April 2023

Consultation Paper

Enhancement of Climate-related Disclosures Under the Environmental, Social and Governance Framework

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APPENDICES

HOW TO RESPOND TO THIS CONSULTATION PAPER

The Exchange, a wholly-owned subsidiary of HKEX, invites written comments on the changes proposed in this paper, or comments on related matters that might have an impact upon the changes proposed in this paper, on or before **14 July 2023**.

You may submit written comments by completing the questionnaire which can be accessed via the link and QR code below:

Link: https://surveys.hkex.com.hk/jfe/form/SV_bwQHMcfUq0rpHWC

QR code:

Our submission enquiry number is (852) 2840-3844.

Respondents are reminded that the Exchange will publish responses on a named basis in the intended consultation conclusions. If you do not wish your name to be disclosed to members of the public, please state so when responding to this paper. Our policy on handling personal data is set out in **Appendix IV**.

Submissions received during the consultation period by **14 July 2023** will be taken into account before the Exchange decides upon any appropriate further action, and a consultation conclusions paper which will be published in due course.

DISCLAIMER

DEFINITIONS

TERM	DEFINITION
"2020 Changes"	amendments to the ESG reporting framework that came into effect on 1 July 2020. Please refer to the consultation paper in May 2019 and the conclusions paper published in December 2019;
"Appendix 27" or "ESG Reporting Guide"	the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Main Board Listing Rules or Appendix 20 to the GEM Listing Rules;
"cross-industry metrics"	a set of climate-related metrics (set out in the exposure draft of the ISSB Climate Standard) which are relevant to companies regardless of industry, as summarised in paragraph 107 of this consultation paper;
"Effective Date"	1 January 2024;
"ESG"	environmental, social and governance;
"Exchange" or "we"	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited;
"GEM Listing Rules"	rules governing the listing of securities on GEM of The Stock Exchange of Hong Kong Limited;
"GRI Standards"	a set of interrelated sustainability reporting standards that enable organizations to report publicly on their economic, environmental and social impacts and contribution towards sustainable development developed by the Global Sustainability Standards Board of the GRI;
"HKEX"	Hong Kong Exchanges and Clearing Limited;
"Implementation Guidance"	implementation guidance to be issued by the Exchange together with the consultation conclusions;
"industry-based metrics"	a set of industry-based metrics (derived from the SASB Standards and set out in Appendix B of the exposure draft of the ISSB Climate Standard) which are relevant to companies operating in specific industry sectors;
"Interim Period"	an issuer's first and second reporting periods following the Effective Date;
"IFRS"	International Financial Reporting Standards;
"IOSCO"	the International Organisation of Securities Commissions, being an association of organisations that regulate the world's securities and futures markets;

"ISSB"	the International Sustainability Standards Board established by the IFRS Foundation in November 2021 for the development of the ISSB Standards;
"ISSB Climate Standard"	the IFRS S2 Climate-related Disclosures Exposure Draft, as supplemented or modified by deliberations of the ISSB available on https://www.ifrs.org/news-and-events/updates/issb;
"ISSB General Standard"	the IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information Exposure Draft, as supplemented or modified by deliberations of the ISSB available on https://www.ifrs.org/news-and-events/updates/issb;
"ISSB Standards"	comprehensive global baseline of sustainability-related disclosure standards issued or to be issued by the ISSB, which includes the ISSB Climate Standard and the ISSB General Standard;
"KPI"	key performance indicators;
"Listing Rules" or "Rules"	the Main Board Listing Rules and the GEM Listing Rules;
"Main Board Listing Rules"	rules governing the listing of securities on The Stock Exchange of Hong Kong Limited;
"Proposed Appendix 27"	Appendix 27 as revised by the proposals in this paper and set out in Part A of Appendix II hereto;
"SASB Standards"	a set of industry-based standards that guide the disclosure of financially material sustainability information by companies to their investors. Effective from 1 August 2022, the SASB Standards are under the oversight of the ISSB;
"SFC"	the Hong Kong Securities and Futures Commission;
"Steering Group"	the Green and Sustainable Finance Cross-Agency Steering Group established in May 2020 and co-chaired by the Hong Kong Monetary Authority and the SFC. Members include the Environment Bureau, the Financial Services and the Treasury Bureau, HKEX, the Insurance Authority and the Mandatory Provident Fund Schemes Authority. The Steering Group aims to co-ordinate the management of climate and environmental risks to the financial sector, accelerate the growth of green and sustainable finance in Hong Kong and support the Government's climate strategies;
"TCFD"	the Financial Stability Board's Task Force on Climate-related Financial Disclosures; and
"TCFD Recommendations"	the Recommendations of the Task Force on Climate-related Financial Disclosures issued by the TCFD in June 2017.

GLOSSARY OF TECHNICAL TERMS

TERM	MEANING
absolute target	A target defined by a change in absolute emissions over time, for example, reducing CO_2 emissions by 25% below 2020 levels by 2040.
business model	An issuer's system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the issuer's strategic purposes and create value over the short, medium and long term.
carbon credit	An emissions unit issued by a carbon crediting programme that represents an emission reduction or removal of a greenhouse gas emission. Carbon credits are uniquely serialised, issued, tracked and cancelled by means of an electronic registry.
climate resilience	The capacity of an issuer to adjust its strategy (including its business model) and operations to uncertainties related to climate change. This involves the capacity to manage **climate-related risks** and benefits from **climate-related opportunities**, including the ability to respond and adapt to **transition risks** and **physical risks**.
climate-related scenario analysis	Scenario analysis is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, climate-related scenario analysis allows an issuer to explore and develop an understanding of how the **physical risks** and **transition risks** of climate change may affect its businesses, strategies and financial performance over time.
climate-related risks	Climate-related risks refer to the potential negative effects of climate change on an issuer. **Physical risks** emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (for example, cyclones, droughts, floods and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (which could result in, for example, sea-level rise). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, changes in technology, market responses and reputational considerations.
climate-related opportunities	Climate-related opportunities refer to the potentially positive climate-change generated outcomes for an issuer. Global efforts to mitigate and adapt to climate change can produce climate-related opportunities for issuers. For example, a power generating company could increase its revenue due to a growing demand for cooling (achieved by using electricity) in regions that experience more heatwaves. Climate-related opportunities will vary depending on the region, market and industry in which an issuer operates.

TERM	MEANING
CO_2 equivalent	The universal unit of measurement to show the global warming potential of each of the seven **greenhouse gases**, expressed in terms of the global warming potential of one unit of carbon dioxide for 100 years. This unit is used to evaluate releasing (or avoiding releasing) any **greenhouse gas** against a common basis.
greenhouse gases / GHG	The seven greenhouse gases listed in the Kyoto Protocol–carbon dioxide (CO_2); methane (CH_4); nitrous oxide (N_2O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF_3); perfluorocarbons (PFCs); and sulphur hexafluoride (SF_6).
GHG Protocol	The GHG Protocol Initiative is a multi-stakeholder partnership of businesses, non-governmental organisations (NGOs), governments, and others convened by the World Resources Institute, a US-based environmental NGO, and the World Business Council for Sustainable Development, a Geneva-based coalition of 170 international companies. Launched in 1998, the initiative's mission is to develop internationally accepted **greenhouse gas** accounting and reporting standards for business and to promote their broad adoption. The GHG Protocol includes: (1) The GHG Protocol Corporate Accounting and Reporting Standard; and (2) The Corporate Value Chain (Scope 3) Accounting and Reporting Standard.
intensity target	A target defined by a change in the ratio of emissions to a business metric over time, for example, reduce CO_2 per tonne of cement by 12% by 2030.
internal carbon price	Price used by issuers to assess the financial implications of changes to investment, production and consumption patterns, as well as potential technological progress and future emissions-abatement costs. Issuers' internal carbon prices can be used for a range of business applications. There are two types of internal carbon prices commonly used by issuers. The first type is a shadow price, which is a theoretical cost or notional amount that the issuer does not charge but that can be used in assessing the economic implications or trade-offs for such things as risk impacts, new investments, net present value of projects, and the cost-benefit of various initiatives. The second type is an internal tax or fee, which is a carbon price charged to a business activity, product line, or other business unit based on its **greenhouse gas** emissions (these internal taxes or fees are similar to intracompany transfer pricing).

TERM	MEANING
physical risks	Risks resulting from climate change that can be event-driven (acute) or from longer-term shifts (chronic) in climate patterns. These risks may carry financial implications for issuers, such as direct damage to assets, and indirect effects of supply-chain disruption. Issuers' financial performance may also be affected by changes in water availability, sourcing and quality; and extreme temperature changes affecting issuers' premises, operations, supply chain, transportation needs and employee safety.
scope 1 emissions	Direct **greenhouse gas** emissions that occur from sources that are owned or controlled by an issuer, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles or emissions from chemical production in owned or controlled process equipment.
scope 2 emissions	Indirect **greenhouse gas** emissions that occur from the generation of purchased electricity, heat or steam consumed by an issuer. Purchased electricity is defined as electricity that is purchased or otherwise brought into an issuer's boundary. Scope 2 emissions physically occur at the facility where electricity is generated.
scope 3 emissions	Indirect emissions outside of **scope 2 emissions** that occur in the **value chain** of the issuer, including both upstream and downstream emissions. Scope 3 emissions include these categories (consistent with the GHG Protocol): (1) purchased goods and services; (2) capital goods; (3) fuel- and energy-related activities not included in **scope 1 emissions** or **scope 2 emissions**; (4) upstream transportation and distribution; (5) waste generated in operations; (6) business travel; (7) employee commuting; (8) upstream leased assets; (9) downstream transportation and distribution; (10) processing of sold products; (11) use of sold products; (12) end-of-life treatment of sold products; (13) downstream leased assets;

TERM	MEANING
	(14) franchises; and (15) investments. Scope 3 emissions could include: the extraction and production of purchased materials and fuels; transport-related activities in vehicles not owned or controlled by the issuer; electricity-related activity (for example, transmission and distribution losses), outsourced activities, and waste disposal.
transition plan	An aspect of an issuer's overall strategy that lays out the issuer's targets and actions to mitigate or adapt to climate-related risks or maximise climate-related opportunities for its transition towards a lower-carbon economy, including actions such as reducing its **greenhouse gas emissions**.
transition risks	Moving to a lower-carbon economy may entail extensive policy, legal, technology and market changes to address mitigation and adaptation requirements relating to climate change. Depending on the nature, speed and focus of these changes, transition risks may pose varying levels of financial and reputational risk to issuers.
value chain	The full range of activities, resources and relationships related to an issuer's **business model** and the external environment in which it operates. A value chain encompasses the activities, resources and relationships an issuer uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include those in the issuer's operations, such as human resource; those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the issuer operates.

EXECUTIVE SUMMARY

Background

1. This consultation paper seeks views and comments on proposed changes to our ESG reporting framework, which is predominantly set out in the ESG Reporting Guide, to enhance climate-related disclosures made by listed issuers.

2. The Hong Kong government has set a carbon neutrality target by 2050. The government has further launched the Climate Action Plan, which outlines relevant initiatives to reduce carbon emissions for a smooth transition to a low-carbon, climate-resilient economy. For the financial sector, the Steering Group has announced a goal to implement mandatory climate-related disclosures aligned with TCFD by 2025[1].

3. In Hong Kong, we observed a fourfold increase in the amount of green and sustainable debt and sustainability-linked loans issued in 2021 compared to those of 2020[2]. More and more investors are engaged in green investments, resulting in an increasing demand for quality sustainability and climate-related disclosures from companies. On the other hand, sustainability and resilient businesses go hand in hand. Having ESG and net-zero principles integrated into business strategy only makes a company more agile and better prepared to deal with risks and uncertainties.

4. As a frontline regulator of more than 2,600 listed companies, the Exchange plays a vital role in ensuring that investors' information needs are met, while at the same time driving the ESG and sustainability agenda amongst our listed issuers through listing regulation, advocacy and education.

5. In view of increasing investors' demand for high quality, transparent, consistent and comparable reporting by companies on climate and other ESG matters, the ISSB published the exposure drafts of ISSB Climate Standard and ISSB General Standard in March 2022 to seek market feedback on the proposed global baseline of sustainability-related disclosure standards. Subsequently, the ISSB held a number of meetings to consider feedback received and made deliberations on the disclosure requirements, all of which are publicly available on the ISSB's website. The last ISSB deliberation meeting was held in April 2023, and the ISSB has been working towards issuing the final standards by the end of the second quarter of 2023.

6. To maintain Hong Kong's competitiveness as an international financial centre and to further strengthen our position as a trusted venue for capital raising, we conducted a comprehensive review of our ESG framework to ensure that it continues to keep pace with international developments, continues to reflect stakeholders' expectations and facilitate capital allocation towards a more sustainable future. The proposals in this consultation paper reflect our commitment in promoting sustainability by preparing our issuers to get ready for the climate-related reporting requirements based on the ISSB Climate Standard.

7. In reviewing our ESG framework, we have taken into account observations from our review of issuers' ESG practices, as well as views expressed by issuers, market practitioners and industry groups including those representing investors[3]. We have also referenced recent significant international regulatory developments on climate reporting.

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[1] See paragraph 21 below.
[2] See Financial Services Development Council, The State of ESG in Hong Kong, December 2022.
[3] See Chapter 1, under "Current Reporting Level".

Key Proposals

8. We propose to mandate all issuers to make climate-related disclosures in their ESG reports (i.e. upgrade from current "comply or explain"). New climate-related disclosures based on the ISSB Climate Standard will be introduced as a new Part D of Appendix 27. Consequential amendments will also be made to Appendix 27 to reflect the adoption of the new Part D[4]. Acknowledging the readiness of our issuers and the concerns expressed by issuers and market practitioners, we propose interim provisions for certain disclosures during the Interim Period.

9. The new climate-related disclosures will be categorised under four core pillars, namely Governance, Strategy, Risk management and Metrics and targets. A summary of our key proposals is set out in the table below:

Proposed disclosures		Interim provision for the Interim Period?
Governance		
(a)	Disclose the issuer's governance process, controls and procedures used to monitor and manage climate-related risks and opportunities; *(see paragraphs 45 to 49 below)*	NA
Strategy		
(b)	Climate-related risks and opportunities Disclose climate-related risks and, where applicable, opportunities faced by the issuer and their impact on the issuer's business operations, business model and strategy; *(see paragraphs 50 to 60 below)*	NA
(c)	Transition plans Disclose issuer's response to the climate-related risks and, where applicable, opportunities identified in (b) above, including: (i) any changes to the issuer's business model and strategy, and any adaptation and mitigation efforts undertaken to address such risks and opportunities; and (ii) any climate-related targets the issuer has set for transition plans, and any GHG emission targets the issuer is required to meet by local legislation; *(see paragraphs 61 to 80 below)*	NA

[4] See Chapter 2, under "Consequential amendments to Appendix 27".

(d)	Climate resilience Disclose the resilience of the issuer's strategy (including its business model) and operations to climate-related changes, developments or uncertainties, which shall be assessed using a method of climate-related scenario analysis that is commensurate with the issuer's circumstances; *(see paragraphs 81 to 91 below)*	NA
(e)	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 the issuer's financial position, financial performance and cash flows; *(see paragraphs 92 to 100 below)*	Yes ***Current financial effect:*** allow qualitative disclosures ***Anticipated financial effect:*** (i) information that enables investors to understand the aspects of financial statements that are most affected; and (ii) work plan, progress and timetable for full disclosure.
Risk Management		
(f)	Disclose the process the issuer used to identify, assess and manage climate-related risks and, where applicable, opportunities; *(see paragraphs 101 to 104 below)*	NA
Metrics and Targets		
(g)	GHG emissions Disclose scope 1, scope 2 and scope 3 emissions; *(see paragraphs 111 to 119 below)*	Yes ***Scope 3 emissions:*** (i) information that enable investors to understand the issuer's relevant upstream or downstream activities along the value chain; and (ii) work plan, progress and timetable for full disclosure.

(h)	<u>Other cross-industry metrics</u> Disclose cross-industry metrics such as the 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 climate-related risks and opportunities; *(see paragraphs 120 to 127 below)*	Yes (i) describe the assets or business activities vulnerable to or aligned with such risks or opportunities, or that require capital expenditure; and (ii) work plan, progress and timetable for full disclosure.
(i)	<u>Internal carbon price</u> For issuers who maintain an internal carbon price, disclose the internal carbon price and explain how it is applied in the issuer's decision-making; *(see paragraphs 128 to 131 below)*	NA
(j)	<u>Remuneration</u> Disclose how climate-related considerations are factored into remuneration policy; *(see paragraphs 132 to 135 below)*	NA
(k)	<u>Industry-based metrics</u> Consider industry-based disclosure requirements prescribed under international ESG reporting frameworks and make disclosures as the issuer sees fit. *(see paragraphs 136 to 137 below)*	NA

Going Forward

10. Subject to responses to this consultation, the revised Listing Rules and Appendix 27 will come into effect on 1 January 2024 and apply to ESG reports in respect of financial years commencing on or after the Effective Date.

