (Re)defined organisational structure
- Defined competences of ESG management
- Roles & responsibilities



## Risk Management & Internal Controls

- Embed ESG in the Risk Management Framework
- Gap analysis on ESG internal controls
- ESG Policies & Procedures

## ESG in Internal audit

- Perform ESG operational audits
- ESG training for Internal audit function
- Include ESG audits in annual audit plan
- Perform (internal) assurance readiness assessment / CSRD readiness assessment

## Goals & Compensation alignment

- Assess alignment of ESG strategy, targets and incentivisation
- Gap analysis on KPI metrics on sustainability-related performance metrics and policies

## Next steps

For more information about how you can effectively start your Governance transition, or how KPMG can support you in this journey, reach out to our team:

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