

14 July 2023



To  
Hong Kong Exchange and Clearing Limited (HKEX)  
8/F, Two Exchange Square,  
8 Connaught Place,  
Central, Hong Kong

Submitted via [online portal](#)

**Re: ASIFMA's response to Consultation Paper on "Enhancement of Climate-related Disclosures under the Environmental, Social and Governance Framework"**

Dear Sir/Madam

The Asia Securities Industry & Financial Markets Association ("ASIFMA"), on behalf of our members, welcome the opportunity to respond to the consultation paper on "Enhancement of Climate-related Disclosures Under the Environmental, Social and Governance Framework" ("Consultation Paper") published April 2023. Our response has been drafted with the support of our professional firm member PwC Hong Kong, based on feedback from the ASIFMA members.

We commend the HKEX approach in developing the standards for Hong Kong-listed companies in aligning climate disclosure requirements with the IFRS Sustainability Disclosure Standards S2 ("IFRS S2") and also taking into consideration the finalized IFRS S2, published June 2023, prior to the consultation conclusion.

In summary:

- **Climate disclosures:** We support the objective of increasing decision-useful information for investors on how companies are addressing climate risks to their businesses and believe that the adoption of the IFRS S2 into the ESG framework of Hong Kong will achieve this purpose.
- **Adoption of International Standards:** We welcome the provisions for issuers to have the option to adopt international ESG reporting guidance, including the IFRS Sustainability Disclosure Standards, as we recognize that international companies may use parent-level disclosures to meet local requirements.

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ASIFMA is an independent, regional trade association with over 170 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive, and efficient Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the Global Financial Markets Association ("GFMA") alliance with the Securities Industry and Financial Markets Association ("SIFMA") in the United States and the Association for Financial Markets in Europe ("AFME"), ASIFMA also provides insights on global best practices and standards to benefit the region.

The information and opinion commentary in this ASIFMA consultation was prepared by the Asia Securities Industry and Financial Markets Association (ASIFMA) to reflect the views of our members. ASIFMA believes that the information in the Paper, which has been obtained from multiple sources believed to be reliable, is reliable as of the date of publication. As estimates by individual sources may differ from one another, estimates for similar types of data could vary within the Paper. In no event, however, does ASIFMA make any representation as to the accuracy or completeness of such information. ASIFMA has no obligation to update, modify or amend the information in this Paper or to otherwise notify readers if any information in the Paper becomes outdated or inaccurate. ASIFMA will make every effort to include updated information as it becomes available and in subsequent Papers.

- **Divergencies between IFRS S2 and HKEX proposal:** We note a few IFRS S2 requirements that are either optional (e.g. climate-related opportunities and targets) or omitted (e.g. whether targets are certified by a third party) in the HKEX’s proposals.

One of our Asset Management Group (“AAMG”) members believes a “comply or explain” regime can encourage more issuers to provide such disclosures over time while creating the flexibility necessary for continuing the development of pragmatic best practices.

Another AAMG member suggests that climate-related opportunities disclosure should be made on a voluntary basis given investors’ primary focus is on climate risks and their financial effects, amid concerns that a comply or explain approach may lead to boiler-plate style of climate-related opportunities disclosures which inflates opportunities for the sake of compliance.

Regarding divergences under climate-related targets, such as sectoral target approach and whether the target has been verified, we suggest HKEX consider making them ‘disclose if applicable’ or even ‘comply or explain’ rather than omitting them from Appendix 27.