11. We aim to keep up with international developments. At the same time, we need to take into account the particular circumstances of the Hong Kong market when formulating our ESG reporting framework, bearing in mind that our listed issuers are operating in different and/or multiple geographical locations of varying sizes and from diverse industry sectors, and have varying levels of sophistication in terms of ESG matters.

12. Recognising that certain disclosure requirements (e.g. scope 3 emissions and current and anticipated financial effects) may require more time and work to comply with, interim

provisions are provided on these requirements for issuers' ESG reports covering the first two reporting years following the Effective Date (i.e. the Interim Period). Issuers are expected to be in full compliance with all the new climate-related disclosures in respect of financial years commencing on or after 1 January 2026 (i.e. the first ESG reports fully compliant with the new Rules will be produced in 2027). It is important that issuers should start reviewing their internal procedures and put in place any measures necessary for complying with the enhanced requirements.

13. IPO applicants are expected to disclose material ESG risks and information in their prospectuses[5], and have mechanisms in place that enable them to meet the Exchange's ESG requirements upon listing. IPO applicants should therefore be mindful of the new climate-related disclosure requirements and commence necessary preparatory work to ensure compliance after listing once the new Rules take effect.

14. To assist issuers in understanding and complying with the new requirements, we will issue Implementation Guidance together with the consultation conclusions to: (a) set out principles, guidelines and illustrative examples for the implementation of the new Rules; (b) refer issuers to external frameworks, tools and guidelines helpful for disclosures; and (c) set out a glossary of technical terms/acronyms commonly used in international ESG reporting frameworks (such as the ISSB Climate Standard). Going forward, we will continue to monitor issuers' compliance and provide further guidance or training as appropriate. Issuers are also encouraged to visit our ESG educational platform, ESG Academy, for guidance materials, e-learning, webinars and other resources to explore the trends that define the future of ESG and to develop a roadmap to integrate ESG considerations into their business strategies.

Latest ISSB developments

15. In January 2023, the ISSB indicated its plan to publish the final ISSB Standards towards the end of the second quarter of 2023. While this paper invites comments on proposals formulated with reference to the ISSB Climate Standard exposure draft published in March 2022 and subsequent ISSB deliberations up to April 2023, we will continue to monitor developments and take into account the final ISSB Climate Standard to be published by the ISSB when finalising the Listing Rule amendments.

16. We are publishing this consultation paper ahead of the finalisation of the ISSB Standards because issuers, in order to provide meaningful responses to proposals in this paper, may need more time to review their internal systems and coordinate among different divisions to identify information gaps and assess their readiness in complying with the proposed climate-related disclosures. This will also give issuers more time to get familiar with the concepts and climate-related reporting requirements.

17. The consultation period for this paper will be three months, so respondents will have (i) the opportunity to consider the final ISSB Climate Standard expected to be published by ISSB by mid-2023; and (ii) more time for internal coordination and assessment of the proposals in this paper.

18. The proposed amendments apply to both the Main Board Listing Rules and the GEM Listing Rules, and are set out in **Appendix II**.

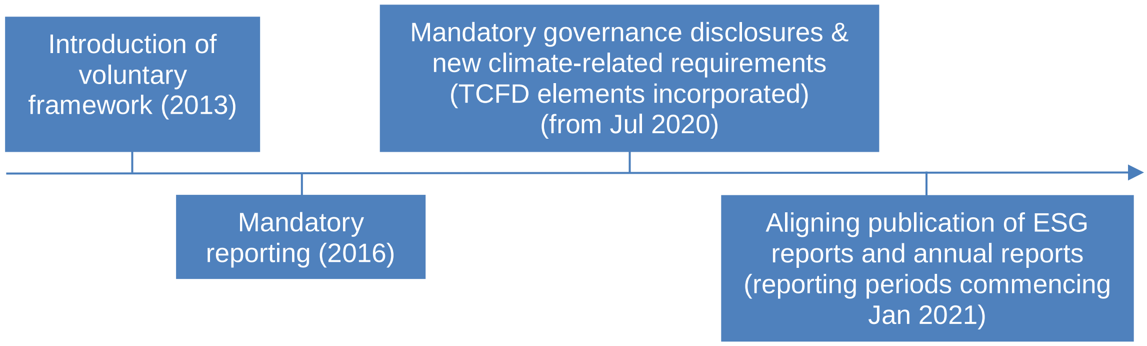
[5] See Guidance letter 86-16.

CHAPTER 1: OVERVIEW

Background

Introduction

19. As the frontline market regulator, we are committed to creating a sustainable regulatory framework by advocating for and introducing robust ESG standards and regulations. Since the introduction of Appendix 27 in 2013, we have made enhancements to our ESG reporting framework over the years to ensure that our requirements remain fit for purpose and reflect stakeholders' expectations.



20. In July 2020, we introduced new requirements to our ESG reporting framework to incorporate key elements of the TCFD Recommendations (**2020 Changes**). The 2020 Changes focus on board governance and oversight of ESG issues, considering and addressing significant climate-related issues as well as disclosure of targets[6].

21. In December 2020, the Steering Group announced that climate-related disclosures aligned with the TCFD Recommendations will be mandatory across relevant sectors no later than 2025.

22. With a view to encourage and facilitate our issuers in making TCFD-aligned disclosures, we published the Guidance on Climate Disclosures in November 2021. The guidance aims to help companies assess their response to risks arising from climate change, and provide practical tips to assist issuers in preparing TCFD-aligned climate change reporting. We also held webinars in November 2021 and November 2022, where industry experts shared insights on the transition to low-carbon economy and decarbonisation along the value chain, and collaborated with the United Nations Sustainable Stock Exchanges Initiative and other partners to organise e-training sessions on TCFD reporting.

23. In November 2021, the IFRS Foundation announced the formation of the new ISSB for the development of the ISSB Standards, adopting a "climate-first" approach. We, as a member of the Steering Group, support the establishment of ISSB for developing globally accepted sustainability reporting standards. A joint working group with the SFC has been formed for the formulation and implementation of proposals to enhance climate-related disclosures, which are set out in this consultation.

[6] Please refer to the consultation paper in May 2019 and the conclusions paper published in December 2019.

ISSB consultation

24. In March 2022, the IFRS Foundation published exposure drafts of the ISSB General Standard and the ISSB Climate Standard, which form the basis for globally-accepted sustainability-related reporting standards. The consultation period ended in July 2022. Subsequently, the ISSB held a number of meetings to consider feedback received and made deliberations on the disclosure requirements, all of which are publicly available on the ISSB's website. The last ISSB deliberation meeting was held in April 2023, and the ISSB has been working towards issuing the final standards by the end of the second quarter of 2023.

Purpose of our consultation

25. The current review is a continuation of our journey to enhance climate-related disclosures and ensure that our ESG framework reflects international developments (i.e. the TCFD Recommendations and the ISSB Climate Standard), meets investors' information needs and maintains Hong Kong's competitiveness as an international finance centre. It also demonstrates our commitment to drive ESG and sustainability agenda amongst our listed issuers, while taking into account the state-of-readiness and capabilities of Hong Kong listed issuers.

Current reporting level

26. In mid-May 2022, we engaged with professional bodies/associations and listed issuers from different industries and of different market sizes to gauge their views on the implementation of the ISSB Climate Standard and understand the market's climate reporting readiness (including any challenges that they may face).

27. We also sample reviewed 400 issuers' ESG disclosure for the 2020/2021 financial year (**2022 ESG Analysis**) to gauge their compliance with the 2020 Changes[7]. We are pleased that over 85% of sample issuers have chosen to make disclosures of all new climate-related disclosures[8], which reflected issuers' increasing awareness in managing climate-related risks. It was also encouraging to see that some sample issuers have started to report on scope 3 emissions, albeit on a limited basis[9], and to make disclosures on their climate resilience.

28. We are pleased that parties engaged generally understood and agreed with our direction to move towards enhanced climate-related disclosures in line with international practices, which reinforced our commitment to enhance climate-related disclosures based on the ISSB Climate Standard.

29. However, we are also aware that most listed issuers have just started to embark on their climate-related disclosure journey with reference to the TCFD Recommendations. Many of them shared concerns on practical difficulties in implementing the ISSB Climate Standard, such as:

    (a) data unavailability (especially in respect of scope 3 emissions and scenario analysis);

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[7] See 2022 Analysis of ESG Practice Disclosure.

[8] These included the consideration of significant climate-related risks and mitigation measures; setting of certain environmental targets; and reporting on scope 1 and scope 2 emissions.

[9] As scope 3 emissions concern all the indirect emissions that occur in the company's value chain, the GHG Protocol categorises such activities into 15 reporting categories to facilitate the measurement and management of such emissions. The most common category being reported on is "Business Travel", which is relatively easier as the data may be available internally.

(b) the absence of standardised methodology in conducting scenario analysis or quantification of financial impacts; and

(c) lack of (both internal and external) technical knowledge and expertise.

30. Both the 2022 ESG Analysis and our engagement with stakeholders enabled us to gain insights as to how our issuers are doing in their sustainability journey, and the challenges they face. We have placed due weight on these findings when formulating proposals set out in this consultation paper.

Developments in International Practice

31. There has been a notable acceleration in the number of countries that promulgate laws and introduce regulations on ESG reporting, many adopting a combination of laws, listing rules, "comply or explain" and/or voluntary guidelines. We have also observed an international trend towards adopting a higher level of reporting obligation (i.e. "comply or explain" and/or mandatory).

32. Please refer to Appendix I for a summary of our understanding of the practice in the People's Republic of China (**PRC**), the European Union, the United States (**US**), New Zealand, the United Kingdom, Canada, Singapore and Australia, where there have been new developments in this area.

CHAPTER 2: PROPOSALS AND CONSULTATION QUESTIONS

Our Approach

33. Our proposals aim to enhance climate-related disclosures under our ESG framework to facilitate a smooth transition to mandatory climate-related disclosures consistent with the ISSB Climate Standard.

34. Appendix 27 was introduced in 2013 as a simple, easy-to-use and voluntary guide that complements international disclosure guidelines and is a first step towards Hong Kong issuers adopting best practices. Since then, Appendix 27 has been modified and upgraded on several occasions, and now contains two levels of reporting requirements: mandatory disclosure requirements and "comply or explain" provisions. The "comply or explain" provisions now cover four Aspects under the "Environmental" subject area[10] and eight Aspects under the "Social" subject area[11].

35. Appendix 27 also prescribes general requirements and reporting principles regarding the presentation and relevance of information contained in an ESG report, consistent with the general features for reporting of sustainability-related financial information under the ISSB General Standard[12].

36. The ISSB Climate Standard was developed based on the four core pillars of the TCFD Recommendations, namely, Governance, Strategy, Risk Management, and Metrics and Targets.

37. As issuers have already become familiar with the reporting framework under Appendix 27, we considered how best to integrate the ISSB Climate Standard into our existing ESG reporting framework.

38. Following the structure of the TCFD Recommendations and the ISSB Climate Standard, our proposed climate requirements are organised under four pillars as follows:

    (a) <u>Governance:</u> see paragraphs 45 to 49;

    (b) <u>Strategy:</u> see paragraphs 50 to 100

        I. Climate-related risks and opportunities: see paragraphs 53 to 60;

        II. Transition plans: see paragraphs 61 to 80;

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[10] Namely, Emissions, Use of Resources, The Environment and Natural Resources and Climate Change.
[11] Namely, Employment, Health and Safety, Development and Training, Labour Standards, Supply Chain Management, Product Responsibility, Anti-corruption and Community Investment.
[12] For example:
- presentation: paras. 11(iii) and 14 (consistency) of Appendix 27 align with paras. 45 – 49 of the ISSB General Standard;
- frequency and location of reporting: paras. 4 and 12 of Appendix 27 align with paras. 66 – 78 of the ISSB General Standard;
- disclosure of reporting boundary: para. 15 of Appendix 27 aligns with paras. 37 – 40 of the ISSB General Standard; and
- comparative information: para. 11(ii) of Appendix 27 aligns with para. 63 of the ISSB General Standard, implementation guidance will be given on the disclosure of comparative information for metrics and climate-related financial disclosures.

III. Climate resilience: see paragraphs 81 to 91; and

IV. Financial effects of climate-related risks and opportunities: see paragraphs 92 to 100;

(c) Risk Management: see paragraph 101 to 104; and

(d) Metrics and Targets: see paragraphs 105 to 137

I. GHG emissions: see paragraphs 111 to 119;

II. Other cross-industry metrics: see paragraphs 120 to 135; and

III. Industry-based metrics: see paragraphs 136 to 137.

Mandating climate-related disclosures

Current requirements

39. Appendix 27 has already incorporated certain elements of the TCFD Recommendations, where issuers are required to disclose a board statement regarding the board's governance and oversight of ESG issues[13].

40. There are also requirements to disclose certain climate-related information on a "comply or explain" basis, such as information on policies to identify and mitigate significant climate-related issues, a description of significant climate-related issues and the actions taken to manage them, as well as certain environmental targets.

ISSB Climate Standard requirements

41. The ISSB Climate Standard builds on the recommendations under the TCFD framework and prescribes detailed mandatory climate-related disclosure requirements.

Discussion and proposal

42. Following the Steering Group's announcement[14], the market expects TCFD-aligned climate-related disclosures to be mandatory by 2025. A vast majority of our issuers also acknowledges the importance of climate-related risks and supports the direction of travel to require climate-related disclosures.

43. To keep pace with international developments, we propose to upgrade climate-related disclosures to mandatory from "comply or explain".

Consultation question

Question 1 Do you agree to upgrade climate-related disclosures to mandatory from "comply or explain"? Please provide reasons for your views.

44. The ISSB Standards, which are built on the TCFD Recommendations, are expected to become the global baseline for sustainability-related disclosures. Accordingly, we will enhance our climate-related disclosures by introducing requirements based on the ISSB

[13] See paragraph 13 of Appendix 27.
[14] See paragraph 21.

Climate Standard under a new Part D headed "Climate-related disclosures" of Appendix 27, details of which are set out in this chapter below.

(A) Governance

Current requirements

45. Issuers are required to disclose the board's oversight and governance of ESG issues, the board's ESG management approach and strategy, and how the board reviews progress made against ESG-related goals and targets[15].

ISSB Climate Standard requirements

46. The ISSB Climate Standard[16] requires more detailed disclosures on the governance processes, controls and procedures used to monitor and manage climate-related issues. This envisages disclosure on, including but not limited to:

    (a) identity of the governance body;

    (b) process and frequency by which climate-related issues are discussed;

    (c) how the governance body ensures that appropriate skills and competencies are available to oversee strategies designed in response to climate-related issues;

    (d) how performance metrics are included in remuneration policies; and

    (e) how climate-related risks and opportunities are considered when overseeing a company's strategy, decisions on major transactions and risks management policies.

47. Companies are further required to disclose management's role in the management of climate-related risks and opportunities, for instance, whether such role is delegated to a position or a committee, whether dedicated controls and procedures are put in place to manage climate-related risks and opportunities, and how they are integrated with other internal functions.

Discussion and proposal

48. The board has a leadership role in driving sustainability practices and incorporating sustainability into strategic planning to empower management's actions. Investors and stakeholders are keen to know the board's role in overseeing climate-related risks and opportunities, as well as management's role in assessing and managing climate-related risks and opportunities. Such information allows investors and stakeholders to evaluate whether significant climate-related risks and opportunities has received appropriate board and management attention.

    Proposed disclosure

49. In the 2022 ESG Analysis, we observed that following the introduction of mandatory ESG governance disclosures, a vast majority of issuers have disclosed their boards' oversight of and management approach on ESG issues. As a natural extension of our existing governance requirements, we propose to incorporate "Governance" requirements under the ISSB Climate Standard by introducing new "Governance"

[15] Paragraph 13 of Appendix 27.
[16] Paragraph 5 of the ISSB Climate Standard.

disclosures for climate-related issues. Please refer to paragraph 1 of Part D of the Proposed Appendix 27 for the proposed Rule amendments. We will also provide guidance on the disclosure of the board's and management's role in assessing and managing climate-related risks and opportunities in the Implementation Guidance. For the avoidance of doubt, existing ESG governance disclosures[17] will remain in place in respect of all ESG matters.

Consultation question

Question 2 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.

(B) Strategy

Current requirements

50. Issuers are required to disclose the board's ESG management approach and strategy in managing ESG issues[18] and to describe the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them[19].

51. Compared with Appendix 27, the "Strategy" pillar under the ISSB Climate Standard requires more detailed disclosure on the actual and potential impacts of climate-related risks and opportunities on the issuer's business, strategy and financial planning. Following the ISSB Climate Standard, we have categorised our proposed "Strategy" disclosures under the following sub-headings:

    I. Climate-related risks and opportunities;

    II. Transition plans;

    III. Climate resilience; and

    IV. Financial effects of climate-related risks and opportunities.

52. Please refer to the paragraphs below for discussion of the ISSB Climate Standard requirements under each sub-heading, and our corresponding proposals.

