



## Exchange Publishes Consultation Conclusions on New Climate Disclosure Requirements Effective 1 January 2025

On 19 April 2024, The Stock Exchange of Hong Kong Limited (the **Exchange**) published the [Consultation Conclusions](#) on enhanced requirements for climate-related disclosures under the Environmental, Social and Governance Framework as proposed in its [Consultation Paper](#) with a consultation period that had ended on 14 July 2023. For a summary of the Consultation Paper, please see [Charltons' May 2023 newsletter](#).

From 1 January 2025, the additional requirements will be set out in Appendix C2 to the Main Board and GEM Listing Rules, which will be renamed the "Environmental, Social and Governance Reporting Code" (**ESG Code**). To facilitate implementation and understanding of the new requirements, the Exchange has also issued the [Implementation Guidance](#) incorporating the International Sustainability Standards Board's (**ISSB**) reporting principles and setting out illustrative examples and step-by-step workflows for listed companies.

### Adoption of ISSB standards

Since the publication of the Consultation Paper, significant advancements in Environmental, Social and Governance (**ESG**) reporting and climate-related disclosure have been made. In June 2023, the ISSB finalised the ISSB Climate Standard and the ISSB General Standard (together with the ISSB Climate Standard, the **ISSB Standards**), which were endorsed by the International Organisation of Securities Commissions in July 2023 urging its member jurisdictions to consider adopting these standards. Additionally, the International Auditing and Assurance Standards Board initiated a consultation on the International Standard on Sustainability Assurance 5000 in August 2023, which is aimed at boosting investors' confidence in sustainability reporting. In February 2024, the International Financial Reporting Standards (**IFRS**) Foundation published an ISSB Adoption Guide Preview, suggesting enhanced climate disclosures and phased implementation based on market tiers and milestones.

Since the announcement of the Green and Sustainable Finance Cross-Agency Steering Group<sup>1</sup> and the Chief Executive's 2023 Policy Address, Hong Kong has sought to strengthen its sustainable finance ecosystem by adopting the ISSB Standards published in June 2023 with suitable amendments to cater for Hong Kong's green finance landscape. In March 2024, the Hong Kong Government's Financial Services and the Treasury Bureau published a statement designating the Hong Kong Institute of Certified Public Accountants (**HKICPA**) as the sustainability reporting standard setter in Hong Kong. Following the ISSB's recommendations on proportionality and phasing-in of the ISSB Standard and its proposed focus on publicly accountable entities, the HKEX Consultation Conclusions will be the first step in regulating listed companies in Hong Kong pending the HKICPA's development of local sustainability disclosure standards.

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The Exchange urges listed companies to reference the Implementation Guidance as well as the definitions and application guidance set out in Appendices A and B to the ISSB Climate Standard. These guides provide in-depth explanations of the new climate requirements, relevant measurement approaches and applicable implementation reliefs. In paragraph 8 of the ESG Code, the Exchange clarifies that listed companies can also follow other international ESG reporting guidance provided that the ESG Code's mandatory disclosures have been made. ESG reports following the ISSB Standards will be deemed to be in compliance with Part D of the ESG Code, which will contain the new climate-related disclosures.<sup>2</sup> Listed companies are required to indicate where the ESG Code disclosure requirements have been incorporated, for instance by way of a reference table.

For a direct comparison between the climate-related disclosures under the ISSB Climate Standards and the enhanced disclosure requirements in Part C of the ESG Code, please see Appendix V to the Consultation Conclusions.

## Implementation Timeline

Considering the responses received and the ISSB Adoption Guide Preview recommending a phased implementation according to the size, trading volume and liquidity of listed companies, the Exchange has decided to adopt the following phased approach to implement the requirements under Part D of the ESG Code. References to "LargeCap listed companies" are to listed companies that are Hang Seng Composite LargeCap Index constituents throughout the year immediately prior to the reporting year of the ESG report in question.