- **Proportionality:** Our members note that the proportionality concept has been introduced in the IFRS S2 with practicality considerations and provides certain leeway in disclosure by allowing an entity to explain the reasons why certain requirements are not met and to provide alternative disclosures, such as the current and anticipated financial effect of climate-related risks and opportunities. In addition, IFRS S2 repeatedly emphasizes that data collection or analyzing data should be based all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort of a reporting entity and IFRS S2 mentioned the consideration of skills, capabilities and resources. We suggest the HKEX incorporate the proportionality concept in enhanced climate disclosures and provide guidance to issuers on making disclosures based on their own business model and complexity.
- **Industry-specific metric:** Our members support the creation of global baseline standards with industry-specific guidance. Instead of simply encouraging issuers to consider the industry-based disclosure requirements prescribed under other international ESG reporting frameworks, one AAMG member recommends HKEX align with the IFRS S2 requirements to make the disclosure of industry-specific metrics a requirement while allowing issuers flexibility to decide the specific metrics to be disclosed. The member also urges the HKEX to work with market participants and standard setters, like the ISSB, to continue developing industry-specific guidance.
- **Application Guidance:** we note that Appendix B of IFRS S2 provides guidance to assist practitioners interpreting the disclosure requirements under S2, such as methodologies to measure greenhouse gases emissions (scope 2 and 3) and consideration of skills and capabilities available, and we urge the HKEX to incorporate the necessary guidance in the enhanced Appendix 27.
- **Implementation timeline – interim provisions:** We appreciate HKEX’s recognition of current industry challenges with respect to data availability, absence of standard methodologies and lack of technical knowledge. Our members generally support HKEX’s approach in providing the industry with interim provisions such as additional time, and considerations for certain objectives to demonstrate compliance.

One of our AAMG members suggests that the interim provision should in fact be provided for one year rather than two, to ensure Hong Kong’s competitiveness in attracting investors, especially those from Europe. As many issuers have operations in mainland China, we note the commitment

of mainland China to adopting ISSB as addressed by Mr. Fang Xinghai, the Vice Chair of CSRC at the 2022 Boao Forum and the recent opening of an ISSB office in Beijing.

**Implementation timeline – effective date:** Another member considers that the enhanced Appendix 27 should come into effect in January 2025 rather than January 2024 to allow time for issuers to build capability for the disclosures.

One of our members suggests the Exchange review the readiness of issuers by sector to comply by the end of the Interim Period and examine whether an extension of the Interim Period or a “comply or explain” approach is warranted.

**Implementation timeline – sequencing of reporting:** financial institutions are reliant on information from their counterparties/ clients/ third parties to generate their own climate-related disclosures (especially scope 3). Therefore, it is important that disclosure guidelines for financial institutions take into consideration these requirements and the dependency on information from external parties.

- **Liability protection:** We recognize that the liability attached to sustainability reporting will depend on national regimes. In our view, liability should be commensurate with the evolving nature of climate-related disclosures, to encourage rather than discourage higher-quality disclosure.

In addition, one member supports the inclusion of safe harbors for disclosures that rely on third-party or estimated data. Due to climate-related data gaps and the nascent state of methodologies needed to conduct disclosures that rely on third-party or estimated data, such as scope 3 and scenario analysis, we encourage HKEX to consider the inclusion of a 'safe harbor' from liability.

We understand Appendix 27 is a disclosure requirement which may not be able to address the liability protection clauses above-mentioned. We urge the HKEX to work with the SFC and explore suitable liability frameworks that provide meaningful protection from legal liability for disclosures provided in good faith while standards continue to evolve.

- **IFRS S1:** Whilst we note that IFRS S1 is beyond the scope of this consultation, to ensure issuers provide investors with comparable information based on the global baselines, one member encourages the HKEX to prioritize alignment with IFRS S1 following the integration of IFRS S2 into the Proposed Appendix 27 with appropriate timeline and transition relief.

We have members believe that there are fundamental concepts that exist in IFRS S1 and should be incorporated into Appendix 27 to help issuer’s implementation of the enhanced disclosures. Examples of these important concepts include the concept of materiality (and material vs significant), the concept of reasonable and supportable information available without undue cost or effort and the concept of exemption from the disclosure of commercially-sensitive information.

Another member expressed concern over Hong Kong being perceived as “not in adoption of ISSB” due to the exclusion of IFRS S1 in this consultation.

In addition, some members are interested in broader ESG matters beyond climate change, and thus would like to encourage HKEX stay close to future ISSB developments such as on the topics of biodiversity and human capital.