I. <u>Climate-related risks and opportunities</u>

ISSB Climate Standard requirements

53. The ISSB Climate Standard[20] requires disclosure of significant climate-related risks and opportunities that a company reasonably expects could affect its business model, strategy and cash flows, its access to finance and cost of capital, over the short, medium or long term. This envisages disclosure of:

[17] Paragraph 13 of Appendix 27.
[18] Paragraph 13 of Appendix 27.
[19] KPI A4.1 of Appendix 27.
[20] Paragraphs 8 and 9 of the ISSB Climate Standard.

(a) a description of the risks and opportunities faced by the company, including whether they are physical or transition, acute or chronic risks;

(b) the impact of such risks or opportunities on the company's business model, strategy and cash flows, access to finance and cost of capital. This may include a description of the current and anticipated effects of significant climate-related risks and opportunities on its value chain;

(c) the time horizon over which such risks or opportunities could be expected to affect the company (e.g. short, medium or long term);

(d) how the company defines short, medium or long term, and how these definitions are linked to its strategic planning horizons and capital allocation plans; and

(e) the part of value chain that significant climate-related risks and opportunities are concentrated (for example, geographical areas, facilities or types of assets, inputs, outputs or distribution channels).

54. ISSB also calls upon companies to refer to and consider the applicability of cross-industry metrics[21] (see paragraphs 107 to 109 below) and industry-based metrics[22] (see paragraph 110 below) set out in the ISSB Climate Standard when preparing disclosures.

Discussion and proposals

<u>Climate-related risks</u>

55. Depending on the industry sector and location of operations of an issuer, climate-related risks faced by different issuers can be very different. It is important for an issuer to identify the material climate-related risks it faces, and their known or expected effect on the issuer's business model, strategy and cashflows, its access to finance and its cost of capital.

56. For example, a construction company may disclose the physical risk of increased heat waves which may affect the ability of its workers to safely work outdoors, resulting in a delay of construction works, and a reduction of its current or future earnings. On the other hand, an automobile manufacturer may describe how market factors (i.e. transition risks), such as changing consumer and investor preferences for low-emission vehicles, have affected or will likely affect its production choices, operational capabilities, and future expenditures.

57. The above examples demonstrate how the effects of climate-related risks may be immediate or may manifest over a long period of time. It is therefore important for issuers to disclose the time horizon over which the risks would have a material effect on the issuer, and how it defines short, medium and long term. Disclosures made should also be specific as far as possible, such as identifying the location of assets and the exact part of business operations affected, so that investors and stakeholders can make their own risk assessment for investment or voting decision-making.

<u>Climate-related opportunities</u>

58. Besides risks, changes in climate conditions and the transition to a lower carbon economy may also present opportunities for companies. Efforts to mitigate or adapt to

[21] Paragraph 11 of the ISSB Climate Standard.
[22] Paragraph 10 of the ISSB Climate Standard.

climate-related effects and events can produce opportunities, such as cost-savings associated with the increased use of renewable energy, enhanced resource efficiency, the development of new products and services, as well as access to new markets caused by the transition to a lower carbon economy. We, however, do recognise that not all issuers would have identified climate-related opportunities to pursue at this stage.

Proposed disclosure

59. In light of the above, we propose to substantially incorporate relevant ISSB Climate Standard requirements into Appendix 27, save that issuers may opt to disclose the actual and potential effects of any climate-related opportunities they may have identified in response to climate-related risks disclosed under the proposed provisions. In preparing such disclosures, issuers shall consider the applicability of the cross-industry metrics and industry-based metrics as discussed in Section (D) headed "Metrics and targets" below. In addition, issuers may also explain the connections between these climate-related risks and opportunities and disclosures in other sections of their annual reports (e.g. management discussions and analysis, financial statements or its notes).

60. Please refer to paragraphs 2 to 4 of Part D of the Proposed Appendix 27 for the proposed Rule amendments.

Consultation questions

Question 3 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.

Question 4 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.

Question 5 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.

II. <u>Transition plans</u>

ISSB Climate Standard requirements

61. The ISSB Climate Standard requires disclosure of a company's transition plans to a lower carbon economy. This envisages disclosure on (a) how a company responds to significant climate-related risks and opportunities; (b) climate-related targets set for these plans; and (c) progress made in respect of plans disclosed in previous reporting periods.

Issuer's response to significant climate-related risks and opportunities

62. The ISSB Climate Standard[23] requires disclosure of any current or anticipated changes to a company's business model, including changes to its strategy and resource allocation to address significant climate-related risks and opportunities.

63. Examples of changes to strategy and resource allocation include resource allocation resulting from demand or supply changes, resource allocation arising from development of new business lines through capital expenditure or additional research and development expenditure, and acquisitions and divestments. This could also include plans and critical assumptions for legacy assets[24], such as strategies to manage carbon-intensive operations or to decommission carbon-intensive assets.

64. Examples of direct adaptation and mitigation efforts include changes in production processes, workforce adjustments, changes in materials used or through introduction of efficiency measures; whereas examples of indirect adaption and mitigation efforts include engaging and educating customers and supply chains.

Climate-related targets

65. The ISSB Climate Standard[25] requires disclosure of any climate-related targets an issuer has set for its plans to transition to a lower carbon economy, any emission targets it is required to meet by local legislation, as well as the process in place for review of such targets. Where targets have been set, the specific target, together with the scope of the target[26], period over which the target applies, base period from which progress is measured, and any milestones or interim targets should be disclosed.

66. Where a company sets GHG emission reduction targets and intends to use carbon credits in achieving such targets, it should disclose the extent to which such targets intend to rely on the use of carbon credits, the type of carbon credit used and whether carbon credits used are subject to any third-party verification or certification scheme. It should also disclose its net emission targets separately from gross emission targets.

Progress of transition plans

67. The ISSB Climate Standard[27] requires disclosure of quantitative and qualitative information about the progress of plans disclosed in prior reporting periods. This would include disclosure of metrics used by the board or management to measure progress towards the climate-related targets set.

Discussion and proposals

68. A transition plan is an aspect of a company's overall business strategy that outlines its targets and action plans to support its transition towards a lower carbon, and eventually a net zero economy.

[23] Paragraph 13(a) of the ISSB Climate Standard.
[24] An asset that has remained on an issuer's statement of financial position for a long period of time and has since become obsolete or has lost nearly all of its initial value.
[25] Paragraphs 13(b) and 23 of the ISSB Climate Standard and ISSB decisions (Oct 2022 and Nov 2022).
[26] For example, whether the target applies to the entire entity or to only a specific business unit or geographic region).
[27] Paragraph 13(c) of the ISSB Climate Standard.

Issuer's response to climate-related risks and opportunities

69. A company's response to climate-related risks is typically aligned with its mitigation or adaptation actions to such risks, as well as its overall business strategy to transit to a lower-carbon economy. Adequate details of the company's resource allocation plans, mitigation and adaptive actions etc., enable investors and stakeholders to understand the efforts undertaken by the company to reduce risks and increase opportunities, and the expected outcome of such efforts. Likewise, where a company has identified climate-related opportunities, the company may also disclose details of its plans (e.g. timeline, proposed investment amount) to pursue such opportunities. Investors and stakeholders may make use of such information to assess the credibility and feasibility of the company's climate change commitments, which may in turn affect their evaluation of the company.

Proposed disclosure

70. We intend to substantially incorporate relevant ISSB Climate Standard requirements into Appendix 27, save that it would not be mandatory for issuers to disclose how they are responding to climate-related opportunities (i.e. an issuer may choose whether to make such disclosures). Please refer to paragraph 5 of Part D of the Proposed Appendix 27 for the proposed Rule amendments.

Consultation question

Question 6 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.

Setting climate-related targets

71. Setting of climate-related targets allows a company to visualise its goal, while at the same time allows the company and its investors to monitor its progress in implementing its transition plans. Companies should be allowed to set and disclose such climate-related targets as they consider appropriate and useful to monitor the progress of their decarbonisation journey. Companies from certain industry sectors or operating in certain jurisdictions may be required by local legislation to meet emission targets. In such circumstances, investors and stakeholders should be informed of such statutory targets, so that they may monitor the company's progress in complying with the relevant statutory requirements.

72. Information on targets required by the ISSB Climate Standard is in line with commonly accepted practices (TCFD's fundamental principles for effective disclosure[28]) and ensures that targets set can be effective and consistent.

Use of carbon credits in respect of GHG emission targets

73. While reducing emissions and decarbonising remain the best ways to reduce GHG emissions, companies may also account for their unavoidable GHG emissions by buying

[28] See TCFD, Final Report – Recommendations of the Task Force on Climate-related Financial Disclosures, page 51-53.

carbon credits (i.e. emission reductions from climate projects that remove[29] or avoid[30] GHG emissions) to compensate for their own emissions.

74. Understanding the role that carbon credits play in a company's transition plan can help investors gain a better understanding about the company's strategy, including the financial implications. For example, a company planning to use carbon credits as a primary means of achieving their GHG emission targets may incur lower expenses in the short term, but could expect to continue to incur the expense of purchasing credits in the long term. In the event that the cost of carbon credits increases due to an increase in demand in the future, the company may also bear the risk of increased costs over time.

75. To avoid greenwashing, it is important to ensure that any carbon credits used are measurable, verifiable and credible. Where carbon credits are used, companies should disclose information regarding its intended use of carbon credits, its gross emission targets and its net emission targets separately, and whether such carbon credits are subject to a third party verification or certification scheme.

Proposed disclosure

76. We propose to substantially incorporate relevant ISSB Climate Standard requirements into Appendix 27 and require disclosure of any climate-related targets an issuer has set and any GHG emission targets it is required to meet by local legislation. Where carbon credits are intended to be applied towards GHG emission targets, the issuer should disclose information regarding such intended use, its gross GHG emission targets and its net GHG emission targets separately. Please refer to paragraph 6 of Part D of the Proposed Appendix 27 for the proposed Rule amendments. We will provide further guidance regarding the setting of climate-related targets and carbon credits in the Implementation Guidance. For the avoidance of doubt, climate-related targets may or may not be those set out in Part B of Appendix 27[31], and issuers are still required to disclose targets pursuant to KPIs A1.5, A1.6, A2.3 and A2.4 on a "comply or explain" basis.

77. As our issuers are at different stages of their sustainability journey, we recognise that some may require more time to determine meaningful and achievable climate-related targets. We therefore propose to include a note to provide that, where an issuer does not provide the required information in relation to targets, it should disclose the work plan, progress and timetable for setting and disclosing climate-related targets instead.

78. The alternative disclosure serves to ensure that while issuers may not have set climate-related targets for the current reporting year, the setting of climate-related targets would continue to be on issuers' sustainability agenda and be revisited by the management periodically. Please refer to note 2 to paragraph 6 of Part D of the Proposed Appendix 27 for the proposed Rule amendments.

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[29] Carbon removal projects are projects that remove carbon from the atmosphere. An example would be tree planting which sequesters carbon as the trees grow.

[30] Carbon avoidance projects contribute to climate action by preventing carbon that would have been released into the atmosphere. Examples include building a wind farm to lower reliance on fossil fuels, repairing boreholes to replace the need for purifying water by boiling it on open fires and preventing deforestation.

[31] i.e. KPIs A1.5 (emission targets), A1.6 (waste reduction targets), A2.3 (energy use efficiency targets) and A2.4 (water efficiency targets).

Consultation questions

Question 7 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.

Question 8 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.

Progress of plans disclosed

79. An annual update of progress made in the most recent reporting year allows investors and stakeholders to track the progress made in a company's implementation of its transition plans and achievement of targets set. It also allows the management to monitor the progress of the company, and make adjustments where necessary.

Proposed disclosure

80. We propose to incorporate relevant ISSB Climate Standard requirements into Appendix 27 and require disclosure of progress made in the most recent reporting year in respect of plans disclosed. For the avoidance of doubt, issuers are not required to make this disclosure in their ESG reports covering the first reporting period following the Effective Date. Please refer to paragraph 7 of Part D of the Proposed Appendix 27 for the proposed Rule amendments.

Consultation question

Question 9 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.

III. Climate resilience

ISSB Climate Standard requirements

81. The ISSB Climate Standard[32] requires a company to disclose information regarding the resilience of the company's strategy (including its business model) to climate-related changes, developments or uncertainties, taking into consideration its significant climate-related risks and opportunities. This envisages disclosure of:

(a) the implications, if any, of the company's findings for its strategy, including how it would need to respond to the anticipated effect on the issuer during its transition to a lower-carbon economy;

(b) the significant areas of uncertainty considered in the analysis of climate resilience; and

(c) the ability of the company to adjust, or adapt its business model, in the future in terms of, for example, access to finance and capital, ability to redeploy or

[32] Paragraph 15 of the ISSB Climate Standard.

decommission existing assets, and the effect of any planned investments in climate-related mitigation or adaptation.

82. The ISSB Climate Standard[33] also requires companies to use a method of climate-related scenario analysis that is commensurate with a company's circumstances (e.g. skills, capabilities, resources, degree of exposure to climate-related risks and opportunities). The ISSB will develop application guidance, with reference to the TCFD guidance on climate-related scenario analysis[34], to help report preparers select an approach that is best suited to their circumstances, and which would reflect the three stages of progression in the use of climate-related scenario analysis (namely, just beginning, gaining experience and advanced experience).

83. To explain its climate-related scenario analysis, a company is required to disclose the following information:

(a) scenarios used for the assessment, the source of scenarios and whether it has used a scenario aligned with the latest international agreement on climate change;

(b) time horizons used in the analysis;

(c) inputs used in the analysis (e.g. scope of risks and operations covered); and

(d) assumptions about the way the transition to a lower carbon economy will affect the company (e.g. policy assumptions for the jurisdictions in which the company operates).

Discussion and proposals

84. Climate resilience is the ability to anticipate, prepare for, and respond to hazardous events, trends, or changes related to climate. Disclosure of climate resilience allows investors and stakeholders to assess how prepared a company is in responding to the challenges brought about by climate change, and evaluate whether a company's business model is sustainable amidst associated uncertainties.

<u>Use of climate-related scenario analysis</u>

85. Scenario analysis is a common tool used to identify and assess a potential range of outcomes of future events under conditions of uncertainty. Scenarios are hypothetical pathways of development that consider how the future might look if certain trends continue or certain conditions are met. Through considering a variety of alternative plausible future states (scenarios) under a given set of assumptions and constraints, scenario analysis can be used to evaluate a range of hypothetical outcomes associated with climate-related risks and opportunities. In the case of climate change, climate-related scenario analysis allows an issuer to explore and develop an understanding of how the physical risks and transition risks of climate change may affect its business models, financial performance and financial position over time.

86. We recognise that time is required for an issuer to equip itself with necessary knowledge and expertise to conduct a full-blown climate-related scenario analysis. An issuer may choose to start with qualitative scenario narratives or storylines to help the management explore the potential range of climate change implications. As the issuer gains

[33] ISSB decision (Nov 2022)
[34] See: TCFD's Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities (June 2017) and Guidance on Scenario Analysis for Non-Financial Companies (October 2020).

experience, it could start using quantitative information to illustrate potential pathways and outcomes. Over time, we expect issuers to apply greater rigour and sophistication in the use of data sets and quantitative models, and in arriving at the analysis. Quantitative approaches may be achieved by using existing scenarios and models (e.g., those provided by third-party providers) or by issuers developing their own, in-house modeling capabilities.

87. It is not uncommon for investors and stakeholders to conduct their own comparisons and studies on top of issuers' climate-related scenario analysis. Issuers should therefore clearly disclose inputs and assumptions used, time horizons used, etc. in developing their climate-related scenario analysis in order to facilitate further in-depth analysis by investors and stakeholders.

88. There are suggestions that prescribing scenarios at say, a 1.5 degree Celsius[35] climate-related scenario and a 2 degree Celsius[36] or greater climate-related scenario, may be useful for investors' comparison and analyses of issuers' climate-related scenarios. We propose to include suggestions of climate-related scenarios to be adopted in the Implementation Guidance.

Proposed disclosure

89. We propose to incorporate relevant ISSB Climate Standard requirements into Appendix 27.

90. Please refer to paragraphs 8 to 9 of Part D of the Proposed Appendix 27 for the proposed Rule amendments.

91. The ISSB has indicated that it will provide guidance on the selection of climate scenarios depending on individual circumstances, including industry and country exposure. With reference to the proposed contents of the ISSB's guidance, we will provide further explanatory notes and/or localised guidance to support the preparation of climate-related scenario analysis in our Implementation Guidance as appropriate.

Consultation questions

Question 10 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.