	<b>Disclosure of scope 1 and scope 2 greenhouse gas emissions</b>	<b>Disclosure other than scope 1 and scope 2 greenhouse gas emissions</b>
<b>LargeCap Listed Companies</b>	<b>Mandatory disclosure</b> (Financial years commencing on or after 1 January 2025)	<ul style="list-style-type: none"> <li>• <b>"Comply or explain"</b>: Financial years commencing on or after 1 January 2025</li> <li>• <b>Mandatory disclosure</b>: Financial years commencing on or after 1 January 2026</li> </ul>
<b>Main Board Listed Companies</b> (other than LargeCap Listed Companies)		<b>"Comply or explain"</b> (Financial years commencing on or after 1 January 2025)
<b>GEM Listed Companies</b>		<b>Voluntary disclosure</b> (Financial years commencing on or after 1 January 2025)

Given that LargeCap listed companies (which do not include secondary listed companies which are not required to publish ESG reports under the ESG Code), contributed to around 64.05% of the total market capitalisation, and 46.41% of the total year-to-date average daily trading volume of all listed companies in Hong Kong as at 31 December 2023, the Exchange believes that LargeCap listed companies have sufficient resources to lead compliance with the new disclosure requirements under the amended ESG Code. LargeCap-listed companies should note that under paragraph 17(2) and the corresponding note in the ESG Code, they are required to comply with the mandatory disclosure requirements even if they subsequently cease to qualify as a LargeCap-listed company.

## Definition of Materiality

Currently, matters that the board determines to be important to investors and stakeholders could be regarded

as passing the “materiality” threshold. Some respondents opined that the “materiality” threshold should be confined to financial materiality to align with the position under the ISSB Standards, or alternatively adopt a double materiality approach including the impact on the company’s financial value and operational activities. The Exchange rejects suggestions to amend the scope of “materiality” on the basis that it considers the current definition to be sufficiently broad to encompass the financial materiality threshold. However, the Exchange clarifies that listed companies must disclose information on climate-related risks and opportunities that may reasonably affect their cash flows, access to finance or cost of capital over the short, medium or long term. The Exchange also invites listed companies to adopt the double materiality approach to meet the needs of their investors.

## Consultation proposals and responses

To implement the following proposals, relevant amendments and additions to the ESG Code will be made under the enhanced climate-related disclosures regime.

### 1. Upgrading climate-related disclosures to mandatory

The Exchange received broad support for the proposal to make listed companies’ climate-related disclosures mandatory, rather than subject to “comply or explain”. As explained above, the Exchange will adopt phased implementation to facilitate a smooth transition to the new requirements and any future Hong Kong Standards. This approach may also alleviate concerns about the enhanced climate-related disclosures being too burdensome in terms of time and resources for small- to medium-sized listed companies. The “comply or explain” basis allows listed companies more time to prepare for the relevant disclosures. However, the Exchange strongly urges listed companies to provide as much information and disclosures as possible and to start reviewing their current systems to prepare for the future Hong Kong standards.

The Exchange will also put in place certain implementation reliefs as summarised in the table below:

	<b>Reasonable Information Relief</b>	<b>Capabilities Relief</b>	<b>Commercial Sensitivity Relief</b>	<b>Financial Effects Relief</b>
All paragraphs with respect to climate-related opportunities			note 2 to paragraph 20 of Appendix C2	
Identification of climate-related risks and opportunities	note 1(a) to paragraph 20 of Appendix C2			
Determination of the scope of the value chain	note to paragraph 21 of Appendix C2			
Quantification of current and anticipated financial effects		note 4 to paragraph 25 of Appendix C2 (for anticipated financial effects only)		notes 3 and 5 to paragraph 25 of Appendix C2
Preparation of disclosures on anticipated financial effects	note 2 to paragraph 25 of Appendix C2	note 2 to paragraph 25 of Appendix C2		
Use of climate-related scenario analysis	note to paragraph 26 of Appendix C2	note to paragraph 26 of Appendix C2		
Measurement approach, inputs and assumptions of Scope 3 greenhouse gas emissions	note 1 to paragraph 29 of Appendix C2			