- **Implementation of sustainability disclosure across Hong Kong entities:**

Whilst only issuers are in the scope of the HKEX proposals, our AAMG members would hope to see private and statutory bodies in Hong Kong also adopt sustainability reporting, including the

ISSB standards, to help Hong Kong achieve its carbon neutrality goals. Several jurisdictions, including Australia, Japan, New Zealand and the United Kingdom have or are contemplating mandatory climate-related disclosure requirements for large private companies. Given the significant presence of large private companies and government authorities in Hong Kong, we urge HKEX to encourage the Green and Sustainable Finance Cross-Agency Steering Group to consider broader adoption of sustainability disclosure. Another ASIFMA member also strongly concur with the above-mentioned considerations and made reference to the SGX consultation published in July 2023.

We thank HKEX for the opportunity to provide feedback on the consultation paper. We have included responses in the sections below for each specific question raised in the consultation paper. We would welcome the opportunity to engage with HKEX on this topic further as they continue to develop the ESG disclosure framework in Hong Kong.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Diana Parusheva-Lowery', with a stylized flourish at the end.

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## HKEX Questions

### General

**Q1. Do you agree to upgrade climate-related disclosures to mandatory from “comply or explain”? Please provide reasons for your views.**

Yes

#### Reasons for our response

We agree to upgrade climate-related disclosures from “comply or explain” to mandatory, since climate-related information is important for financial service providers, including ASIFMA members, to perform our risk and investment analysis.

Mandating climate-related disclosures is in alignment with the regulatory developments in other key capital markets. It is also consistent with the goal previously announced by the Hong Kong Green and Sustainable Finance Cross-Agency Steering Group to implement mandatory climate-related disclosures in alignment with the TCFD by 2025.

The upgrade from “comply or explain” to mandatory also sends a message to issuers highlighting the importance of climate disclosures, and failure to do so may result in a breach of the Hong Kong Listing Rules.

One member considers that appropriate discretion shall be granted to issuers to align disclosure with parent company disclosure, as climate is a global risk for firms with a global footprint, the risk spans jurisdictions and the firmwide approach is applied to specific entities and regions as necessary and required.

### Governance

**Q2. Do you agree to introduce new governance disclosures focusing on climate-related issues as set out in paragraph 1 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Disclosure of climate-related governance is aligned with the IFRS S2 requirements and could be considered investor-useful information.

We understand that the HKEX will issue further implementation guidance on the disclosure of the board and management roles in assessing and managing climate-related risks and opportunities (see paragraph 49 of the Consultation Paper). It is suggested that the HKEX provides more guidance in different scenarios for issuers from various industry sectors and backgrounds in order to familiarize them with the new disclosure requirements.

### Strategy - Climate-related risks & opportunities

**Q3. Do you agree to require disclosure of climate-related risks as set out in paragraph 2 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Disclosure of climate-related risks is aligned with the IFRS S2 requirements and could be considered investor-useful information and issuers should make disclosures proportional to their business size, mix, and complexity.

### Strategy - Climate-related risks & opportunities

**Q4. Do you agree that issuers may opt to disclose the actual and potential effects of climate-related opportunities they may have identified in response to climate-related risks disclosed as set out in paragraph 3 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

While there are benefits for issuers to disclose information on climate-related opportunities, we understand that the HKEX is taking into account the current readiness of Hong Kong issuers and a higher priority is given to risk-related information over opportunity-related information.

Given the consultation is a continuation of the journey to enhance climate-related disclosures, we do not disagree with the proposed approach. We support continued alignment with global regulation standards on reporting and disclosure of climate-related risks and opportunities. Please also see our response in divergencies in Question 1.

### Strategy - Climate-related risks & opportunities

**Q5. Do you agree that an issuer shall consider the applicability of and disclose the metrics when assessing and making disclosure of climate related risks and opportunities as set out in paragraph 4 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Having the applicability of metrics and targets considered when assessing climate-related risks and opportunities will help make the climate assessment process business-relevant and meaningful.

### Strategy - Transition plans

**Q6. Do you agree to require disclosure of how the issuer is responding to climate-related risks and, where an issuer chooses to, any climate-related opportunities as set out in paragraph 5 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Disclosure of transition plans is aligned with the IFRS S2 requirements and could be considered investor-useful information.

### Strategy - Climate-related targets

**Q7. Do you agree to require disclosure of climate-related targets set by the issuer as set out in paragraph 6 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

We appreciate the proposed disclosures allowing companies to decide their targets as considered appropriate to their business objectives, which require issuers to disclose if they are subject to any sector-specific or local legislation in relation to climate-related targets.