Question 11 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.

[35] Holding the increase in global average temperate to well below 1.5°C above preindustrial levels.
[36] Holding the increase in global average temperate to well below 2°C above preindustrial levels.

IV. Financial effects of climate-related risks and opportunities

ISSB Climate Standard requirements

92. The ISSB Climate Standard[37] requires a company to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term, including how climate-related risks and opportunities are included in the company's financial planning. A company is required to disclose quantitative information unless it is unable to do so. In particular, a company shall disclose:

Current financial effects

(a) how significant climate-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows;

(b) information about climate-related risks and opportunities identified for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year;

Anticipated financial effects

(c) how it expects its financial position to change over the short, medium and long term, given its strategy to address significant climate-related risks and opportunities, reflecting: (i) its current and committed investment plans and their anticipated effects on its financial position[38]; (ii) its planned sources of funding to implement its strategy; and

(d) how it expects its financial performance to change over the short, medium and long term, given its strategy to address significant climate-related risks and opportunities[39].

Discussion and proposals

93. Financial effects arise from the specific climate-related risks and opportunities which a company is exposed to, and its strategic and risk-management decisions on seizing those opportunities and managing those risks. Disclosure of actual and anticipated financial effects associated with climate change enables more effective pricing of climate-related risks and opportunities, allowing investors to make informed and efficient allocation of capital.

Current financial effects

94. During our engagement with issuers, some issuers have raised concerns over the requirement to quantify the financial effects of climate-related risks given their limited knowledge and experience on assessing the effect of climate-related risks on their

[37] Paragraph 14 of the ISSB Climate Standard.
[38] For example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements.
[39] For example, increased revenue from or costs of products and services aligned with a lower-carbon economy, consistent with the latest international agreement on climate change; physical damage to assets from climate events; and the costs of climate adaptation or mitigation.

financial statements. However, under the IFRS[40], companies are already required to quantify and account for *material* financial effects arising from climate-related matters in their financial statements. For example, research and development costs incurred by an issuer in changing or adapting its business activities and operations in response to climate-related matters may, depending on the circumstances, be recognised as a Property Plant and Equipment[41] or an intangible asset[42]; or be written-off as an expenditure. There are a number of examples in the IFRS guidance illustrating the effects of climate-related matters on financial statements[43].

Proposed disclosure

95. In light of the above, we propose to incorporate relevant ISSB Climate Standard requirements into Appendix 27 with the following modifications:

(a) an issuer is only required to quantify the effect of climate-related risks and, where applicable, climate-related opportunities on the issuer's financial position, financial performance and cash flow for the most recent reporting period, where such effect is material; and

(b) during the Interim Period, where an issuer has yet to provide quantitative information, it should provide qualitative disclosures.

96. Please refer to paragraph 10 and the paragraph immediately following paragraph 10 of Part D of the Proposed Appendix 27 for the proposed Rule amendments. We will include suggestions and illustrative examples in the Implementation Guidance to support the making of such disclosures.

Consultation questions

Question 12 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.

Question 13 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

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[40] In November 2020, the IFRS Foundation issued guidance to discuss the effects of climate-related matters on financial statements. It was stated that, although "the IFRS Standards do not expressly refer to climate-related matters,… companies must consider climate-related matters in applying IFRS Standards when the effect of those matters is *material* to the financial statements. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made on the basis of the financial statements." There are also a number of examples in the IFRS guidance illustrating the effects of climate-related matters on financial statements.

[41] Under IAS 16 *Property, Plant and Equipment*.

[42] Under IAS 38 *Intangible Assets*.

[43] Other potential financial implications arising from climate-related risks include:

(a) asset impairment, including goodwill;
(b) changes in the useful life of assets;
(c) changes in the fair valuation of assets;
(d) effects on impairment calculations because of increased costs or reduced demand;
(e) changes in provisions for onerous contracts because of increased costs or reduced demand;
(f) changes in provisions and contingent liabilities arising from fines and penalties; and
(g) changes in expected credit losses for loans and other financial assets.

D of the Proposed Appendix 27? Please provide reasons for your views.

Anticipated financial effects

97. Climate related risks are created by a range of hazards. Some are slow in their onset (such as changes in temperature and precipitation leading to droughts, or agricultural losses), while others happen more suddenly (such as tropical storms and floods). Similarly, the financial effects of such risks may not be immediately apparent, and may take more time to surface. Therefore, it is crucial that issuers should, to the extent possible, provide a description on the anticipated financial effects of climate-related risks.

98. During our stakeholder engagement, some issuers shared difficulties in disclosing the anticipated effects of climate-related risks on their financials. In particular, issuers were concerned with the accuracy and reliability of such forward-looking statements, as such statements are highly dependent on the assumptions and projection models used, and the forecasts could vary significantly when projected over a long period of time.

Proposed disclosure

99. Balancing issuers' concern on data accuracy and the need for transparency, and to provide more time for issuers to build models for analysing the anticipated financial impact of climate-related risks, we propose to incorporate relevant ISSB Climate Standard requirements into Appendix 27 with the following modifications:

(a) issuers are only required to describe in qualitative terms the anticipated financial effects of climate-related risks and, where applicable, climate-related opportunities; and

(b) during the Interim Period, where an issuer has yet to provide disclosures on the anticipated effects of climate-related risks and, where applicable, climate-related opportunities, it should disclose: (i) information, to the extent reasonably available, that may enable investors to understand the aspects of the financial statements that are most affected; and (ii) the work plan, progress and timetable for making the required disclosure.

100. Please refer to paragraph 11 and the paragraph immediately following paragraph 11 of Part D of the Proposed Appendix 27 for the proposed Rule amendments. We will also provide suggestions and illustrative examples to assist the making of such disclosures in the Implementation Guidance.

Consultation questions

Question 14 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.

Question 15 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 out in the paragraph immediately following paragraph 11 of Part D of the Proposed Appendix 27? Please provide reasons for your views.

(C) Risk management

Current requirements

101. Issuers are required to disclose (a) the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer's businesses)[44] and (b) the effectiveness of their risk management and internal control systems. There is no specific requirement to disclose the risk assessment process.

ISSB Climate Standard requirements

102. The ISSB Climate Standard[45] requires specific disclosures on how the company, among other things, identifies, assesses and manages climate-related risks and opportunities. In particular, it calls for disclosure on, amongst others:

(a) the process used by the company to identify, assess and prioritise climate-related risks (including the assessment of likelihood and effects associated with such risks, prioritisation of climate-related risks relative to other types of risks, use of risk-assessment tools, etc.);

(b) how the company monitors and manages its climate-related risks;

(c) how such process is integrated into the company's overall risk management process; and

(d) in relation to climate-related opportunities, processes to identify, assess, prioritise and manage such opportunities, and how such processes are integrated into the company's overall management process.

Discussion and proposal

103. More granular information regarding climate-related risk management allows investors to understand and form their own assessment how a company identifies, evaluates, and addresses climate-related risks that may materially impact its business. Such information also enables investors assess whether a company has implemented adequate procedures for identifying, assessing and managing climate-related risks.

Proposed disclosure

104. We propose to incorporate relevant ISSB Climate Standard requirements into Appendix 27 by requiring disclosures in relation to climate-related risks. Consistent with our approach towards climate-related opportunities as discussed above, we propose to modify relevant ISSB Climate Standard requirements in relation to the management of climate-related opportunities so that issuers may opt to disclose the processes used to identify, assess and manage climate-related opportunities. Please refer to paragraph 12 of Part D of the Proposed Appendix 27 for the proposed Rule amendments.

Consultation questions

Question 16 Do you agree to require disclosure of the process an issuer uses to identify, assess and manage climate-related risks as set out in

[44] Paragraph 13(ii) of Appendix 27.
[45] Paragraph 17 of the ISSB Climate Standard.

paragraph 12(a) of Part D of the Proposed Appendix 27? Please provide reasons for your views.

Question 17 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.

(D) Metrics and targets

Current requirements

105. Issuers are required to disclose the following environmental KPIs on a "comply or explain" basis:

(a) Emissions, including scope 1 and scope 2 greenhouse gas emissions[46];

(b) Waste, i.e. hazardous waste and non-hazardous waste produced[47];

(c) Energy consumption, such as electricity, gas or oil[48];

(d) Total water consumption[49]; and

(e) Total packaging material used for finished products[50],

and where appropriate, issuers may also disclose the intensity (e.g. per unit of production volume, per facility) for each metric above.

106. While Appendix 27 prescribes a total of 36 KPIs covering 12 aspects, the KPIs are not specific to any particular industry sector, as Appendix 27 is designed to apply to a wider range of issuers.

ISSB Climate Standard requirements

107. The ISSB Climate Standard requires disclosure of the following climate-related metrics that are applicable to all industries (i.e. cross-industry metrics):

(a) greenhouse gas emissions (classified as scope 1, scope 2 and scope 3 emissions)[51];

(b) the amount and percentage of assets or business activities vulnerable to transition risks[52];

(c) the amount and percentage of assets or business activities vulnerable to physical risks[53];

[46] KPI A1.2 of Appendix 27.
[47] KPIs A1.3 and A1.4 of Appendix 27.
[48] KPI A2.1 of Appendix 27.
[49] KPI A2.2 of Appendix 27.
[50] KPI A2.5 of Appendix 27.
[51] Paragraph 21(a) of the ISSB Climate Standard.
[52] Paragraph 21(b) of the ISSB Climate Standard.
[53] Paragraph 21(c) of the ISSB Climate Standard.

(d) the amount and percentage of assets or business activities aligned with climate-related opportunities[54];

(e) the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities[55];

(f) internal carbon prices[56]; and

(g) percentage of executive remuneration linked to climate-related considerations and how climate-related considerations are factored in the determination of executive remuneration[57].

108. For GHG emissions, companies are required to measure GHG emissions in accordance with the GHG Protocol, except that alternative measurement methods may be used under specific circumstances[58]. Companies are also required to disclose the approach it used to include emissions (e.g., the equity share or operational control method in the GHG Protocol[59]) and reasons for the choice of approach.

109. In relation to scope 3 emissions, companies are further required to disclose the categories included within its measure of scope 3 emissions, basis for measure of scope 3 emissions provided by its value chain, and/or reasons for omission of scope 3 emissions provided by its value chain. Recognising the challenges in disclosing scope 3 emissions, the ISSB Climate Standard provides a temporary exemption from the requirement to disclose scope 3 emissions for the first year in which a company applies the ISSB Climate Standard.

110. In addition, the ISSB Climate Standard exposure draft[60] requires issuers to disclose industry-based metrics that are derived from the SASB Standards.

Discussion and proposals

I. <u>GHG emissions (paragraph 107(a))</u>

111. Information on GHG emissions enables investors to evaluate the carbon footprint and transition risks faced by companies and better understand how companies are planning to mitigate or adapt to those risks.

<u>Scope 1 and scope 2 emissions</u>

112. Issuers have been required to disclose their scope 1 and scope 2 emissions on a "comply or explain" basis since 2016. In our 2022 ESG Analysis, we observed that 90%

[54] Paragraph 21(d) of the ISSB Climate Standard.
[55] Paragraph 21(e) of the ISSB Climate Standard.
[56] Paragraph 21(f) of the ISSB Climate Standard.
[57] Paragraph 21(g) of the ISSB Climate Standard.
[58] ISSB decided to grant relief to an entity from using the GHG Protocol under the following specific circumstances: (1) an entity that has been using a GHG emission measurement method that is different from the GHG Protocol may continue to use it for one year after the entity applies the ISSB Climate Standard; or (2) an entity that is required by jurisdictional authorities or the exchange on which it is listed to use a GHG emissions measurement method that is different from the GHG Protocol may continue to use that measurement method so long as it is required.
[59] Under the GHG Protocol's equity share method, a company accounts for GHG emissions from operations according to its share of equity in the operation. Under the GHG Protocol's operational control method, a company accounts for 100% of the GHG emissions from operations over which it has control, and 0% over which it does not have control.
[60] Paragraph 22 of the ISSB Climate Standard.

of our issuers have disclosed scope 1 and 2 emissions in their ESG reports. We consider upgrading the reporting obligation for scope 1 and scope 2 emissions to mandatory as a reasonable next step in our continuous journey to enhance ESG disclosure standards.

Scope 3 emissions

113. Scope 1 emissions cover direct GHG emissions that occur from sources that are controlled or owned by a company, and scope 2 emissions cover indirect emissions from purchased electricity, heat, steam and cooling. Scope 3 emissions include all other indirect emissions that occur in a company's value chain such as business travel, purchased goods and services, waste disposal and employee commuting. In many sectors, scope 3 emissions make up a huge proportion of a company's carbon footprint, and it would be incomplete if a company's plan to transition to a lower carbon economy omits scope 3 emissions. Requiring disclosure of scope 3 emissions also discourages companies from artificially "reducing" their GHG emissions by outsourcing certain business activities to external parties/subcontractors.

114. In our 2022 ESG Analysis, we noted that some issuers have started to look into their scope 3 emissions, and 31% of issuers have started to make voluntary disclosures on limited type(s) of activities along the value chain[61]. During our engagement, we received feedback that while some issuers have started to report on their scope 3 emissions, many of them faced practical difficulties in collection of data from upstream and downstream stakeholders which they have no control over. Furthermore, since calculation of scope 3 emissions is highly dependent on the issuer's industry sector and business model, many issuers have indicated that more time is required for them to go through their value chain, identify significant scope 3 activities, collect data, and build appropriate calculation models.

115. The GHG Protocol is the most commonly used global measurement method. However, during our engagement with issuers, we also received feedback that some countries may have their own national schemes or preferred framework for measuring GHG emissions, and issuers operating in such countries would have to report on GHG emissions in accordance with the prescribed schemes.

Proposed disclosure

116. In light of the above, we propose to incorporate relevant ISSB Climate Standard requirements in respect of GHG emissions into Appendix 27 with the following modifications:

(a) an issuer should apply either (i) the GHG Protocol; or (ii) the protocol prescribed by local legislation for measuring GHG emissions; and

(b) during the Interim Period, an issuer who has yet to disclose all the information in relation to scope 3 emissions should disclose (i) information, to the extent reasonably available, that may enable investors to understand the issuer's relevant upstream or downstream activities along the value chain; and (ii) its work plan, progress and timetable for making the required disclosure.

[61] As scope 3 emissions concern all the indirect emissions that occur in the company's value chain, the GHG Protocol categorises such activities into 15 reporting categories to facilitate the measurement and management of such emissions. The most common category being reported on is "Business Travel", which is relatively easier as the data may be available internally.

117. Please refer to paragraphs 13 to 15, and the paragraph immediately following paragraph 15, of Part D of the Proposed Appendix 27 for the proposed Rule amendments.

118. We noted that ISSB proposes to allow a one-year exemption for disclosure of scope 3 emissions. We will allow issuers to make interim disclosures during a two-year Interim Period to encourage early compliance, while also providing meaningful information for investors and stakeholders to understand the company's readiness in complying with the disclosure requirements in full.

119. To facilitate issuers' understanding of relevant international frameworks/practices and their preparation of disclosures on GHG emissions, the Implementation Guidance will (i) offer further information on the GHG Protocol including highlighting its key features and practices; and (ii) make reference to other common national schemes.

Consultation questions

Question 18 (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.

(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.

Question 19 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.

II. <u>Other cross-industry metrics</u>

120. The other cross-industry climate-related metrics required by the ISSB Climate Standard are useful in informing investors and stakeholders of companies' exposure to climate-related risks, and how far companies have integrated climate-related considerations into their business strategies. Set out below are the rationale for each cross-industry metric required by the ISSB Climate Standard.

<u>Metric: Amount and percentage of assets or business activities vulnerable to transition risks / physical risks (paragraph 107(b) and (c))</u>

121. Disclosure of this metric enables investors to understand a company's potential financial vulnerability regarding issues such as:

(a) in relation to transition risks, possible impairment or stranding of assets, effects on the value of assets and liabilities, and changes in demand for products or services; and

(b) in relation to physical risks, impairment or stranding of assets, effects on the value of assets and liabilities, and cost of business interruptions.

Metric: Amount and percentage of assets or business activities aligned with climate-related opportunities (paragraph 107(d))

122. Climate-related opportunities that companies can capture include (a) enhanced resource efficiency through reducing energy, water, and waste; (b) use of energy sources that emit less or nil GHG emissions; (c) development of new products and services; (d) access to new markets; and (e) improved adaptive capacity and resilience.

123. Disclosure of the amount and proportion of assets or business activities aligned with climate-related opportunities provides insight into a company's position relative to its peers, allowing investors to understand the likely transition pathways and potential changes in revenue and profitability over time. This metric category will be specific to each industry's or company's climate-related opportunities, as well as to the opportunities within specific business lines or asset classes. For example, automobile manufacturers may report sales of electric vehicles relative to total vehicle sales, while utilities companies may report renewable generation as a fraction of their total electricity generation.