Calculation of metrics in particular cross-industry metric categories with respect to climate-related transition risks, climate-related physical risks and climate-related opportunities		note to paragraph 32 of Appendix C2		
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- **Reasonable Information Relief** – under this relief, listed companies are only required to make disclosures if the information is reasonably accessible and supportable, and if the information is available at the reporting date without undue cost or effort.
- **Capabilities Relief** – listed companies are permitted to limit their disclosures based on the available skills, capabilities and resources at a particular point in time in preparing disclosures on a climate-related scenario analysis and anticipated financial effects.
- **Commercial Sensitivity Relief** – full compliance with the disclosure requirements is not mandatory if (i) the information about the climate-related opportunity is not already publicly available; (ii) disclosure of such would seriously prejudice the economic benefits the listed company would otherwise be able to realise in pursuing the opportunity; and (iii) it is not possible to disclose such information in a manner that would enable the listed company to meet the objectives of the disclosure requirements without seriously prejudicing the abovementioned economic benefits.<sup>3</sup>

Under paragraph 16 of the ESG Code, the Exchange encourages listed companies who have opted for the “explain” option or one of the implementation reliefs above to also make disclosures on its work plan, including the progress of preparing relevant information and the timetable.

## **Governance**

### **2. Introducing new climate-related governance disclosures (Governance)**

A large majority of respondents supported the Exchange’s proposal to add provisions in the ESG Code to address the roles of the board of directors, committees and management. This aims to help focus the management on climate issues in relation to the listed company and thus allow investors to evaluate whether the listed company has the ability to deal with significant climate-related risks and opportunities. The Exchange will implement, in the ESG Code, wordings similar to that under the ISSB Climate Standard, which specifies that governance bodies and management are responsible for oversight of climate-related risks and opportunities. These responsibilities should also be set out in the applicable terms of reference, mandates, role descriptions or other related policies.<sup>1</sup> The Exchange notes that under paragraph 13 of the ESG Code, listed companies are already required to issue a statement from the board in relation to the listed company’s ESG disclosures, to avoid duplication, the Exchange states that only one integrated set of disclosures would be required to comply with paragraphs 13 and 19 of the ESG Code.

## **Strategy**

### **3. Disclosure of climate-related risks and opportunities**

The Exchange will also include requirements on disclosures of climate-related risks and opportunities as they may have a material effect on the listed company’s business model, strategy and cash flows, access to finance and cost of capital, all of which are essential for investors to make investment and voting decisions. The Exchange considers that this will also enhance the sustainable growth of listed companies and that they will be able to amend their business model and development plan according to the identified risks and opportunities.

Considering the feedback received, the Exchange will also make certain modifications to the original proposal on climate-related risk disclosure:

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- *Paragraph 20(a) of the ESG Code* – risks that could “reasonably be expected to affect the issuer’s cash flows, its access to finance or cost of capital over the short, medium or long term” must be disclosed. The industry-based disclosure topics under IFRS S2 Industry-based Guidance on implementing Climate-related Disclosures should be adopted, if applicable.
- *Paragraph 21 of the ESG Code* – listed companies must also disclose the impact on the listed company’s “business model and value chain”, and a description of where in the listed company’s business model and value chain such risks and opportunities are concentrated at. According to the implementation guide, value chain generally means the full range of interactions, resources and relationships related to a reporting entity’s business model and the external environment in which it operates.
- *Note to paragraphs 20 and 21 of the ESG Code* – as mentioned above, the Exchange will also provide Reasonable Information Relief in relation to disclosures on identifying climate-related risks and determining the scope of the value chain.

On the other hand, the Exchange will also mandate disclosures of the actual and potential effects of climate-related opportunities subject to the following amendments:

- *Paragraph 20(a) of the ESG Code* – instead of only requiring disclosure of climate opportunities that correspond to climate risks, disclosure must be made of potential climate-related opportunities which may affect the listed company’s cash flows, its access to finance or cost of capital over the short, medium or long term. The industry-based disclosure topics under the IFRS S2 Industry-based Guidance on implementing Climate-related Disclosures should be adopted if applicable.
- *Paragraph 21(b) of the ESG Code* – a description of where in the listed company’s business model and value chain climate-related risks and opportunities are concentrated at will be required.
- *Note 1 to paragraph 20 of the ESG Code* – the Reasonable Information Relief will also be available for climate-related opportunities disclosures.
- *Note 2 to paragraph 20 of the ESG Code* – the Commercial Sensitivity Relief will also be available to information that is not publicly available and is commercially sensitive.