We observe that there are omissions from IFRS S2, such as, whether the target setting has been third-party validated and whether the target was derived using a sectoral decarbonization approach. We understand these are made to tailor the disclosure guidance to be most relevant to the Hong Kong market situation. We encourage HKEX to consider making these divergencies 'disclose if applicable' rather than a complete omission to encourage issuers to make such disclosures, especially as many of them operate internationally.

We also note that ISSB requires the disclosure of planned use of carbon credits to offset emissions (in relation to emission targets and regulatory requirements) and makes the disclosure of purchased carbon credits optional, as stated in IFRS S2 para 36(e) and B70 and 71. One member suggests it may worth consider making carbon credits disclosures a requirement regardless of whether the issuer has set any climate-related targets.

### Strategy - Climate-related targets

**Q8. Do you agree that where an issuer has yet to disclose climate-related targets, it should make alternative disclosures as set out in note 2 to paragraph 6 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

ASIFMA members understand that the climate-related framework at hand is for the purpose of disclosure in nature and it should not mandate the issuer to set climate-related targets. We appreciate that having alternative disclosure serves as an annual reminder for an issuer who has yet to set climate-related targets, which is a stronger push than a "disclose when applicable" approach (such as the case of internal carbon pricing).

### Strategy - Climate-related targets

**Q9. Do you agree to require disclosure of progress made in the most recent reporting year in respect of plans disclosed as set out in paragraph 7 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Disclosure of progress made in relation to climate-related targets is aligned with the IFRS S2 requirements and could be considered investor-useful information.

### Strategy - Climate resilience

**Q10. Do you agree to require discussion of the issuer's climate resilience as set out in paragraph 8 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Disclosure of climate resilience information is aligned with the IFRS S2 requirements and could be considered investor-useful information.

### Strategy - Climate-related scenario analysis

**Q11. Do you agree to require issuers to apply a climate-related scenario analysis that is commensurate with the issuer's circumstances, and to require disclosure of information on climate-related scenario analysis as set out in paragraph 9 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Disclosure of climate-related scenario analysis is aligned with the IFRS S2 requirements and could be considered investor-useful information.

We understand that the HKEX will provide further explanatory notes and/or localized guidance (paragraph 91 of the Consultation Paper). We echo with the HKEX that further guidance should be provided to issuers from different industries with business operations in different countries and jurisdictions.

### Strategy - Current financial effect – qualitative

**Q12. Do you agree to require disclosure of the current financial effects of climate-related risks, and where applicable, climate-related opportunities as set out in paragraph 10 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Disclosure of current financial effects of climate-related risks and opportunities is aligned with the IFRS S2 requirements and could be considered investor-useful information.

According to paragraphs 19 to 21 of the IFRS S2, an issuer needs not to provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity, if the entity determines that those effects are not separately identifiable, or the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful, (or it does not have the skills, capabilities or resources – on anticipated effects only) to provide that quantitative information. Such an entity is required to explain why it is unable to provide quantitative information and shall disclose certain qualitative information instead. Please consider incorporating similar proportionality concept into Appendix 27.

In the event that any climate-related risks and/or opportunities will have a material impact on the financials of an issuer, this should also be disclosed in the annual report of such issuer, in addition to the disclosure in the ESG report. We suggest that the HKEX emphasizes such requirements in other parts of the Hong Kong Listing Rules, including Appendix 16 Disclosure of Financial Information.

### Strategy - Current financial effect - quantitative

**Q13. Do you agree that during the Interim Period, where an issuer has yet to provide quantitative disclosures pursuant to paragraph 10(a) of Part D of the Proposed Appendix 27, it should make the interim disclosures as set out in the paragraph immediately following paragraph 10 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes (for the provision specific to paragraph 10, but also applicable to all interim provisions noted by HKEX in the consultation paper)

It is important to reiterate that this consultation is a continuation of the journey to enhance climate-related disclosures. At ASIFMA, we understand the majority of issuers will need time to build the capability



to be able to provide quantitative climate-related disclosures, thus we appreciate that the provision of interim disclosures is a pragmatic approach to allow more time for issuers to build up their capability to provide full disclosures.