Metric: Amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities (paragraph 107(e))

124. Even where issuers face the same climate-related risks, they may take different measures to address such risks, and the corresponding effect on their financial position and performance could vary significantly. Deployment of capital in low-carbon technologies, business lines, or products may demonstrate that a company is investing to make its businesses resilient to transition risk or to capture climate-related opportunities. For example, a company that is hardening infrastructure in response to increased incidence of physical risks may indicate a short-term debt increase as the company upgrades its assets, but long-term costs may be lower.

Proposed disclosure

125. We propose to substantially incorporate relevant ISSB Climate Standard requirements into Appendix 27, subject to an interim provision such that during the Interim Period, an issuer who has yet to make quantitative disclosures in respect of the above metrics should disclose:

(a) a description of (i) the assets or business activities identified to be vulnerable to transition risks/physical risks or aligned with climate-related opportunities; or (ii) the types of activities requiring capital expenditure, financing or investment towards climate-related risks and opportunities; and

(b) the work plan, progress and timetable for making the required disclosure.

126. Please refer to paragraphs 16 to 19, and the paragraph immediately following each of paragraphs 16 to 19, of Part D of the Proposed Appendix 27 for the proposed Rule amendments. We will further provide illustrative examples of these metrics in the Implementation Guidance.

127. The proposed interim provision would give issuers more time to familiarise with the calculation methodologies and explore ways to address their concerns on data accuracy and credibility.

Consultation questions

Question 20 (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.

(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.

Question 21 (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.

(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.

Question 22 (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.

(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.

Question 23 (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.

(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.

Internal carbon prices (paragraph 107(f))

128. Internal carbon pricing can be used by companies as a planning tool to assess the financial implications of climate-related risks and opportunities, conduct cost-benefit analysis of potential technological developments, measure GHG emissions-related transition risks and opportunities and adjust strategies accordingly. Disclosure of a

company's internal carbon price also allows investors and stakeholders to assess whether the company's plans and strategies are reasonable and effective.

129. Acknowledging the difficulty to ascertain an internal carbon price in the absence of a mature carbon market, we will not mandate issuers to maintain an internal carbon price at this stage.

Proposed disclosure

130. We therefore propose to incorporate relevant ISSB Climate Standard requirements in Appendix 27 with the modifications such that where an issuer maintains an internal carbon price, it should disclose (i) the price for each metric tonne of GHG emissions that the issuer uses to assess the costs of its emissions; and (ii) an explanation of how the issuer is applying the carbon price in decision-making (for example, investment decisions, transfer pricing, and scenario analysis).

131. Please refer to paragraph 20 of Part D of the Proposed Appendix 27 for the proposed Rule amendments. We will provide guidance on the making of such disclosures in the Implementation Guidance.

Consultation question

Question 24 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.

<u>Remuneration (paragraph 107(g))</u>

132. Remuneration policies are important incentives for achieving a company's goals and objectives. Where companies link executive compensation to performance on climate-related issues, management may be more incentivised to incorporate climate-related considerations into their business strategies, and place more weight on their management of climate change-related issues.

133. We however understand that companies consider a range of factors in determining the remuneration package, and it might not be practical to quantify the actual percentage or amount of remuneration linked to a particular factor. As such, we will not mandate issuers to disclose the percentage of remuneration linked to climate-related considerations.

Proposed disclosure

134. Accordingly, we propose to incorporate relevant ISSB Climate Standard requirements into Appendix 27 with the modification such that an issuer is required to disclose how climate-related considerations are factored into remuneration policy. Such disclosure may form part of the disclosure under the "Governance" pillar.

135. Please refer to paragraph 21 of Part D of the Proposed Appendix 27 for the proposed Rule amendments.

Consultation question

Question 25 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.

III. Industry-based metrics

136. The industry-based metrics set out in the ISSB Climate Standard are substantially based on the SASB Standards. In January 2023, the ISSB deliberated that it will maintain the requirement that companies provide industry-specific disclosures; and classify the content in Appendix B of the ISSB Climate Standard exposure draft as illustrative examples. As international ESG reporting frameworks are still evolving and following the ISSB's deliberations, we would not mandate the disclosure of industry-based metrics at this stage. Nonetheless, we agree with the ISSB that they can serve as a useful reference for issuers to provide industry-specific information.

Proposed disclosure

137. We propose to encourage issuers to consider the industry-based disclosure requirements prescribed under other international ESG reporting frameworks such as the SASB Standards and the GRI Standards, and make disclosures as they see fit. Please refer to paragraph 22 of Part D of the Proposed Appendix 27 for the proposed Rule amendments.

Consultation question

Question 26 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.

Consequential amendments to Appendix 27

138. To reflect the introduction of new climate-related disclosure requirements as a new Part D of Appendix 27, we propose to make consequential amendments to Appendix 27 as follows:

Location of Appendix 27 to be amended	Purpose of amendment
Paragraph 2	To reflect that that Appendix 27 now includes new mandatory disclosure requirements set out in Part D
Paragraph 8	To clarify that issuers may adopt international ESG reporting guidance such as the IFRS Sustainability Disclosure Standards, so long as they include comparable disclosure provisions to all the mandatory disclosure requirements and "comply or explain" provisions set out in Appendix 27
Paragraph 12	To emphasise that a discussion of environmental policies and performance in the business review section of the

	directors' report would include climate-related policies and performance[62]

139. Please refer to paragraphs 2, 8 and 12 of the Proposed Appendix 27 for the proposed Rule amendments. We welcome comments regarding whether the manner in which the proposed consequential amendments are drafted will give rise to any ambiguities or unintended consequences.

Question

Question 27 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.

Implementation Guidance

140. As mentioned in multiple occasions throughout this paper, we will provide implementation guidance on various topics to facilitate issuers' compliance with the new Rules. We welcome comments regarding the proposed topics/matters that we intend to give guidance on, as well as any particular topic/matter you consider further guidance to be helpful.

Question

Question 28 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.

Renaming Appendix 27

141. Appendix 27 sets out the ESG disclosure requirements required by listed issuers in their ESG reports and is named the "Environmental, Social and Governance Reporting Guide".

142. The word "guide" may give people the impression that Appendix 27 is only a voluntary guidance. In fact, issuers are expected to report in accordance with the requirements therein on a mandatory or a "comply or a basis" basis (as the case may be), and the failure to do so constitutes a Listing Rule breach.

143. In order to clarify the nature of Appendix 27 and distinguish Appendix 27 from the Exchange's various training and guidance materials, we propose to rename Appendix 27 as the "Environmental, Social and Governance Code". We will also make consequential changes to relevant Listing Rules to reflect the name change. Please refer to the proposed consequential changes to the Listing Rules as set out in Part B of Appendix II.

[62] Implementation guidance will be given on the disclosure (for example, management commentary on the financial impacts relating to climate-related risks and opportunities and cross-industry metrics) to be included in the business review section of the directors' report.

Feedback on latest ISSB developments

144. The ISSB has indicated its plan to publish the final ISSB Standards towards the end of the second quarter of 2023. While this paper invites comments on proposals formulated with reference to the ISSB Climate Standard exposure draft published in March 2022 and the subsequent ISSB deliberations up to April 2023, we will also take into account the final standards to be published by the ISSB when finalising the Listing Rule amendments. Accordingly, we invite feedback on any developments announced by the ISSB subsequent to the publication of this paper that may impact on the proposals in this paper.

Question

Question 29 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.

APPENDIX I: DEVELOPMENTS IN INTERNATIONAL PRACTICE

PRC

1. In June 2021, the China Securities Regulatory Commission issued the 公開發行證券的公司資訊披露內容與格式準則第2號—年度報告的內容與格式(2021年修訂) (Standard on the Content and Format of Annual Reports), which requires listed companies in the PRC to disclose any environmental-related administrative penalties received during the relevant reporting period. Disclosures on measures taken and progress in reducing carbon emissions, while not mandatory, are encouraged on a voluntary basis.

2. In February 2022, the 企業環境信息依法披露管理辦法 (Administrative Measures for the Statutory Disclosure of Enterprise Environmental Information) (**Measures**) issued by China's Ministry of Ecology and Environment (**MEE**) came into effect. The Measures impose annual ESG reporting requirements on (a) listed companies (and their subsidiaries) that have been penalized for ecological and environmental violations in the previous year, (b) bond issuers that have been penalized for ecological and environmental violations in the previous year, and (c) other entities identified by the MEE, including entities that discharge high levels of pollutants[63]. In-scope entities are required to provide disclosure on specified environmental aspects, including carbon emissions in their annual environmental information disclosure reports, which are uploaded to a centralized enterprise environmental information disclosure system for public access. In-scope listed companies and bond issuers are required to additionally disclose climate change, ecological and environmental protection information related to their investment and financing transactions.

3. In April 2022, the China Enterprise Reform and Development Society, along with China's research institutions and corporations, published the 企業ESG披露指南 (Guidance for Enterprise ESG Disclosure) (**CERDS Guidance**). The CERDS Guidance is prepared based on the relevant Chinese laws, regulations and standards, and takes into account China's particular circumstances. The CERDS Guidance sets out, among others, climate change disclosure requirements such as scope 1, scope 2 and scope 3 emissions, emission reduction targets and measures to reduce emissions. Non-binding in nature, the CERDS Guidance took effect on 1 June 2022 and provides Chinese companies, investors, regulators and third-parties with a voluntary framework for ESG disclosure.

European Union

4. Since December 2014, certain large companies[64] are required by Directive 2014/95/EU, also known as the Non-Financial Reporting Directive (**NFRD**), to disclose relevant non-financial information in their annual financial reports. The NFRD introduced a "double materiality perspective", meaning that companies have to report about how sustainability issues affect their business and about their own impact on people and the environment. In accordance with the NFRD, the European Commission (**EC**) published non-binding

[63] The municipal ecology and environmental authorities compile the list of companies that are subject to the environmental information disclosure requirements on an annual basis. Pursuant to Article 10 of the Measures, once included in the list, in-scope listed companies and bond issuers should remain on the list for three consecutive years. In the event that an in-scope listed company or bond issuer is penalized for ecological and environmental violations while it is on the list, it should remain on the list for a further three years after the expiration of the first three-year period.

[64] Being large public-interest entities with an average number of employees in excess of 500, and public-interest entities that are parent companies of a large group with an average number of employees in excess of 500 on a consolidated basis.

reporting guidelines for companies and additional guidelines on reporting climate-related information in 2017 and 2019, respectively. However, these guidelines were not seen to have improved sufficiently the quality of disclosures.

5. Against this background, in November 2022, the European Council adopted the Corporate Sustainability Reporting Directive (**CSRD**) to fill in the gaps in the existing rules on disclosure of non-financial information.

6. The key requirements under the CSRD include:

   (a) Expanding the scope of reporting requirements to all large companies[65] and all listed companies[66] (i.e. including small and medium-sized enterprises (**SMEs**));

   (b) Requiring audit assurance of sustainability information;

   (c) Introducing more detailed mandatory reporting requirements in respect of governance[67], environmental[68] and social[69] matters. The EC shall further adopt sustainability reporting standards specifying the information to be reported and structure to be adopted (see paragraph 8 below). To ensure proportionality, the EC will adopt separate sustainability reporting standards for SMEs proportionate to the capacities and characteristics of SMEs, as well as the scale and complexity of their activities;

   (d) Requiring all information to be published as part of the management report (i.e. not in a report separate from the management report); and

   (e) Requiring reported information to be tagged digitally so that it is machine-readable and feeds into the European single access point for public corporate information envisaged in the Capital Markets Union Action Plan.

7. The application of the CSRD will take place in four stages:

   (a) For financial years starting on or after 1 January 2024, CSRD will apply to companies that are already subject to NFRD, with the first report expected to be produced in 2025.

   (b) For financial years starting on or after 1 January 2025, CRSD will apply to large companies that are not presently subject to NFRD, with the report in 2026 being based on 2025 data.

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[65] Large EU companies that meet at least two of the following criteria: (a) EUR40 million in net turnover, (b) a balance sheet of EUR 20 million, and/or (c) an average of 250 employees during the financial year; and parent companies of a large group.

[66] Except listed micro-enterprises.

[67] Including descriptions of (a) the company's business model and strategy, (b) targets related to sustainability matters set and progress made in achieving such targets, (c) role of administrative, management and supervisory bodies with regard to sustainability matters, (d) the company's policies in relation to sustainability matters, (e) incentive schemes linked to sustainability matters which are offered to members of the administrative, management and supervisory bodies, (f) due diligence process implemented with regard to sustainability maters, actual or potential impacts connected with the company's operations and value chain and any mitigation or remedial actions taken, and (g) principal risks related to sustainability matters, including the company's principal dependencies on such matters and management of such risks. Such disclosure shall contain forward-looking and retrospective information, and qualitative and quantitative information.

[68] Such as climate change migration, climate change adaptation, water and marine resources, resource use and circular economy, pollution and biodiversity and ecosystems etc.

[69] Such as equal opportunities for all including gender equality, working conditions, human rights etc.

(c) For financial years starting on or after 1 January 2026, CSRD will apply to listed SMEs[70], albeit subject to an opt-out until 2028, with the report in 2027 being based on 2026 data.

(d) For financial years starting on or after 1 January 2028, CSRD will apply to non-EU companies with net turnover above EUR 150 million in the EU if they have at least one subsidiary or branch in the EU exceeding certain thresholds.

8. The European Financial Reporting Advisory Group[71] (**EFRAG**) was requested to prepare the detailed EU sustainability reporting standards (**ESRS**) to be adopted. In April 2022, the EFRAG launched a three-month public consultation on the first set of draft ESRS. After considering the consultation feedback, the EFRAG revised the draft ESRS and submitted the twelve draft ESRS to the EC in November 2022. The EC would consult EU bodies and member states on the draft standards, before adopting the final standards as delegated acts in June 2023, followed by a scrutiny period by the European Parliament and Council.

9. The twelve draft ESRS covers the following topics:

(a) Cross-cutting standards: General requirements (such as the double materiality principle) and General disclosures (on governance, strategy, impact, risk and opportunity management and metrics and target); and

(b) Topical standards:

- *Environmental:* climate change, pollution, water and marine resources, biodiversity and ecosystems, and resource use and circular economy;

- *Social:* own workforce, workers in the value chain, affected communities, consumers and end-users; and

- *Governance:* business conduct.

10. In respect of climate change, the drafts proposed to require, among other things, disclosures on scope 3 emissions, GHG mitigation projects[72] financed through carbon credits, and potential financial effects from material physical risks, transition risks and potential climate-related opportunities.

United States

11. In March 2022, the Securities and Exchange Commission (**SEC**) proposed amending its rules, modeled in part on the TCFD Recommendations[73], to require disclosure of climate-related information in issuers' registration statements and annual reports. The consultation period ended on 17 June 2022.

12. Key proposed disclosures include:

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[70] As well as small and non-complex institutions and captive insurance companies

[71] The EFRAG is a private association established in 2001 created with the encouragement of the EC to serve the public interest. Majority financed by the EU, EFRAG relies on a public-private partnership model and its role has been to advise the Commission on the adoption of international financial reporting standards into EU law.

[72] These GHG mitigation projects would involve reducing the flow of heat-trapping greenhouse gases into the atmosphere, either by reducing sources of these gases (for example, the burning of fossil fuels for electricity, heat or transport) or enhancing the "sinks" that accumulate and store these gases.

[73] https://www.sec.gov/rules/proposed/2022/33-11042.pdf

(a) Oversight and governance of climate-related risks by the issuer's board and management;

(b) Climate-related risks identified that have had or are likely to have a material impact on its business and consolidated financial statements, which may manifest over the short-, medium-, or long-term;

(c) Climate-related risks identified that have affected or are likely to affect the issuer's strategy, business model, and outlook;

(d) Processes for identifying, assessing, and managing climate-related risks and whether any such processes are integrated into the issuer's overall risk management system or processes;

(e) Impact of climate-related events and transition activities on the line items of an issuer's consolidated financial statements and related expenditures, and disclosure of financial estimates and assumptions impacted by such climate-related events and transition activities;

(f) If the issuer uses scenario analysis to assess the resilience of its business strategy to climate-related risks, a description of the scenarios used, as well as the parameters, assumptions, analytical choices, and projected principal financial impacts;

(g) Scope 1 and scope 2 emissions metrics;

(h) Scope 3 emissions and intensity, if material or if the issuer has set a GHG emissions reduction target or goal that includes scope 3 emissions;

(i) The issuer's climate-related targets or goals, and transition plan, if any; and

(j) Where an issuer maintains an internal carbon price, information about the price and how it is set.

13. The SEC also proposed requiring (i) issuers to provide climate-related financial statement metrics and related disclosures in a note to its consolidated financial statements; and (ii) accelerated filers[74] or large accelerated filers[75] to obtain an attestation report from an independent attestation service provider covering, at a minimum, scopes 1 and 2 emissions disclosure.