#### **4. Disclosure of cross-industry metrics and industry-based metrics when disclosing climate-related risks and opportunities**

As mentioned under paragraph 41 of the ESG Code, listed companies are required to consider adopting cross-industry metrics and industry-based metrics as they serve as indicators to reflect the listed company’s ability to address climate-related risks or opportunities. Disclosures based on these metrics coupled with qualitative information such as the percentage of business activities or assets vulnerable to a climate-related risk when discussing the relevant climate-related risk, would allow better visualisation of the risk or opportunity in question. As set out in paragraphs 28 to 35 of the ESG Code, it will be mandatory to report on certain cross-industry metrics such as greenhouse gas emissions and internal carbon prices, while paragraph 36 of the ESG Code states that the applicability of the industry-based metrics associated with disclosure topics defined in the IFRS S2 Industry-based Guidance on implementing Climate-related Disclosures must be considered.

#### **5. Transition plans – climate-related risks and opportunities**

The ESG Code will require disclosures on the listed company’s response to climate-related risks and opportunities including disclosures on the:

- (i) current or anticipated changes to the listed company’s business model, strategy and resource allocation;
- (ii) adaption and mitigation efforts; and
- (iii) whether the plan aims to achieve any climate-related targets.

The Exchange notes that not all listed companies would have comprehensive plans in place, therefore, only an overall strategic plan laying out its targets, actions or resources is required. This is crucial to allow investors to evaluate the credibility and feasibility of the listed company’s climate change commitments.

To further mirror the ISSB Climate Standard, the Exchange will amend the section heading in the ESG Code from “Transition plans” to “Strategy and decision-making” as well as implementing the following amendments to the previous proposals:

- *Paragraph 22(a) of the ESG Code* – disclosure of how the listed company has responded to and plans to respond to, any climate-related risks and opportunities in its strategy and decision-making.
- *Paragraph 22(a)(iii) of the ESG Code* – disclosure of any climate-related transition plan or alternatively a negative statement. The plan should include information about the key assumptions used in developing its transition plan and the dependencies used in formulating the plan.
- *Paragraph 22(a)(iv) of the ESG Code* – disclosure on the plans to achieve any climate-related targets. This is in line with the requirements under paragraph 39 of the ESG Code where listed companies are required to disclose their progress towards targets set in future ESG reports.

## 6. Climate-related targets

In furtherance of the above, under paragraphs 39 and 71 to 76 of the ESG Code, listed companies will be required to disclose their climate-related targets as well as any mandatory greenhouse gas emission targets in accordance with local legislation. In particular, if listed companies wish to apply carbon credits, information such as the intended use, their gross and net greenhouse gas emissions targets must be disclosed separately. The Exchange clarifies that these climate-related targets are not confined to KPIs A1.5 (emission targets), A1.6 (waste reduction targets), A2.3 (energy use efficiency targets) and A2.4 (water efficiency targets), as referred to in Part C of the ESG Code.

Additionally, the Exchange will amend the ESG Code to explicitly require disclosure of certain particulars essential for investors to evaluate the listed company’s climate-related targets and performance in achieving these targets. These include:

- *Paragraphs 37(h) and 40(d) of the ESG Code* – disclosures on whether the climate-related target set was (i) based on the latest international agreement on climate change; or (ii) derived using a sectoral decarbonisation approach.
- *Paragraph 38 of the ESG Code* – disclosure of (i) whether the target and methodology for setting the target has been validated by a third party; (ii) the processes used by the listed company for reviewing the target; (iii) the metrics used to monitor the progress towards reaching the target; and (iv) any revisions to the target with corresponding explanations.
- *Paragraph 39 of the ESG Code* – disclosure of an analysis of trends or changes in the listed company’s performance of each climate-related target.
- *Paragraph 40(e)(iv) of the ESG Code* – if listed companies wish to apply carbon credits, information on the intended use, their gross and net greenhouse gas emissions targets must also be disclosed separately (for example, assumptions regarding the permanence of the carbon offset).