We also support HKEX's adoption of the IFRS accounting standards where issuers are only required to quantify the effect of climate-related risks where the effect is deemed material.

#### **Strategy - Anticipated financial effect**

**Q14. Do you agree to require disclosure of anticipated financial effects of climate-related risks and, where applicable, climate-related opportunities as set out in paragraph 11 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Disclosure of anticipated financial effects of climate-related risks and opportunities is aligned with the IFRS S2 requirements and could be considered investor-useful information. We understand IFRS S2 allows entities not disclosing quantitative information under certain circumstances.

Please also see our response to Question 12.

#### **Strategy - Anticipated financial effect**

**Q15. Do you agree that during the Interim Period, where an issuer has yet to provide information required in paragraph 11 of Part D of the Proposed Appendix 27, it should make the interim disclosures as set out in the paragraph immediately following paragraph 11 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Please see our response to Question 13.

In addition, we note that paragraph 11 of Part D requires qualitative disclosure of the anticipated financial effect only, while paragraph 10(a) of Part D in Question 13 refers to quantitative disclosure of the current financial effect of climate-related risks.

One member believes that the industry is not yet at the stage where we understand the actual impacts well enough to begin to monitor “anticipated” financial effects.

We strongly suggest HKEX provide guidance to help investors to understand the requirements on current and anticipated financial effects.

#### **Risk Management**

**Q16. Do you agree to require disclosure of the process an issuer uses to identify, assess and manage climate-related risks as set out in paragraph 12(a) of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Disclosure of the risk management process is aligned with the IFRS S2 requirements and could be considered investor-useful information.

## Risk Management

**Q17. Do you agree that issuers may opt to disclose the process used to identify, assess and manage climate-related opportunities as set out in paragraph 12(b) of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Please see our response to Question 4.

## Metrics & Targets - GHG Emissions - scope 1, 2 & 3

**Q18(a). Do you agree with the proposed approach for the disclosure of scope 1 and scope 2 emissions and the related information as set out in paragraphs 13 to 14 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Disclosure of scope 1 and 2 emissions and their related information is aligned with the IFRS S2 requirements and could be considered investor-useful information.

**Q18(b) Do you agree with the proposed approach for the disclosure of scope 3 emissions and the related information as set out in paragraphs 13 to 15 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Disclosure of scope 3 emissions is aligned with the IFRS S2 requirements and could be considered investor-useful information.

We would like to highlight the following points in relation to scope 3 emissions:

### **(1) Liability protection**

We recognize that the liability attached to sustainability reporting will depend on national regimes. In our view, liability should be commensurate with the evolving nature of climate-related disclosure, to encourage rather than discourage higher quality disclosure. We urge the HKEX to adopt liability frameworks that provide meaningful protection from legal liability for disclosures provided in good faith while standards continue to evolve.

In addition, we support the inclusion of safe harbors for disclosures that rely on third-party or estimated data. Due to climate-related data gaps and the nascent state of methodologies needed to conduct disclosure that relies on third-party or estimated data, such as scope 3 emissions and scenario analysis, we encourage HKEX to consider the inclusion of 'safe harbor' from liability. This will encourage companies to be transparent and provide important information to the best of their ability (based on currently available information). We suggest this should be applicable to forward-looking statements (transition plans and scenario analysis) and for statements where companies need to rely on third-party information that is in essence outside of the financial institution's control. We believe this approach will facilitate companies in providing decision-useful emissions estimates, estimated sustainability metrics and forward-looking information (e.g., science-based targets) which will help improve the overall quality of disclosures.

**(2) Implementation timeline - the sequencing of reporting**

Financial institutions are reliant on information from their counterparties/ clients/ third parties to generate their own climate-related disclosures (especially scope 3). Therefore, it is important that disclosure guidelines for financial institutions take into consideration these requirements and their dependency on information from external parties. It is important that reporting for these entities is required prior to reporting by financial institutions to ensure data availability and quality of data for climate-related disclosures.

**(3) Adoption of GHG Protocol over other methods**

We understand that paragraph 14(a) of Part D allows an issuer to measure the GHG emissions in accordance with either the GHG Protocol or local legislation. We note that IFRS S2 (para B24) has provided a year transition period for switching from legacy methods to the GHG Protocol. We encourage HKEX to take this into consideration in the consultation conclusion/ implementation.