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[74] An "Accelerated Filer" is an issuer after it first meets the following conditions as of the end of its fiscal year: (i) the issuer had an aggregate worldwide market value of the voting and non-voting common equity held by its non-affiliates of US$75 million or more, but less than US$700 million, as of the last business day of the issuer's most recently completed second fiscal quarter; (ii) the issuer has been subject to the requirements of Section 13(a) or 15(d) of the Exchange Act for a period of at least twelve calendar months; (iii) the issuer has filed at least one annual report pursuant to Section 13(a) or 15(d) of the Exchange Act; and (iv) the issuer is not eligible to use the requirements for smaller reporting companies (**SRC**) under the SRC revenue test.

[75] A "Large Accelerated Filer" is an issuer after it first meets the following conditions as of the end of its fiscal year: (i) the issuer had an aggregate worldwide market value of the voting and non-voting common equity held by its non-affiliates of US$700 million or more, as of the last business day of the issuer's most recently completed second fiscal quarter; (ii) the issuer has been subject to the requirements of Section 13(a) or 15(d) of the Exchange Act for a period of at least twelve calendar months; (iii) the issuer has filed at least one annual report pursuant to Section 13(a) or 15(d) of the Exchange Act; and (iv) the issuer is not eligible to use the requirements for SRCs under the SRC revenue test.

New Zealand

14. Following a consultation in July 2022, in December 2022, New Zealand's External Reporting Board[76] (**XRB**) published the final Aotearoa New Zealand Climate Standards (**NZ Climate Standards**). The NZ Climate Standards comprise three parts:

    (a) *Climate Standard 1: Climate-related Disclosures* sets out disclosure requirements for all in-scope companies[77]. The disclosure requirements are set out under the four core TCFD/ISSB pillars, namely Governance, Strategy, Risk management and Metrics and targets. It also contains assurance requirements for greenhouse gas emissions disclosures.

    (b) *Climate Standard 2: Adoption of Aotearoa New Zealand Climate Standards* sets out provisions for issuers' first time disclosure in order to give issuers more time to develop the capability to produce high-quality climate-related disclosures. These include providing a one-year exemption for disclosing of (both current and anticipated) financial impacts of climate-related risks or opportunities, transition plans as well as scope 3 emissions[78]. Where an issuer makes use of the exemption in respect of transition plans, it must provide a description of its progress towards developing the transition plan aspects of its strategy in its first reporting period.

    (c) *Climate Standard 3: General Requirements for Climate-related Disclosures* contains the principles, underlying concepts and other general requirements[79] relating to the preparation of climate-related disclosures.

15. The NZ Climate Standards apply to around 200 large financial institutions covered by the Financial Markets Conduct Act 2013, effective for annual reporting periods beginning on or after 1 January 2023; save that the requirement for limited assurance of GHG emissions disclosures will apply to reporting periods ending on or after 27 October 2024.

UK

16. Following market consultation, companies with a premium listing (**Premium Listing Issuers**) or standard listing (**Standard Listing Issuers**) on the London Stock Exchange are required to make climate-related financial disclosures consistent with the TCFD Recommendations[80]. Where issuers have not made such disclosures, they are required to (a) explain why they had not done so and (b) disclose any plans (including the relevant timeframe) they are taking or intend to take in order to be able to make such disclosures in the future. The requirements for Premium Listing Issuers and Standard Listing Issuers

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[76] The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 gives the External Reporting Board (XRB) a mandate to issue a climate-related disclosure framework.
[77] Pursuant to the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021, affected companies include: all registered banks, credit unions, and building societies with total assets over NZD 1 billion; all managers of registered investment schemes with total assets over NZD 1 billion; all licensed insurers with total assets over NZD 1 billion or annual premium income over NZD 250 million and all listed entities listed on the New Zealand Stock Exchange with a market capitalization exceeding NZD 60 million.
[78] Issuers may apply the one-year exemption to either all or a selected subset of its scope 3 emission sources. Issuers are further exempted from disclosure of all or part of comparative information in their first and second reports.
[79] These included requirements in respect of (1) the location of disclosures, (2) reporting entity and reporting period, (3) value chain, (4) materiality, (5) comparative information, and (6) methodologies, assumptions and estimation uncertainty.
[80] Except where the companies encounter transitional challenges in obtaining relevant data or embedding relevant modelling or analytical capabilities.

took effect for accounting periods beginning on or after 1 January 2021 and 1 January 2022, respectively[81].

17. In addition, effective from accounting periods beginning on or after 6 April 2022, certain within-scope UK entities[82] (whether listed or not) are required to disclose certain prescribed climate-related disclosures as part of their non-financial and sustainability information statement in their strategic reports[83]. The prescribed climate-related disclosures include, among others, the governance arrangements in relation to assessing and managing climate-related risks and opportunities, the principal climate-related risks and opportunities arising in connection with an entity's operations, an analysis of the resilience of the entity's business model and strategy taking into consideration different climate-related scenarios, climate-related targets and the key performance indicators used to assess progress against targets.

Canada

18. The securities legislation in Canada requires disclosure of certain climate-related information in an issuer's regulatory filings if such information is material[84].

19. In October 2021, the Canadian Securities Administrators (**CSA**) published for comment a notice regarding the proposed National Instrument 51-107 Disclosure of Climate-related Matters (**Proposed Instrument**) and its companion policy to provide guidance on the interpretation and application of the Proposed Instrument. The Proposed Instrument aims to improve issuer access to global capital markets by aligning Canadian disclosure standards with expectations of international investors, assist investors in making more informed investment decisions by enhancing climate-related disclosures, facilitate an "equal playing field" for all issuers through comparable and consistent disclosure, and potentially reduce excess costs of reporting across multiple frameworks.

20. The proposed disclosure requirements would apply to all reporting issuers[85] and require them to disclose climate-related information in compliance with the TCFD Recommendations, subject to certain modifications[86]. Disclosures relating to governance would be included in a reporting issuer's management information circular[87], while the disclosure relating to strategy (where such information is material), risk

[81] LR 9.8.6R(8) (for premium listing issuers) and LR 14.3.27R (for standard listing issuers).
[82] These include: (a) UK companies that have more than 500 employees and have either transferable securities admitted to trading on a UK regulated market, or are banking companies or insurance companies; (b) UK registered companies with securities admitted to the Alternative Investment Market with more than 500 employees; (c) UK registered companies which are not included in the categories above, which have more than 500 employees and a turnover of more than GBP500 million; (d) large LLPs, which are not traded or banking LLPs, which have more than 500 employees and a turnover of more than GBP500 million; and (e) traded or banking LLPs which have more than 500 employees.
[83] Sections 414CA and 414CB of the Companies Act 2006 and Regulations 12A and 12B of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.
[84] For example, Form 51-102F1 and Form 51-102F2. For the purposes of these forms, information is likely to be material where a reasonable investor's decision whether or not to buy, sell or hold securities of an issuer would likely be influenced or changed if the information was omitted or misstated.
[85] Other than investment funds, issuers of asset-backed securities, designated foreign issuers, SEC foreign issuers, certain exchangeable security issuers and certain credit support issuers.
[86] Issuers would not be required to provide a "scenario analysis", or to disclose Scope 1, 2 or 3 GHG emissions[72] and their related risks (provided that they disclose the reasons for not disclosing the information). As an alternative, the CSA also consulted on requiring issuers to disclose scope 1 GHG emissions, while scope 2 and scope 3 GHG emissions disclosure remain voluntary.
[87] For issuers that do not send a management information circular to its securityholders, the disclosure would be provided in the issuer's annual information form or its annual management's discussion and analysis, if the issuer does not file an annual information form.

management and metrics and target (where such information is material) would be included in the reporting issuer's annual information form[88].

21. The Proposed Instrument was intended to be phased in over a one-year period or, in the case of venture issuers, over a three-year period. The comment period on the Proposed Instrument ended on 16 February 2022. On 12 October 2022, the CSA announced that it was actively considering international developments and how they may impact or further inform the Proposed Instrument[89].

Singapore

22. Following a public consultation in August 2021, the Singapore Listing Rules (**SGX Rules**) were amended to require, among other things, all listed issuers to include climate-related disclosures consistent with the TCFD Recommendations in their sustainability report[90]. Other key requirements include mandatory sustainability training for directors[91] and internal review of an issuer's sustainability reporting process[92].

23. Mandatory climate reporting will be implemented in a phased manner:

    (a) All issuers are required to make climate-related disclosures on a "comply or explain" basis in their sustainability reports from the financial year commencing on or after 1 January 2022[93];

    (b) Issuers from the financial industry, agricultural, food and forest products industry, and energy industry are required to make mandatory climate-related disclosures in their sustainability reports from the financial year commencing on or after 1 January 2023; and

    (c) Issuers from the materials and buildings industry, and transportation industry are required to make mandatory climate-related disclosures in their sustainability reports from the financial year commencing on or after 1 January 2024,

    where the "comply or explain" approach will remain for issuers in other industries.

Australia

24. In December 2022, the Australian Government published a consultation paper seeking feedback on key considerations for the design and implementation of standardised, internationally-aligned requirements for disclosure of climate-related financial risks and opportunities in Australia. Instead of proposing detailed disclosure requirements, the paper sought feedback on high-level principle-based questions such as:

    (a) Whether a phased approach should be adopted, with the first phase being financial year 2024-2025;

    (b) Scope of entities to be covered at the initial stage;

    (c) Whether the climate-reporting requirements should be aligned with the ISSB

[88] For issuers that do not have such a form, in their annual management's discussion and analysis.
[89] Canadian securities regulators consider impact of international developments on proposed climate-related disclosure rule - Canadian Securities Administrators (securities-administrators.ca)
[90] Rule 711B(1)(aa), SGX Rules.
[91] Rule 720(7), SGX Rules
[92] Rule 711B(3), SGX Rules.
[93] Rule 711B(2), SGX Rules.

(d) Standards;

(e) Level of assurance to be required for climate-related disclosures, if any; and

(f) Whether digital reporting should be mandated for sustainability risk reporting.

25. The consultation period closed on 17 February 2023.

26. The Australian Accounting Standards Board (**AASB**) is tasked with developing the climate and sustainability-related disclosure standards in Australia. At the AASB Board meeting in March 2023[94], the AASB Board confirmed[95] that (i) the AASB will first develop climate-related financial disclosure requirements for for-profit sector entities, in particular large businesses and financial institutions, and that (ii) the Australian Government targets to issue an exposure draft on climate-related financial disclosure requirements for comments in August 2023. The final standard is targeted for issuance in February – March 2024. The AASB Board also decided that it will pilot a sustainability reporting standard-setting framework when further consultation documents in respect of the new climate-related disclosure requirements are published.

[94] AASB Action Alert in respect of the March 2023 AASB Board meeting: AASB Action Alert No. 221, for Meeting 194, Mar 2023

[95] AASB Staff Paper on the climate-related financial disclosure project for the March 2023 AASB Board meeting: 16.1_SR_ClimateProjectplan_M194_PP (aasb.gov.au)

APPENDIX II: PROPOSED AMENDMENTS TO LISTING RULES

Part A: Proposed Appendix 27

Appendix 27

Environmental, Social and Governance Reporting ~~Guide~~Code

Part A: Introduction

The ~~Guide~~Code

1. This ~~Guide~~Environmental, Social and Governance Reporting Code comprises two levels of disclosure obligations: (a) mandatory disclosure requirements; and (b) "comply or explain" provisions.

2. The~~Mandatory~~ disclosure requirements ~~are~~ set out in Part B of this ~~Guide~~Code, which include climate-related disclosures in Part D, are mandatory. An issuer must include such information for the period covered by the ESG report.

3. "Comply or explain" provisions are set out in Part C of this ~~Guide~~Code. An issuer must report on the "comply or explain" provisions of this ~~Guide~~Code. If the issuer does not report on one or more of these provisions, it must provide considered reasons in its ESG report. For guidance on the "comply or explain" approach, issuers may refer to the "*What is "comply or explain"?*" section of the Corporate Governance Code~~ and Corporate Governance Report~~ ("Corporate Governance Code") in Appendix 14 of the Main Board Listing Rules.

4. (1) An issuer must publish its ESG report on an annual basis and regarding the same period covered in its annual report. An ESG report may be presented as information in the issuer's annual report or in a separate report. Regardless of the format adopted, the ESG report must be published on the Exchange's website and the issuer's website.

   (2) Where the ESG report does not form part of the issuer's annual report:

   (a) To the extent permitted under all applicable laws and regulations and the issuer's own constitutional documents, an issuer is not required to provide the ESG report in printed form to its shareholders irrespective of whether such shareholders have elected to receive the issuer's corporate communication electronically or otherwise under rule 2.07A.

   (b) The issuer must notify the intended recipient of:

   (i) the presence of the ESG report on the website;
   (ii) the address of the website;
   (iii) the place on the website where it may be accessed; and
   (iv) how to access the ESG report.

   (c) Notwithstanding the above, the issuer shall promptly provide a shareholder with an ESG report in printed form upon its specific request.

   (d) The issuer shall publish the ESG report at the same time as the publication of the annual report.

Overall Approach

5. This ~~Guide~~Code is organised into two ESG subject areas ("Subject Areas"): Environmental (Subject Area A) and Social (Subject Area B). Corporate governance is addressed separately in the Corporate Governance Code.

6. Each Subject Area has various aspects ("Aspects"). Each Aspect sets out general disclosures ("General Disclosures") and key performance indicators ("KPIs") for issuers to report on in order to demonstrate how they have performed.

7. In addition to the "comply or explain" matters set out in this ~~Guide~~Code, the Exchange encourages an issuer to identify and disclose additional ESG issues and KPIs that reflect the issuer's significant environmental and social impacts; or substantially influence the assessments and decisions of stakeholders. In assessing these matters, the issuer should engage stakeholders on an ongoing basis in order to understand their views and better meet their expectations.

8. This ~~Guide~~Code is not comprehensive and the issuer may refer to existing international ESG reporting guidance for its relevant industry or sector. The issuer may adopt international ESG reporting guidance, including the IFRS Sustainability Disclosure Standards, so long as it includes comparable disclosure provisions to the ~~"comply or explain"~~ provisions set out in this ~~Guide~~Code.

9. The issuer may seek independent assurance to strengthen the credibility of the ESG information disclosed. Where independent assurance is obtained, the issuer should describe the level, scope and processes adopted for the assurance given clearly in the ESG report.

10. The board has overall responsibility for an issuer's ESG strategy and reporting.

Reporting Principles

11. The following Reporting Principles underpin the preparation of an ESG report, informing the content of the report and how information is presented. An issuer should follow these Reporting Principles in the preparation of an ESG report:

    (i) **Materiality:** The threshold at which ESG issues determined by the board are sufficiently important to investors and other stakeholders that they should be reported.

    (ii) **Quantitative:** KPIs in respect of historical data need to be measurable. The issuer should set targets (which may be actual numerical figures or directional, forward-looking statements) to reduce a particular impact. In this way the effectiveness of ESG policies and management systems can be evaluated and validated. Quantitative information should be accompanied by a narrative, explaining its purpose, impacts, and giving comparative data where appropriate.

    (iii) **Balance:** The ESG report should provide an unbiased picture of the issuer's performance. The report should avoid selections, omissions, or presentation formats that may inappropriately influence a decision or judgment by the report reader.

    (iv) **Consistency:** The issuer should use consistent methodologies to allow for meaningful comparisons of ESG data over time.

Complementing ESG discussions in the Business Review Section of the Directors' Report

12. Pursuant to paragraph 28(2)(d) of Appendix 16 of the Main Board Listing Rules, an issuer's directors' report for a financial year must contain a business review in accordance with Schedule 5 to the Companies Ordinance. The business review must include, to the extent necessary for an understanding of the development, performance or position of the issuer's business:

   (i) a discussion of the issuer's environmental (including climate-related) policies and performance;

   (ii) a discussion of the issuer's compliance with the relevant laws and regulations that have a significant impact on the issuer; and

   (iii) an account of the issuer's key relationships with its employees, customers and suppliers and others that have a significant impact on the issuer and on which the issuer's success depends.

   This ~~Guide~~Code should complement the content requirements of the directors' report, as it calls for issuers to disclose information in respect of specific ESG areas.

Part B: Mandatory Disclosure Requirements

Governance Structure

13. A statement from the board containing the following elements:

   (i) a disclosure of the board's oversight of ESG issues;

   (ii) the board's ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer's businesses); and

   (iii) how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses.

Reporting Principles

14. A description of, or an explanation on, the application of the following Reporting Principles in the preparation of the ESG report:

   Materiality: The ESG report should disclose: (i) the process to identify and the criteria for the selection of material ESG factors; (ii) if a stakeholder engagement is conducted, a description of significant stakeholders identified, and the process and results of the issuer's stakeholder engagement.