The Exchange reminds listed companies that under the “comply or explain” regime, the reasons for any non-disclosure of the climate-related targets must be disclosed and alternative disclosures in the work plan, progress and timetable would not be sufficient.

## 7. Progress of the transition plans disclosed

Listed companies are required to disclose in their ESG reports their progress on reaching the climate-related targets and also the implementation status of previously set plans. This will allow investors and management of listed companies to evaluate the effectiveness of their climate-related measures. Regarding amendments to the proposals, the disclosure of progress requirements will be moved to the «Strategy» section, while the requirements for disclosure of the performance, and analysis of the trends or changes of the listed company will be set out under the «Metrics and Targets» pillar. The Exchange’s original proposal that listed companies are not required to make such disclosures during the first reporting period will be discarded as well.

## 8. Climate resilience

Under the revised requirements, listed companies will be required to conduct climate-related scenario analysis to disclose how climate change may affect their business operations, how their strategies and business models are resilient to climate change and clearly identify significant areas of uncertainty. The Exchange has revised its proposal to adhere to the ISSB Climate Standard under paragraph 26 of the ESG Code and the Exchange clarifies that disclosure of a single amount or a range are both acceptable for quantitative data.

The Exchange will also introduce requirements for listed companies to conduct a climate-related scenario analysis with sufficient detail proportionate to their circumstances. However, some respondents are concerned that given the lack of a common agreed methodology and the lack of resources, such requirements may be overly burdensome for some listed companies. In response, the Exchange's view is that it is essential for listed companies to start using quantitative information to illustrate potential pathways and outcomes and this would enhance the ability of listed companies to respond efficiently to climate-related risks and opportunities. As such, the Exchange will make the following amendments allowing for more flexibility while ensuring the adequacy of the disclosure requirements:

- *Paragraph 26 of the ESG Code* – listed companies can opt for the Reasonable Information Relief and the Capabilities Relief, which is determined by assessing a listed company's exposure to climate-related risks and opportunities, and its available skills, capabilities and resources.
- *Paragraph 26(b)(i)(2) of the ESG Code* – disclosure of whether the analysis included a diverse range of climate-related scenarios.
- *Paragraph 26(b)(i)(4) of the ESG Code* – disclosure of whether a climate-related scenario aligned with the latest international agreement on climate change was used.
- *Paragraph 26(b)(iii) of the ESG Code* – disclosure of the reporting period in which the climate-related scenario analysis is carried out, as such analysis is not required every year.
- *Paragraph 26(b)(i)(7) of the ESG Code* – disclosure of the scope of operations covered by the analysis, such as the operation locations and business units covered.

To provide further guidance on the standard for climate-related scenario analysis disclosures, the Exchange has included detailed information on the preparation workflow, certain commonly used publicly available scenarios, recommendations that listed companies should select scenarios with higher contrast, and illustrative examples on how a scenario analysis should be performed in the Implementation Guidance.

## 9. Financial effects of climate-related risks and opportunities

### *Current financial effects*

The Exchange will adopt the proposal to require the disclosure of the current financial effects of climate-related risks and opportunities while the proposed interim disclosure requirements will be removed. To ensure that the impact of climate-related risks and opportunities on listed companies are more vividly presented to investors and stakeholders, under paragraph 24 of the ESG Code, listed companies must disclose both quantitative and qualitative (expressed in a single amount or range) financial effects. Financial Effects Relief will also be available to listed companies who meet certain conditions, such as when the financial effects are not separately identifiable and the uncertainties in compiling such disclosures are so high that the information disclosed would not be useful.<sup>5</sup> If such relief is adopted, adequate explanations, qualitative information about the relevant financial effects and quantitative information about the combined financial effects as a whole must be disclosed.<sup>6</sup>

To clarify, such financial effects should be disclosed in the ESG report, however where the effect of the climate-related risks or opportunities on the listed company's financials is material, such information should also be addressed in the financial statements prepared according to applicable accounting standards,<sup>7</sup> as well as in the management commentary sections of annual reports and ESG reports.