**(4) Information from different reporting periods**

We note that paragraph B52 of IFRS S2 allows the use of information from a different reporting period from the entity's own reporting period for scope 3 emissions and we would like HKEX to explicitly allow such a measure.

**Metrics & Targets - GHG Emissions - scope 1, 2 & 3**

**Q19. Do you agree with the proposed approach for the interim disclosures in respect of scope 3 emissions during the Interim Period as set out in the paragraph immediately following paragraph 15 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Please see our response to Question 13.

**Metrics & Targets - Transition risks**

**Q20(a). Do you agree to require disclosure of the amount and percentage of assets or business activities vulnerable to transition risks as set out in paragraph 16 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

The amount and percentage of assets or business activities vulnerable to transition risks are useful information for ASIFMA members to perform analysis for financing and investment activities.

However, one member suggests that issuers maintain discretion to disclose materially impacted portfolios and given the lack of a rigorous methodology and concern with disclosure obligations impacting competitiveness.

**Q20(b). Do you agree with the proposed interim disclosures during the Interim Period in respect of the metric regarding transition risks as set out in the paragraph immediately following paragraph 16 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Please see our response to Question 13.

### **Metrics & Targets - Physical risks**

**Q21(a). Do you agree to require disclosure of the amount and percentage of assets or business activities vulnerable to physical risks as set out in paragraph 17 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

The amount and percentage of assets or business activities vulnerable to physical risks are useful information for ASIFMA members to perform analysis for financing and investment activities.

**Q21(b). Do you agree with the proposed interim disclosures during the Interim Period in respect of the metric regarding physical risks as set out in the paragraph immediately following paragraph 17 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Please see our response to Question 13.

### **Metrics & Targets - Climate-related opportunities**

**Q22(a). Do you agree to require disclosure of the amount and percentage of assets or business activities aligned with climate-related opportunities as set out in paragraph 18 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

No

The disclosure of the amount and percentage of assets and business activities aligned with climate-related opportunities should be optional under the Metrics & Targets Section, to be consistent with the respective requirements under the Strategy and Risk Management Section (refer to Questions 4 and 17). Naturally, the issuer will need to identify and analyze climate-related opportunities to be able to quantify the respective amount and percentage.

We suggest HKEX provide clarification in the consultation conclusion.

**Q22(b). Do you agree with the proposed interim disclosures during the Interim Period in respect of metrics regarding climate-related opportunities as set out in the paragraph immediately following paragraph 18 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Please see our response to Question 13.

### **Metrics & Targets - Capital deployment**

**Q23(a). Do you agree to require disclosure of the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities as set out in paragraph 19 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

The amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities is useful information for ASIFMA members to evaluate the efforts issuers are devoting to responding to climate-related risks and opportunities. These will provide more transparent and comparable information for banks and investors.

**Q23(b). Do you agree with the proposed interim disclosures during the Interim Period in respect of the metric regarding capital deployment as set out in the paragraph immediately following paragraph 19 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

Please see our response to Question 13.

#### **Metrics & Targets - Internal carbon prices**

**Q24. Do you agree that where an issuer maintains an internal carbon price, it should disclose the information as set out in paragraph 20 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

No

Requiring issuers that maintain an internal carbon price to provide detailed disclosure concerning its use may induce registrants to avoid using internal carbon pricing and similar tools to mitigate their compliance burden. Furthermore, such tools are often used for reasons other than risk management. We recommend that required internal carbon price disclosure (1) be limited to disclosure that is necessary to for understanding how a registrant has integrated climate-related risks into its business model or strategy, rather than the prescriptive disclosures proposed, or (2) only be required to the extent otherwise publicly disclosed. One member suggests internal carbon pricing disclosure should be voluntary given its commercial sensitivity nature.

#### **Metrics & Targets - Remuneration**

**Q25. Do you agree with the proposed approach for the disclosure of how climate-related considerations are factored into remuneration policy as set out in paragraph 21 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

How climate-related considerations are factored into an issuer's remuneration policy is useful information enabling ASIFMA members such as investors and banks to assess the effectiveness of the issuer's climate governance mechanism.