   Quantitative: Information on the standards, methodologies, assumptions and/or calculation tools used, and source of conversion factors used, for the reporting of emissions/energy consumption (where applicable) should be disclosed.

   Consistency: The issuer should disclose in the ESG report any changes to the methods or KPIs used, or any other relevant factors affecting a meaningful comparison.

Reporting Boundary

15. A narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the ESG report. If there is a change in the scope, the issuer should explain the difference and reason for the change.

Climate Change

16. Information about the issuer's exposure to and management of climate-related risks and opportunities with reference to the following core pillars:

(i) **Governance** - the governance process, controls and procedures the issuer uses to monitor and manage climate-related risks and opportunities;

(ii) **Strategy** – the issuer's strategy for addressing significant climate-related risks and opportunities;

(iii) **Risk management** – the process the issuer uses to identify, assess and manage climate-related risks and opportunities; and

(iv) **Metrics and targets** - the metrics and targets the issuer uses to measure, monitor and manage significant climate-related risks and opportunities, and how the issuer assesses its performance (including progress towards the targets set).

Issuers shall refer to Part D of this Code for the contents to be disclosed in respect of each core pillar set out above.

Part C: "Comply or explain" Provisions

Subject Areas, Aspects, General Disclosures and KPIs	
A. Environmental	
Aspect A1: Emissions	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. *Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations.* *Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.*

	Hazardous wastes are those defined by national regulations.	
	KPI A1.1	The types of emissions and respective emissions data.
	KPI A1.2	~~Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).~~*Repealed on [•].*
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).
	KPI A1.5	Description of emission target(s) set and steps taken to achieve them.
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.
Aspect A2: Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. *Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.*	
	KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).
	KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).
	KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.
	KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.
Aspect A3: The Environment and Natural	General Disclosure Policies on minimising the issuer's significant impacts on the environment and natural resources.	

Resources		
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.
Aspect A4: Climate Change	~~General Disclosure~~ ~~Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.~~*[Repealed on [•]]*	
	KPI A4.1	~~Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.~~*[Repealed on [•]]*

Subject Areas, Aspects, General Disclosures and KPIs		
B. Social		
Employment and Labour Practices		
Aspect B1: Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	
	KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.
Aspect B2: Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	

	KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.
	KPI B2.2	Lost days due to work injury.
	KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.
Aspect B3: Development and Training	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. *Note: Training refers to vocational training. It may include internal and external courses paid by the employer.*	
	KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).
	KPI B3.2	The average training hours completed per employee by gender and employee category.
Aspect B4: Labour Standards	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	
	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.
Operating Practices		
Aspect B5: Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.	
	KPI B5.1	Number of suppliers by geographical region.
	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.
	KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.

	KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.
Aspect B6: Product Responsibility	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	
	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.
	KPI B6.2	Number of products and service related complaints received and how they are dealt with.
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.
	KPI B6.4	Description of quality assurance process and recall procedures.
	KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.
Aspect B7: Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	
	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.
	KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.
	KPI B7.3	Description of anti-corruption training provided to directors and staff.

Community		
Aspect B8: Community Investment	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	
	KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).
	KPI B8.2	Resources contributed (e.g. money or time) to the focus area.

Part D: Climate-related disclosures

In this section, the following terms have the following meaning:

(a) "Effective Date" means 1 January 2024; and

(b) "Interim Period" means an issuer's first and second reporting periods following the Effective Date.

Governance	
Governance	1. An issuer shall disclose: (a) the identity of any board committee or board members responsible for oversight of climate-related risks and opportunities; *Note: Disclosures under this paragraph may also form part of the disclosures made pursuant to paragraph 13 of Part B above.* (b) how the board ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities; (c) how and how often the board and its committees are informed about climate-related risks and opportunities; (d) how the board and its committees consider climate-related risks and opportunities when overseeing the issuer's strategy, its decisions on major transactions, and its risk management policies; (e) how the board and its committees oversee the setting of, and monitor and review progress towards, targets related to significant climate-related risks and opportunities, including whether and how related performance metrics are included in remuneration policies; and (f) a description of management's role in assessing and managing climate-related risks and opportunities, including: (i) the scope of climate-related responsibilities and duties performed by management-level position(s) or committee(s); (ii) how the board's oversight is exercised over such management-level position(s) or committee(s); and (iii) whether dedicated controls and procedures are applied to the issuer's management of climate-related risks and opportunities.

Strategy	
Climate-related risks and opportunities	2. An issuer shall disclose its assessment of any climate-related risks reasonably likely to have a material effect on the issuer's business model, strategy and cash flows, its access to finance and its cost of capital, which may manifest in the short, medium or long term. This envisages disclosure on: (a) description of such climate-related risks identified and the time horizon over which each could reasonably be expected to have a material effect on the issuer; (b) how the issuer defines short, medium and long term and how these definitions are linked to the issuer's strategic planning horizons and capital allocation plans; (c) whether the risks identified are physical or transition risks; (d) whether the risks identified are acute or chronic; and (e) current and anticipated effects of any climate-related risks identified on the issuer's: - business operations (including the types and locations of operations), business model and strategy; - products or services; and/or - suppliers and other parties in its value chain. 3. Where applicable, an issuer may disclose the actual and potential effects of any climate-related opportunities in response to the provisions described in paragraph 2 above. 4. In preparing the disclosure in paragraphs 2 and 3 above, an issuer shall consider the applicability of and disclose the metrics referenced in paragraphs 13 to 22 under "Metrics and Targets" below (e.g. percentage and amount of assets or business activities vulnerable to such risks).
Transition plans	5. Describe how the issuer is responding to the climate-related risks identified in paragraph 2 above and, where applicable, any climate-related opportunities identified, including: (a) any current or anticipated changes to the issuer's business model, strategy and resource allocation to address such climate-related risks and opportunities; (b) any adaptation and mitigation efforts (direct or indirect) undertaken or to be undertaken by the issuer; and (c) how these plans will be resourced. 6. Disclose the following information in respect of any climate-related targets the issuer has set for plans referred to in paragraph 5 above and any GHG emission targets the issuer is required to meet by local legislation: (a) specific target set by the issuer for addressing climate-related risks and opportunities;

	(b) whether the target is an absolute target or an intensity target; (c) objective of the target (e.g. mitigation, adaptation or conformance with sector or science-based initiatives); (d) scope of the target (e.g. whether the target applies to the entire group or only a specific business unit or geographic region); (e) period over which the target applies; (f) base period from which progress is measured; (g) milestones or interim targets (if any); (h) in relation to GHG emission targets, the extent to which the target relies on the use of carbon credits. This envisages the disclosure of: (i) gross emission targets, intended use of carbon credits and net emission targets separately; and (ii) the type of carbon credit (e.g. whether through carbon removal or emission avoidance), and whether the credits will be subject to a third-party credit verification or certification scheme. *Notes:* *1. Targets set may or may not be those set out under KPIs A1.5, A1.6, A2.3 and A2.4 of this Code.* *2. Issuers who do not provide information in relation to paragraph 6 above should disclose the work plan, progress and timetable for setting climate-related targets and making the relevant disclosure.* 7. Disclose, by way of comparison, the progress made in the most recent reporting year in respect of plans disclosed in accordance with paragraphs 5 and 6 above. Issuers are not required to make this disclosure in their ESG reports covering the first reporting period following the Effective Date.
Climate resilience	8. Disclose information that enables investors to understand the resilience of the issuer's strategy (including its business model) and operations to climate-related changes, developments or uncertainties. This envisages disclosure on: (a) the extent assets and business activities at risk are covered by the issuer's strategy, its current and planned mitigation actions and/or investments; (b) the implications, if any, of the issuer's findings for its strategy, including how it would need to respond to the anticipated effects on the issuer during its transition to a lower-carbon economy; (c) the significant areas of uncertainty considered in the analysis of climate resilience; and

	(d) the ability of the issuer to adjust, or adapt its business model, in the future in terms of, for example, access to finance and cost of capital, product and services portfolio shift or reskilling of workforce. 9. Describe the climate-related scenario analysis used to assess the effect of climate-related risks and, where applicable, opportunities on its business model, strategy and cash flows, its access to finance and its cost of capital, and the resilience of its strategy and business model. An issuer should use a method of climate-related scenario analysis that is commensurate with an issuer's circumstances. At a minimum, an issuer should disclose the following information: *Inputs used in the analysis* (a) scope of risks (for example, scope of physical risks) and scope of operations (for example, business segment, location, sites or assets covered) covered; (b) details of the assumptions (for example, geospatial coordinates specific to issuer locations or national- or regional-level broad assumptions); (c) where applicable, upstream and/or downstream activities in the value chain covered in the analysis; *How the analysis has been conducted* (d) which scenarios were used for the assessment and the sources of such scenarios; (e) whether the scenarios used are associated with transition risks or increased physical risks; (f) how the scenarios chosen are relevant to assessing the issuer's resilience; (g) critical assumptions about the way the transition to a lower-carbon economy will affect the issuer; and (h) time horizons used in the analysis.
Financial effects of climate-related risks and opportunities	*Current financial effect* 10. (a) Describe and, where material, quantify the effect of climate-related risks and, where applicable, climate-related opportunities identified on the issuer's financial position, financial performance and cash flows for the most recent reporting period; and (b) describe whether and how such risks and, where applicable, opportunities may result in a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year. *Notes:* *(1) Issuers should account for climate-related matters in the financial statements in accordance with the requirements*

under HKFRS, IFRS, CASBE or the alternative overseas financial reporting standard acceptable to the Exchange.

(2) Where the quantitative information disclosed pursuant to paragraph 10(a) above is not expressed as a standalone item in the financial statements, the issuer shall explain how such information is reflected in its financial statements (e.g. identifying the relevant financial item).

Interim provision

During the Interim Period, issuers who have yet to provide quantitative information pursuant to paragraph 10(a) above should provide qualitative disclosures.

Anticipated financial effect

11. Describe the anticipated effects of climate-related risks and where applicable, opportunities identified on the issuer's financial position, financial performance and cash flows over the short, medium and long term. This envisages disclosures on:

    (a) how the issuer expects its financial performance to change over the short, medium and long term, considering its strategy to address significant climate-related risks and opportunities; and

    (b) how the issuer expects its financial position to change over the short, medium and long term, considering funds (e.g. capital expenditure, R&D expenditure) required to pursue:

    - its current and committed plans; and
    - its planned sources of funding to implement its strategy to address significant climate-related risks and opportunities; and

    (c) how the issuer defines short, medium and long term.

Interim provision

During the Interim Period, issuers who have yet to provide information pursuant to paragraph 11 above should disclose:

(1) information, to the extent reasonably available, that may enable investors to understand the aspects of the financial statements that are most affected; and

(2) the work plan, progress and timetable for making the required disclosure.

Risk Management	
Risk management	12. (a) Describe the process the issuer uses to identify, assess and manage climate-related risks. This envisages disclosure of: (i) how the issuer assesses the likelihood and effects associated with such risks (such as qualitative factors, quantitative thresholds and other criteria used); (ii) how the issuer prioritises climate-related risks relative to other types of risks, including its use of risk-assessment tools (for example, science-based risk-assessment tools); (iii) how the issuer monitors and manages its climate-related risks; (iv) how such process is integrated into the issuer's overall risk management process; and (v) any changes in the processes compared to the prior reporting period. (b) Where applicable, an issuer may describe any process used to identify, assess and manage climate-related opportunities in respect of the provisions described in sub-paragraph (a) above.

Metrics and Targets	
Greenhouse gas (GHG) emissions	13. Disclose absolute gross GHG emissions generated during the reporting period, expressed as metric tons of CO_2 equivalent, classified as: (a) scope 1 emissions; (b) scope 2 emissions; and (c) scope 3 emissions. 14. Disclose the following information in relation to GHG emissions: (a) a statement describing the standard in accordance with which the issuer's GHG emissions have been measured, which must be either (i) the GHG Protocol; or (ii) the protocol that the issuer is required to use by local legislation for measuring GHG emissions; (b) the GHG emissions consolidation approach used: equity share, financial control, or operational control; and (c) a summary of specific exclusion of sources, facilities and/or operations with a justification for their exclusion. 15. In relation to scope 3 emissions,disclose: (a) the categories of significant upstream or downstream activities along the value chain that have been included in the calculation; (b) the basis for selecting such upstream or downstream activities; (c) the basis for its measurement of scope 3 emissions when it includes information provided by entities in its value chain; and (d) the reasons for omission if it excludes those GHG emissions in paragraph 15(c) above. *Interim provision* During the Interim Period, issuers who have yet to disclose all information in relation to scope 3 emissions should disclose: (1) information, to the extent reasonably available, that may enable investors to understand the issuers' relevant upstream or downstream activities along the value chain; and (2) the work plan, progress and timetable for making the required disclosure.
Transition risks	16. Disclose the amount and percentage of assets or business activities vulnerable to transition risk. *Interim provision* During the Interim Period, issuers who have yet to provide quantitative disclosure should (a) describe the assets or business activities identified to be vulnerable to transition risk. Such description should, as a minimum, include the location, nature of asset/ business activity and the transition risk involved; and (b)

	disclose the work plan, progress and timetable for making the required disclosure.
Physical risks	17. Disclose the amount and percentage of assets or business activities vulnerable to physical risk. *Interim provision* During the Interim Period, issuers who have yet to provide quantitative disclosure should (a) describe the assets or business activities identified to be vulnerable to physical risk. Such description should, as a minimum, include the location, nature of asset/ business activity and the physical risk involved; and (b) disclose the work plan, progress and timetable for making the required disclosure.
Climate-related opportunities	18. Disclose the amount and percentage of assets or business activities aligned with climate-related opportunities. *Interim provision* During the Interim Period, issuers who have yet to provide quantitative disclosure should (a) describe the assets or business activities identified to be aligned with climate-related opportunities. Such description should, as a minimum, include the location, nature of asset/ business activity and the opportunity involved; and (b) disclose the work plan, progress and timetable for making the required disclosure.
Capital deployment	19. Disclose the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities. *Interim provision* During the Interim Period, issuers who have yet to make quantitative disclosures should (a) describe the types of activities requiring capital expenditure, financing or investment towards climate-related risks and opportunities; and (b) disclose the work plan, progress and timetable for making the required disclosure.
Internal carbon prices	20. In respect of issuers who maintain an internal carbon price, disclose: (a) the price for each metric tonne of GHG emissions that the issuer uses to assess the costs of its emissions; and (b) an explanation of how the issuer is applying the carbon price in decision-making (for example, investment decisions, transfer pricing, and scenario analysis).
Remuneration	21. Describe how climate-related considerations are factored into remuneration policy. This may form part of the disclosure under paragraph 1(e) above.
Industry-based metrics	22. Issuers are encouraged to consider the industry-based disclosure requirements prescribed under other international ESG reporting frameworks such as the SASB Standards and the GRI Standards, and make disclosures as they see fit.

Part B: Consequential changes to the Listing Rules

Chapter 13

EQUITY SECURITIES

CONTINUING OBLIGATIONS

…

GENERAL

…

Environmental and Social Matters

13.91 (1) The Environmental, Social and Governance (“ESG”) Reporting ~~Guide~~Code in Appendix 27 comprises two levels of disclosure obligations: (a) mandatory disclosure requirements; and (b) “comply or explain” provisions.

(2) For the relevant financial year in their annual reports or in separate ESG reports, issuers must:

(a) disclose the information required under the “Mandatory Disclosure Requirements” in Part B of the ESG Reporting ~~Guide~~Code; and

(b) state whether they have complied with the “comply or explain” provisions set out in Part C of the ESG Reporting ~~Guide~~Code.

…

Appendix 14

CORPORATE GOVERNANCE CODE

INTRODUCTION

…

Linkage between Corporate Governance and Environmental, Social and Governance ("ESG")

Corporate governance provides the framework within which the board forms their decisions and build their businesses. The entire board should be focusing on creating long-term sustainable growth for shareholders and delivering long-term values to all stakeholders. An effective corporate governance structure allows issuers to have a better understanding of, evaluate and manage, risks and opportunities (including environmental and social risks and opportunities). The ESG Reporting ~~Guide~~Code set out in Appendix 27 to the Exchange Listing Rules provides a framework for issuers to, among other things, identify and consider what environmental risks and social risks may be material to them. The board should be responsible for effective governance and oversight of ESG matters, as well as assessment and management of material environmental and social risks. Issuers are required to disclose environmental and social matters in ESG reports in accordance with the ESG Reporting ~~Guide~~Code.

…

PART 2 – PRINCIPLES OF GOOD CORPORATE GOVERNANCE, CODE PROVISIONS AND RECOMMENDED BEST PRACTICES

…

D. AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT

…

D.2 Risk management and internal control

Principle

The board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the issuer's strategic objectives, and ensuring that the issuer establishes and maintains appropriate and effective risk management and internal control systems. Such risks would include, amongst others, material risks relating to ESG (please refer to the ESG Reporting ~~Guide~~Code in Appendix 27 to the Exchange Listing Rules for further information). The board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the board on the effectiveness of these systems.

