

Apr 2023 Legal and Regulatory Update

Top stories

HKEX consultation on climate-related disclosures

HKEX published a **consultation paper** on proposals to enhance **climate-related disclosures** under the **ESG framework** (*Appendix 27*). It proposes to (i) make such disclosures in ESG reports **mandatory**, and (ii) introduce **new disclosures** aligned with the International Sustainability Standards Board (“ISSB”) **Climate Standard** (*ISSB standard expected to be finalised by end of Q2*). ([Press release](#); [full document](#))

Proposed climate-related disclosures are **much more detailed** than currently required by HKEX. There are **4 core pillars**, namely **Governance, Strategy, Risk management, Metrics and targets**.

HKEX intends to **implement** the proposals for **financial years commencing on or after 1 Jan 2024**. Acknowledging the readiness of issuers and their concerns, there are **interim provisions** for certain disclosures (*e.g. financial effects of climate-related risks and opportunities, scope 3 emissions and certain cross-industry metrics*) for the **first 2 reporting years**, i.e. **full compliance** for years on or after **1 Jan 2026** (*report to be published in 2027*).

It is noted that **HKEX will provide implementation guidance** together with consultation conclusions in due course.

The consultation period will **close after 14 July 2023**.

We have summarised the key proposals below. (*For detailed disclosure requirements: see summary table (P. 6 of consultation paper), proposed amendments to Listing Rules (Appendix II)*).

Key proposals include:

1. Governance

- **Disclose** the issuer’s governance process, controls and procedures used to monitor and manage climate-related risks and opportunities, including
 - How the board ensures appropriate **skills and competencies** to oversee relevant strategies
 - **How and how often** the board and its committees are informed about **climate-related risks and opportunities**

- How the board and its committees consider climate-related risks and opportunities when overseeing the issuer’s **strategy, decisions on major transactions, and risk management policies**

2. Strategy

- **Climate-related risks and opportunities**

- Disclose climate-related **risks** and, **where applicable, opportunities** faced by the issuer and their impact on its **business operations, business model and strategy**
- Note: issuers may **opt to disclose** climate-related **opportunities**

- **Transition plans**

- Including any **changes to** issuer’s **business model and strategy**, and any **adaptation and mitigation efforts**
- **Climate-related targets**
- Where **carbon credits** are intended to be applied towards GHG emission targets, should **disclose** information regarding such intended use, its gross GHG emission targets, net GHG emission targets separately

- **Climate resilience**

- **Resilience** of its **strategy (including business model)** and **operations** to climate-related changes, developments or uncertainties
- Assessed using climate-related **scenario analysis**

- **Financial effects of climate-related risks and opportunities**

- Disclose the **current (quantitative where material)** and **anticipated (qualitative) financial effects** of climate-related risks and, where applicable, opportunities on issuer’s **financial position, financial performance and cash flows**
- **INTERIM/ALTERNATIVE DISCLOSURE** (a) **current financial effect**: allow **qualitative** disclosures (b) **anticipated financial effect**: (i) **information** that **enables investors to understand** the **aspects of financial statements** that are most affected (ii) **work plan, progress and timetable** for full disclosure (“*plan for full disclosure*”)

3. Risk management

- Disclose the **process** issuer used to **identify, assess and manage climate-related risks** and, where applicable, opportunities (*which envisages disclosure of*)
 - E.g. how such process is integrated into issuer’s overall risk management process

4. Metrics and Targets

- **GHG emissions (by GHG Protocol or the protocol the issuer is required to use under its local legislation): scope 1, scope 2 and scope 3**

- **SCOPE 3: INTERIM/ALTERNATIVE DISCLOSURE** (i) information that enable investors to understand its relevant upstream or downstream activities along the value chain
(ii) plan for full disclosure
- **Other cross-industry metrics:** such as **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 the same
 - **INTERIM/ALTERNATIVE DISCLOSURE** (i) describe such assets or business activities
(ii) plan for full disclosure
- *(Where applicable)* **internal carbon price**
- **Remuneration:** disclose **how climate-related considerations** are factored into **remuneration policy**
- **Industry-based metrics:** issuers are “**encouraged to consider**” industry-based disclosure requirements prescribed under international ESG reporting framework

What you should do/watch out for:

- Note the **consultation period**, for making responses as appropriate
- **Update the board** and relevant teams on the broad proposals, following **management’s initial assessment** of the impact *(in light of implementation timeframe)*
- **Detailed analysis by management** for board discussions in due course *(e.g. review internal systems, co-ordinate among divisions to identify information gaps and assess readiness for implementation)*

Hot Trends

- The importance of pre-AGM engagement (Alliance Advisors)

Cornerstone practices for Greater China 2023

- **Best practices for shareholder engagement**
- **Why pre-engagement maximises future support**
- **Shareholder activism trends in APAC**
- **Watch out for signs of activism**

[Read more](#) Useful for planning!