### *Anticipated financial effects*

In addition to the original proposal to require qualitative disclosure of anticipated financial effects, quantitative disclosure (expressed as a single amount or range) will be required. To address concerns that there may be

great uncertainties, challenges and potential commercial sensitivities in disclosing anticipated financial effects, the Reasonable Information Relief, the Capabilities Relief, and the Financial Effects Relief are available for the disclosure of anticipated financial effects.<sup>8</sup> The Exchange also clarifies that a listed company is excused from providing quantitative information if it does not possess sufficient skills, capabilities and resources to provide such information. The Exchange notes that since most listed companies will be reporting on a “comply or explain” basis during the first phase, the above requirements would not place unnecessary burdens on less-resourced listed companies.

## **Risk management**

### **10. The risk management process for climate-related risks and opportunities**

Concerning climate-related risks, listed companies should disclose in detail the risk management process including measures taken to identify, assess and manage climate-related risks. In particular, paragraph 27 of the ESG Code sets out the list of information that should be disclosed, which includes (i) the inputs and parameters used; (ii) whether and how climate-related scenario analysis is utilised in the risk identification stage; (iii) how the nature, likelihood and magnitude of the effects of those risks are assessed; (iv) how climate-related risks are monitored; and (v) whether the risk management processes have changed compared with the previous reporting period. Additionally, the Exchange will amend the ESG Code to state that only one set of integrated risk management disclosures that comply with the relevant requirements under both Parts B and D of the ESG Code is required. Listed companies can reference the Implementation Guidance for a detailed explanation on a proper risk management process with illustrative disclosure examples.

To align with the disclosure requirements of climate-related opportunities, under paragraph 27(b) of the ESG Code, it will be mandatory for all listed companies to disclose the risk management processes mentioned above in respect of climate-related opportunities. This requirement is subject to the “comply or explain” phase.

## **Metrics and targets**

### **11. Disclosure of Greenhouse gas emissions**

As explained in the Implementation Guidance, greenhouse gas emissions are divided into 3 scopes:

- *scope 1 greenhouse gas emissions* – direct emissions from sources owned or controlled by the listed company;
- *scope 2 greenhouse gas emissions* – emissions resulting from the generation of purchased or acquired electricity, heating, cooling and steam consumed within the listed company; and
- *scope 3 greenhouse gas emissions* – all other types of indirect emissions consequential to the activities of the listed company but are released from sources not owned or controlled by the listed company.

For scope 1 and scope 2 greenhouse gas emissions, it will be mandatory for all Main Board and GEM listed companies to disclose the absolute gross greenhouse gas emissions generated during each financial year commencing from 1 January 2025 under paragraphs 16 and 17 of the ESG Code. These disclosures should adhere to the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) unless otherwise required by the relevant exchange on which the company is listed.<sup>9</sup> As required under paragraph 29(b) of the ESG Code, the (i) measurement approach; (ii) the inputs; and (iii) the assumptions used when measuring greenhouse gas emissions must be disclosed. For scope 2 greenhouse gas in particular, the location-based method,<sup>10</sup> should be used, and contractual instruments in relation to the listed company’s scope 2 greenhouse gas emissions should be explained as well.

Detailed disclosure on the absolute gross emission figures of scope 3 greenhouse gases is also required. As further explained in the Implementation Guidance, the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) sets out 15 scope 3 greenhouse gas emission categories and listed companies must disclose the categories that are included within its measurement of scope 3 greenhouse gas emissions,<sup>11</sup> the basis of such selection and all significant changes in the value chain which may affect the categories chosen. Noting feedback from stakeholders that this disclosure may be challenging in terms of data collection and verification, the Exchange will make available the Reasonable Information Relief and allow listed companies to



use information that is available to it without undue cost or effort.<sup>12</sup> If there are different reporting periods for different value chain entities, data from different reporting periods can be cited if (i) the recent data available from those other entities can be used without undue cost or effort to measure and disclose its greenhouse gas emissions; (ii) the reporting periods of the two companies are of the same length; and (iii) significant events and change in circumstances occurred between the reporting dates of the two companies.<sup>13</sup> The originally proposed interim provision requiring disclosures to be made during the first and second reporting periods following the effective date of the amendments will be removed given the adoption of the phased approach.