We observe that the proposed approach has omitted the percentage and amount of climate-related remuneration as mentioned in IFRS S2. We understand these deviations from IFRS S2 are made to tailor the disclosure guidance to be most relevant to the Hong Kong market situation.

We would like to clarify whether the disclosure of the climate-related considerations in the issuer remuneration policy is for executive management only, or whether it includes the Board of Directors as well. One member suggests the disclosure of climate-related remuneration to cover both the Board and executive management.

## Metrics & Targets - Industry-based metrics

**Q26. Do you agree with the proposed approach for the industry-based disclosure requirements prescribed under other international ESG reporting frameworks such as the SASB Standards and the GRI Standards as set out in paragraph 22 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes

ASIFMA members believe they can benefit from industry-based disclosure requirements.

With a similar rationale to our response to Question 4, ASIFMA members understand that the HKEX is taking into account factors such as the current readiness of Hong Kong issuers. As such, there is a need to make industry-based disclosures optional at this stage.

The ISSB IFRS Sustainability Disclosure Standard has substantially adopted the SASB Standards, and the market feedback on whether industry-specific disclosure should be mandatory or optional has been mixed, as such, we do not disagree with the proposed approach to making industry-specific metrics an optional disclosure.

As a continued effort to enhance climate-related disclosures, we suggest the HKEX could revisit the approach in 2-3 years based on the continuous evolution of ESG disclosures, investor needs and issuers' maturity.

## General

**Q27. Do you have any comments regarding whether the manner in which the proposed consequential amendments are drafted will give rise to any ambiguities or unintended consequences? Please elaborate.**

Yes

We have the following comments –

### **1. Adaptation of the ISSB Standards to tailor to the needs of the local market**

ASIFMA members appreciate the intent and the necessity of a balanced and practical approach (as indicated in responses to Questions 4, 7 and 25), we observed concerns in the market around issuers not being in full compliance with the ISSB Climate Standards, particularly for issuers operating in multiple geographical jurisdictions. We suggest HKEX re-emphasize the fact that issuers are allowed to adopt international reporting frameworks in full, including the ISSB Climate Standard.

### **2. Climate disclosure requirements for IPO applicants**

Paragraph 13 in the Consultation calls for IPO applicants to be mindful of the new climate-related disclosure requirements and commence necessary preparatory work to ensure compliance after listing (once the Rules take effect).

We understand IPO listing applicants are expected to take steps to be prepared for post-listing compliance requirements, including the enhanced climate-related disclosures under the ESG Framework. Regarding the enhanced climate-related disclosures that IPO applications are expected to disclose in their prospectuses, we suggest HKEX codify such requirements or provide further guidance in guidance letters.

### 3. Quantification of climate-related opportunities

Please refer to our response to Question 22(a).

### 4. IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

We appreciate the “climate-first” approach to the ISSB adoption under the reason mentioned in paragraph 23 of the Consultation. It would be helpful for ASIFMA members to understand the plan for the adoption of IFRS S1, and whether the rest of Appendix 27 will be modified to be more aligned with IFRS S1 & S2.

#### General

**Q28. Do you have any comments regarding the topics/matters that we intend to give guidance on? Is there any particular topic/matter you consider further guidance to be helpful? Please elaborate.**

Yes

We believe that the issuers may need guidance in preparing disclosure on the following topics:

- Scope 3 emissions
- Scenario analysis
- Quantification of assets and activities vulnerable to physical and transition risks and their financial effects
- Assessment and presentation of current and anticipated financial effects of climate risks
- Data collection – the principles and approach to ascertain data accuracy and to address the issue of data availability (particularly the data availability of counterparts at subsidiary level could be limited)
- Climate-related target – comparative information in the event of target revision and number of years of comparative information to be disclosed.
- Governance – the role of management and board (as mentioned in Question 2)
- Clarification of the materiality assessment under IFRS Accounting Standards and the other parts of Appendix 27

#### General

**Q29. Do you have any feedback on the new developments announced by the ISSB subsequent to the publication of this paper that may impact on the proposals in this paper? Please share your views with us.**

Please refer to our response to Question 1, Question 12 and Question 18(b).