What's next for Hong Kong listed companies on Sustainability Disclosures?

The Stock Exchange of Hong Kong Limited (the Exchange or HKEX) issued its conclusions on the enhancement of climate-related disclosures under its ESG framework (ESG Code) on 19 April 2024, together with an Implementation Guidance, including practical application examples, to assist HKEX issuers in understanding the new climate disclosure requirements under Part D of the ESG Code (Appendix C2).

This is a long-anticipated move, as the Consultation Paper was launched around a year ago, and reflects the Exchange's desire to align closely to international standards. We are excited to see the upgrade of Climate-related Disclosures introduced by the HKEX, which allows Hong Kong issuers to be among first to align with the ISSB Standards, playing a part in harmonising the global sustainability disclosures.

What are the key changes compared to the Consultation Paper?

Comparing to the Consultation Paper issued in April 2023, the New Climate Requirements include various changes to reflect the final IFRS Sustainability Disclosure Standards, with variations in timing to allow issuers to mature in their disclosure journey. We provide a summary of the key differences.

Pillar	Key differences from the Consultation Paper
Overall	- Introduction of a phased approach and implementation relief and removal of interim provision approach: Disclosure obligation to remain "mandatory" for LargeCap Issuers but change from "mandatory" to "comply or explain" for other Main Board Issuers and "voluntary" for GEM Issuers - Incorporation of IFRS S1 conceptual foundations and general requirements - Companies need to disclose both climate-related risks and opportunities (previously disclosure of opportunities was optional)
Governance	- Minor wording changes to align with IFRS S2 but otherwise unchanged
Strategy	- Require disclosure of any climate-related transition plan the issuer has or provide negative statement - Financial position, financial performance and cash flows – requirement of both qualitative and quantitative information about anticipated financial effect, but introduced some implementation relief
Risk Management	- New rules require disclosure of inputs and parameters the issuer uses during the risk identification and assessment process - New disclosure of the use of climate-related scenario analysis to inform its identification of climate-related risks or a negative statement;

Metrics and Targets	- Greenhouse gas emissions
	  o New rules require disclosure of information around the inputs and assumptions used to measure GHG emissions
	  o Scope 2 GHG emissions measurement should use location-based approach
	- Remuneration policy and internal carbon prices should be disclosed if available or provide a negative statement
	- Climate-related target – moved from 'Strategy' pillar
	  o New rules require disclosure around the approach to set and review target
	  o New rules require disclosure around details of GHG emission targets, whether any target is required to meet law and regulations

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What does this mean for companies?

In general, the New Climate Requirements reflect a more considered approach as compared to the Consultation Paper, where most disclosure requirements have been expanded, requiring issuers to provide more granularity in disclosures.

The incorporation of IFRS S1 also means that issuers should refer to both the IFRS S1 and S2 in their preparation of their future ESG and climate disclosures.

The accompanying Implementation Guidance, where PwC served as a technical consultant, provides a good reference for issuers to understand how to apply the New Climate Requirements.

The ISSB's Application Guidance and Accompanying Guidance are also helpful resources in providing additional context.

The change in timeline and the disclosure obligation from "mandatory" to "comply or explain" and "voluntary" for some Main Board and all GEM Issuers, respectively, will provide more room for smaller or less mature listed companies to get themselves up to speed.

GEM Issuers

FY25 onwards:

- Mandatory disclosure on GHG Scopes 1 and 2
- Voluntarily disclose other New Climate Requirements

Main Board Issuers excluding LargeCap

FY25 onwards:

- Mandatory disclosure on GHG Scopes 1 and 2
- Disclose other New Climate Requirements on a "Comply or Explain" basis

LargeCap Issuers

FY25 onwards:

- Mandatory disclosure on GHG Scopes 1 and 2

FY25:

- Disclose other New Climate Requirements on a "Comply or Explain" basis

FY26 onwards:

- Mandatory disclosure on other New Climate Requirements

Nevertheless, these companies should start their climate journey early, as additional capability building and effort may be required to prepare for such disclosures. Areas such as climate-related scenario analysis and Scope 3 GHG emissions are likely to be more challenging areas.

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