The Exchange acknowledges that scope 3 greenhouse gas emissions account for a significant portion of a company's carbon footprint. Given that data in relation to scope 1 and scope 2 greenhouse gases are prerequisites for scope 3 greenhouse gas emission data, this approach coupled with the phased approach should enable listed companies to acquire a deeper understanding of their carbon emissions and achieve sustainability. The Exchange will continue to monitor the disclosures of listed companies and will consider increasing the disclosure obligations especially when the Hong Kong Standards are available.

## 12. Cross-industry metrics

Cross-industry metrics are metrics relevant to all listed companies regardless of what industry and business section they are in. Stakeholders generally support the implementation of these disclosures as they will allow them to better assess the extent to which the listed company is vulnerable to climate change, enhance transparency around how capital is utilised for climate-related opportunities, and indicate the listed company's commitment to execute their climate-related transition plan. To address concerns as to difficulties in measurement, quantification and disclosure, listed companies would be required to disclose the following cross-industry metrics subject to various reliefs:

Paragraph 30 of the ESG Code	Amount and percentage of assets or business activities vulnerable to transition risks.  • the Reasonable Information Relief will be available
Paragraph 31 of the ESG Code	Amount and percentage of assets or business activities vulnerable to physical risks.  • the Reasonable Information Relief will be available
Paragraph 32 of the ESG Code	Amount and percentage of assets or business activities aligned with climate-related opportunities.  • the Reasonable Information Relief and Commercial Sensitivity Relief will be available
Paragraph 33 of the ESG Code	Amount of capital expenditure, financing or investment deployed toward climate-related risks and opportunities.  • the Commercial Sensitivity Relief will be available

The original proposal for interim disclosure of cross-industry metrics before the listed company can make quantitative disclosures will be removed as well given the current phased approach.

## 13. Internal carbon prices

Pursuant to paragraph 34 of the ESG Code, listed companies must disclose (i) the price for each metric tonne of greenhouse gas emissions that they use to assess the costs of their emissions; and (ii) an explanation of how the listed company is applying the carbon price in decision-making (for instance capital expenditure decisions, research and development decisions, investment decisions, transfer pricing and scenario analysis). As the current ESG Code does not mandate all listed companies to maintain an internal carbon price, listed companies who have yet to maintain such a measure will be required to make a negative statement explaining that an internal carbon price has not been used in decision-making. Given that internal carbon prices are useful tools to measure the financial implications of the carbon footprint and enhance transparency and accountability, the Exchange encourages listed companies to consider maintaining an internal carbon price. The Implementation Guidance also explains the 4-step workflow of developing an internal carbon price: (1) business engagement; (2) approach design; (3) rollout; and (4) monitoring and evaluation.

## 14. Remuneration

Disclosures on whether and how climate-related considerations are factored into remuneration policy, or otherwise an appropriate negative statement will be required under Paragraph 35 of the ESG Code. The Exchange clarifies that it is not compulsory for listed companies to consider climate-related factors when formulating their remuneration policy and the Exchange does not intend to interfere with the absolute discretion of the board of directors on whether to include these factors, and the scope of persons covered by this policy. However, the Exchange encourages listed companies to set climate-related KPIs such as performance, investment, product, rating and climate-related targets to incentivise senior management in achieving climate-related goals. Although not required, quantitative disclosure on the percentage of the remuneration that is tied to climate-related considerations is also encouraged.

## 15. Industry-based metrics

Although optional, the Exchange strongly encourages listed companies to disclose industry-based metrics that are relevant to one or more of their business models, activities or other common features that characterise participation in an industry.<sup>14</sup> The IFRS S2 Industry-based Guidance on implementing Climate-related Disclosures and other industry-based disclosure requirements prescribed under other international ESG reporting frameworks provide for various industry-based metrics for consideration.

## Other Matters

### Implementation Guidance

Considering that many respondents voiced requests for practical guidance on the format of the disclosures, how to set and disclose climate-related targets, methods of conducting climate-related scenario analysis, guidance on the quantification of financial effects, calculation of scope 3 greenhouse gas emissions and suggested steps to make the requisite qualitative disclosures, the Exchange has published the Implementation Guidance alongside the Consultation Conclusions. The Implementation Guidance contains useful details on each new climate-related disclosure and incorporates the ISSB Standards. Listed companies should reference the Implementation Guidance to ensure consistent and accurate disclosures.

### Feedback on latest ISSB developments

Regarding the impact of the final ISSB Standards published on 26 June 2023 on the proposals made by the Exchange, a respondent expressed concerns over whether the flexibility for listed companies to determine their own reporting boundary under paragraph 15 of the ESG Code will be applicable as this is not provided for in the ISSB Standards. The Exchange's response is that the current requirements under the existing Listing Rules will not be amended, however, listed companies are encouraged to follow international standards to prepare for the future Hong Kong Standards.

### Additional comments

Some respondents suggested the addition of the ESG assurance requirements subject to a limited assurance within the coming two to three years in light of the recent consultation on independent sustainability assurance published by the International Auditing and Assurance Standards Board. The Exchange notes that since a globally accepted assurance standard has yet to be developed, there is no need for mandatory independent assurance at this stage. However, paragraph 9 of the ESG Code encourages seeking independent assurance to strengthen the credibility of the ESG information disclosed. As further explained in question 23 of [FAQ Series 18](#), listed companies should ensure that the assurance provider (i) is an independent third party; (ii) is competent in the subject matter and assurance practices; and (iii) will issue a thorough written report setting out the items such as their opinion and summary of work performed. The Exchange also suggests referring to the International Standard on Assurance Engagements 3000 standard for assurance over non-financial information.

Respondents also suggested that the Exchange cooperate with the Hong Kong Government and other stakeholders to improve market infrastructure and wider capacity building by compiling a central database, providing training, developing sustainability taxonomy and exploring relevant certification of professionals. The Exchange notes that various capacity-building initiatives are in effect in Hong Kong, including the (i) digitalised Climate and Environmental Risk Questionnaire for Non-listed companies;<sup>15</sup> (ii) greenhouse gas emissions calculation and estimation tools;<sup>16</sup> (iii) a cross-sector repository for green and sustainability-related resources, and (iv) a sustainable

finance internship program to train ESG talent in Hong Kong. In addition, the Hong Kong Monetary Authority has released a discussion paper on a local green classification framework to gather feedback from stakeholders on its development and application in Hong Kong.<sup>17</sup> The HKEX will continue to work with other stakeholders to further perfect Hong Kong's sustainability framework, nurture ESG talent and include further requirements on liability protection and mandatory climate training for directors when necessary.

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[1] The Steering Group was established in May 2020 and co-chaired by the Hong Kong Monetary Authority and the SFC, with members including the Environment Bureau, the Financial Services and the Treasury Bureau, the Accounting and Financial Reporting Council, Exchange, the Insurance Authority and the Mandatory Provident Fund Schemes Authority.

[2] Paragraph 2 of the ESG Code.

[3] Please see the Implementation Guidance for more details

[4] note to paragraph 19(a) of the ESG Code

[5] Note 3 to Paragraph 25 of the ESG Code

[6] Note 5 to Paragraph 25 of the ESG Code

[7] Note 1 to paragraph 24 of Appendix C2

[8] Notes 2, 3, and 5 of Paragraph 25 of the ESG Code

[9] Paragraph 29(a) of the ESG Code

[10] See the Implementation Guidance for details on the calculation scope under the location-based method

[11] Paragraph 29(d) of the ESG Code

[12] Note 1 to paragraph 29 of the ESG Code

[13] Note 2 to paragraph 29 of the ESG Code

[14] Paragraph 36 of the ESG Code

[15] See the questionnaire at <https://sustainablefinance.org.hk/en/data-technology/casg-non-listed-company-questionnaire-on-climate-and-environmental-risk>

[16] See the greenhouse gas emission calculator at <https://sustainablefinance.org.hk/en/data-technology/calculator-for-scope-1-and-scope-2-greenhouse-gas-emissions-of-a-corporation> and see the greenhouse gas emission estimation tools at <https://sustainablefinance.org.hk/en/data-technology/estimator-for-scope-1-and-scope-2-greenhouse-gas-emissions-of-a-corporation>

[17] See the discussion paper at <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2023/20230530e1a1.pdf>

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