…

Appendix 16

DISCLOSURE OF FINANCIAL INFORMATION

…

Information in annual reports

…

6. …

   6.4 Issuers must publish ESG reports in accordance with Rule 13.91 and the ESG Reporting ~~Guide~~Code contained in Appendix 27.

…

APPENDIX III: COMPARISON TABLE: APPENDIX 27 TO ISSB CLIMATE STANDARD

Governance

HKEX proposed Rules: Part D of Appendix 27	ISSB Climate Standard exposure draft	HKEX Commentary
Governance process, controls and procedures the issuer uses to monitor and manage climate-related risks and opportunities [Paragraph 16(i) of Part B of Appendix 27]	The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. [Paragraph 4]	Aligned.
---	To achieve this objective, an entity shall disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and information about management's role in those processes. [Paragraph 5]	---
An issuer shall disclose: the identity of any board committee or board members responsible for oversight of climate-related risks and opportunities; [Paragraph 1(a)]	Specifically, an entity shall disclose: the identity of the body or individual within a body responsible for oversight of climate-related risks and opportunities; [Paragraph 5(a)]	Aligned.
Note: Disclosures under this paragraph may also form part of the disclosures made pursuant to paragraph 13 of Part B above. [Note to Paragraph 1(a)]	In preparing disclosures to fulfil the requirements in paragraph 5, an entity shall avoid unnecessary duplication in accordance with [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (see paragraph 78). For example, although an entity shall provide the information required by paragraph 5, when its oversight of sustainability-related risks and opportunities is managed on an integrated basis, providing integrated governance disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity would reduce duplication. [Paragraph 6]	Aligned.

Governance		
HKEX proposed Rules: Part D of Appendix 27	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
---	how the body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies; [Paragraph 5(b)]	Code Provision D.2.1 of the Corporate Governance Code (Appendix 14) requires the board to oversee the issuer's risk management and internal control systems. Principle D.2 further clarifies that such risks include material ESG risks. Issuers are already required to make relevant disclosures, alongside with other responsibilities in their corporate governance reports.
how the board ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities; [Paragraph 1(b)]	how the body ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities; [Paragraph 5(c)]	Aligned.
how and how often the board and its committees are informed about climate-related risks and opportunities; [Paragraph 1(c)]	how and how often the body and its committees (audit, risk or other committees) are informed about climate-related risks and opportunities; [Paragraph 5(d)]	Aligned.
how the board and its committees consider climate-related risks and opportunities when overseeing the issuer's strategy, its decisions on major transactions, and its risk management policies; [Paragraph 1(d)]	how the body and its committees consider climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions, and its risk management policies, including any assessment of trade-offs and analysis of sensitivity to uncertainty that may be required; [Paragraph 5(e)]	Aligned.
how the board and its committees oversee the setting of, and monitor and review progress towards, targets related to significant climate-related risks and opportunities, including whether and how related performance metrics are included in remuneration policies; and [Paragraph 1(e)]	how the body and its committees oversee the setting of targets related to significant climate-related risks and opportunities, and monitor progress towards them (see paragraphs 23–24), including whether and how related performance metrics are included in remuneration policies (see paragraph 21(g)); and	Aligned.

Governance		
HKEX proposed Rules: **Part D of Appendix 27**	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
	[Paragraph 5(f)]	
a description of management's role in assessing and managing climate-related risks and opportunities, including: (i) the scope of climate-related responsibilities and duties performed by management-level position(s) or committee(s); (ii) how the board's oversight is exercised over such management-level position(s) or committee(s); and (iii) whether dedicated controls and procedures are applied to the issuer's management of climate-related risks and opportunities. [Paragraph 1(f)]	a description of management's role in assessing and managing climate-related risks and opportunities, including whether that role is delegated to a specific management-level position or committee and how oversight is exercised over that position or committee. The description shall include information about whether dedicated controls and procedures are applied to management of climate-related risks and opportunities and, if so, how they are integrated with other internal functions. [Paragraph 5(g)]	Aligned.

Strategy		
HKEX proposed Rules: Part D of Appendix 27	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
The issuer's strategy for addressing significant climate-related risks and opportunities [Paragraph 16(ii) of Part B of Appendix 27]	The objective of climate-related financial disclosures on strategy is to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant climate-related risks and opportunities. [Paragraph 7] To achieve this objective, an entity shall disclose information about: (a) the significant climate-related risks and opportunities that it reasonably expects could affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term (see paragraphs 9 – 11); (b) the effects of significant climate-related risks and opportunities on its business model and *value chain* (see paragraph 12); (c) the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its *transition plans* (see paragraph 13); (d) the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (see paragraph 14); and (e) the *climate resilience* of its strategy (including its business model) to significant physical risks and significant transition risks (see paragraph 15). [Paragraph 8]	Aligned.
<u>Climate-related risks and opportunities</u> An issuer shall disclose its assessment of any climate-related risks reasonably likely to have a material effect on	To achieve this objective, an entity shall disclose information about:	Aligned.

Strategy		
HKEX proposed Rules: Part D of Appendix 27	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
the issuer's business model, strategy and cash flows, its access to finance and its cost of capital, which may manifest in the short, medium or long term. [Paragraph 2]	the significant climate-related risks and opportunities that it reasonably expects could affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term (see paragraphs 9 – 11); [Paragraph 8(a)]	
This envisages disclosure on: description of such climate-related risks identified and the time horizon over which each could reasonably be expected to have a material effect on the issuer; [Paragraph 2(a)]	The entity shall disclose: a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. [Paragraph 9(a)]	Aligned.
how the issuer defines short, medium and long term and how these definitions are linked to the issuer's strategic planning horizons and capital allocation plans; [Paragraph 2(b)]	how it defines short, medium and long term and how these definitions are linked to the entity's strategic planning horizons and capital allocation plans. [Paragraph 9(b)]	Aligned.
whether the risks identified are physical or transition risks; [Paragraph 2(c)] whether the risks identified are acute or chronic; [Paragraph 2(d)]	whether the risks identified are physical risks or transition risks. For example, acute physical risks could include the increased severity of extreme weather events such as cyclones and floods, and examples of chronic physical risks include rising sea levels or rising mean temperatures. Transition risks could include regulatory, technological, market, legal or reputational risks. [Paragraph 9(c)]	Aligned.
current and anticipated effects of any climate-related risks identified on the issuer's: - business operations (including the types and locations of operations), business model and strategy; - products or services; and/or - suppliers and other parties in its value chain.	An entity shall disclose information that enables users of general purpose financial reporting to understand its assessment of the current and anticipated effects of significant climate-related risks and opportunities on its business model. Specifically, an entity shall disclose: [Paragraph 12]	Aligned.

Strategy		
HKEX proposed Rules: Part D of Appendix 27	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
[Paragraph 2(e)]	a description of the current and anticipated effects of significant climate-related risks and opportunities on its value chain; and [Paragraph 12(a)] a description of where in its value chain significant climate-related risks and opportunities are concentrated (for example, geographical areas, facilities or types of assets, inputs, outputs or distribution channels). [Paragraph 12(b)]	
Where applicable, an issuer may disclose the actual and potential effects of any climate-related opportunities in response to the provisions described in paragraph 2 above. [Paragraph 3]	Refer to paragraphs 12(a) and 12(b) of ISSB Climate Standard exposure draft above	As not all issuers would have identified climate-related opportunities at this stage, issuers may opt to disclose effects of any climate-related opportunities they may have identified. See Consultation Paper, paragraph 59.
In preparing the disclosure in paragraphs 2 and 3 above, an issuer shall consider the applicability of and disclose the metrics referenced in paragraphs 13 to 22 under “Metrics and Targets” below (e.g. percentage and amount of assets or business activities vulnerable to such risks). [Paragraph 4]	In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity shall refer to the *disclosure topics* defined in the industry disclosure requirements (Appendix B). [Paragraph 10] In preparing disclosures to fulfil the requirements in paragraphs 12 – 15, an entity shall refer to and consider the applicability of cross-industry metric categories and the industry-based metrics associated with disclosure topics, as described in paragraph 20. [Paragraph 11]	Aligned.

Strategy		
HKEX proposed Rules: Part D of Appendix 27	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
<u>Transition plans</u> Describe how the issuer is responding to the climate-related risks identified in paragraph 2 above and, where applicable, any climate-related opportunities identified, including: [Paragraph 5] any current or anticipated changes to the issuer's business model, strategy and resource allocation to address such climate-related risks and opportunities; [Paragraph 5(a)]	**Strategy and decision-making** An entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans. [Paragraph 13] Specifically, an entity shall disclose: how it is responding to significant climate-related risks and opportunities including how it plans to achieve any climate-related targets it has set. This shall include: [Paragraph 13(a)] information about current and anticipated changes to its business model, including: [Paragraph 13(a)(i)] about changes the entity is making in strategy and resource allocation to address the risks and opportunities identified in paragraph 12. Examples of these changes include resource allocations resulting from demand or supply changes, or from new business lines; resource allocations arising from business development through capital expenditures or additional expenditure on operations or research and development; and acquisitions and divestments. This information includes plans and critical assumptions for legacy assets, including strategies to manage carbon-energy- and water-intensive operations, and to decommission carbon-energy- and water-intensive assets. [Paragraph 13(a)(i)(1)]	Aligned.

Strategy		
HKEX proposed Rules: **Part D of Appendix 27**	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
any adaptation and mitigation efforts (direct or indirect) undertaken or to be undertaken by the issuer; and [Paragraph 5(b)]	information about direct adaptation and mitigation efforts it is undertaking (for example, through changes in production processes, workforce adjustments, changes in materials used, product specifications or through introduction of efficiency measures). [Paragraph 13(a)(i)(2)] information about indirect adaptation and mitigation efforts it is undertaking (for example, by working with customers and supply chains or use of procurement). [Paragraph 13(a)(i)(3)]	Aligned.
how these plans will be resourced. [Paragraph 5(c)]	how these plans will be resourced. [Paragraph 13(a)(ii)]	Aligned.
Disclose the following information in respect of any climate-related targets the issuer has set for plans referred to in paragraph 5 above and any GHG emission targets the issuer is required to meet by local legislation: [Paragraph 6]	An entity shall disclose its climate-related targets. For each climate-related target, an entity shall disclose: [Paragraph 23] Clarify that an entity is required to disclose (i) any emission targets that it has set (both net emission targets and gross emission target); and (ii) those it is required to meet by local legislation. [ISSB decision (Oct 2022)]	Aligned.
specific target set by the issuer for addressing climate-related risks and opportunities; [Paragraph 6(a)]	the specific target the entity has set for addressing climate-related risks and opportunities; [Paragraph 23(b)]	Aligned.
whether the target is an absolute target or an intensity target; [Paragraph 6(b)]	whether this target is an absolute target or an intensity target; [Paragraph 23(c)]	Aligned.

Strategy		
HKEX proposed Rules: Part D of Appendix 27	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
objective of the target (e.g. mitigation, adaptation or conformance with sector or science-based initiatives); [Paragraph 6(c)]	the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives); [Paragraph 23(d)]	Aligned.
scope of the target (e.g. whether the target applies to the entire group or only a specific business unit or geographic region); [Paragraph 6(d)]	Require disclosure of the scope of the entity's targets. [ISSB decision (Nov 2022)]	Aligned.
---	how the target compares with those created in the latest international agreement on climate change and whether it has been validated by a third party; [Paragraph 23(e)]	As most of our issuers have just started to set and disclose targets, we prefer to have disclosures with more certainty.
---	whether the target was derived using a sectoral decarbonisation approach; [Paragraph 23(f)]	
period over which the target applies; [Paragraph 6(e)]	the period over which the target applies; [Paragraph 23(g)]	Aligned.
base period from which progress is measured; [Paragraph 6(f)]	the base period from which progress is measured; and [Paragraph 23(h)]	Aligned.
milestones or interim targets (if any); and [Paragraph 6(g)]	any milestones or interim targets. [Paragraph 23(i)]	Aligned.
in relation to GHG emission targets, the extent to which the target relies on the use of carbon credits. This envisages the disclosure of: (i) gross emission targets, intended use of carbon credits and net emission targets separately; and (ii) the type of carbon credit (e.g. whether through carbon removal or emission avoidance), and whether the credits	information regarding climate-related targets for these plans including: [Paragraph 13(b)] the processes in place for review of the targets; [Paragraph 13(b)(i)]	Aligned.

Strategy

HKEX proposed Rules: Part D of Appendix 27	ISSB Climate Standard exposure draft	HKEX Commentary
will be subject to a third-party credit verification or certification scheme. [Paragraph 6(h)]	the amount of the entity’s emission target to be achieved through emission reductions within the entity’s value chain; [Paragraph 13(b)(ii)] the intended use of carbon offsets in achieving emissions targets. In explaining the intended use of carbon offsets the entity shall disclose information including: (1) the extent to which the targets rely on the use of carbon offsets; (2) whether the offsets will be subject to a third-party offset verification or certification scheme (certified carbon offset), and if so, which scheme, or schemes; (3) the type of carbon offset, including whether the offset will be nature-based or based on technological carbon removals and whether the amount intended to be achieved is through carbon removal or emission avoidance; and (4) any other significant factors necessary for users to understand the credibility and integrity of offsets intended to be used by the entity (for example, assumptions regarding the permanence of the carbon offset). [Paragraph 13(b)(iii)] • Net emission target and intended use of carbon credits should be disclosed separately from gross emission targets. • Use the term “carbon credit” instead of “carbon offset” in the context of offsetting emissions in the transition plan.	

Strategy		
HKEX proposed Rules: Part D of Appendix 27	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
	[ISSB decision (Oct 2022)]	
Notes: *1. Targets set may or may not be those set out under KPIs A1.5, A1.6, A2.3 and A2.4 of this Code.* *[Note to Paragraph 6]*	---	---
2. Issuers who do not provide information in relation to paragraph 6 above should disclose the work plan, progress and timetable for setting climate-related targets and making the relevant disclosure. *[Note to Paragraph 6]*	---	More time is provided for issuers to prepare the required disclosures. See Consultation Paper, paragraph 77.
Disclose, by way of comparison, the progress made in the most recent reporting year in respect of plans disclosed in accordance with paragraphs 5 and 6 above. Issuers are not required to make this disclosure in their ESG reports covering the first reporting period following the Effective Date. [Paragraph 7]	quantitative and qualitative information about the progress of plans disclosed in prior reporting periods in accordance with paragraph 13(a) – (b). Related requirements are provided in paragraph 20. [Paragraph 13(c)] metrics used to assess progress towards reaching the target and achieving its strategic goals; [Paragraph 23(a)]	Aligned.
Climate resilience Disclose information that enables investors to understand the resilience of the issuer's strategy (including its business model) and operations to climate-related changes, developments or uncertainties. This envisages disclosure on: [Paragraph 8]	**Climate resilience** An entity shall disclose information that enables users of general purpose financial reporting to understand the resilience of the entity's strategy (including its business model) to climate-related changes, developments or uncertainties — taking into consideration an entity's identified significant climate-related risks and opportunities and related uncertainties. The entity shall use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience. When providing quantitative information, an	Aligned.

Strategy		
HKEX proposed Rules: Part D of Appendix 27	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
	entity can disclose single amounts or a range. Specifically, the entity shall disclose: [Paragraph 15]	
the extent assets and business activities at risk are covered by the issuer's strategy, its current and planned mitigation actions and/or investments; [Paragraph 8(a)]	---	---
the implications, if any, of the issuer's findings for its strategy, including how it would need to respond to the anticipated effects on the issuer during its transition to a lower-carbon economy; [Paragraph 8(b)]	the implications, if any, of the entity's findings for its strategy, including how it would need to respond to the effects identified in paragraph 15(b)(i)(8) or 15(b)(ii)(6); [Paragraph 15(a)(i)]	Aligned.
the significant areas of uncertainty considered in the analysis of climate resilience; and [Paragraph 8(c)]	the significant areas of uncertainty considered in the analysis of climate resilience; [Paragraph 15(a)(ii)]	Aligned.
the ability of the issuer to adjust, or adapt its business model, in the future in terms of, for example, access to finance and cost of capital, product and services portfolio shift or reskilling of workforce. [Paragraph 8(d)]	the entity's capacity to adjust or adapt its strategy and business model over the short, medium and long term to climate developments in terms of: (1) the availability of, and flexibility in, existing financial resources, including capital, to address climate-related risks, and/or to be redirected to take advantage of climate-related opportunities; (2) the ability to redeploy, repurpose, upgrade or decommission existing assets; and (3) the effect of current or planned investments in climate-related mitigation, adaptation or opportunities for climate resilience. [Paragraph 15(a)(iii)]	Aligned.
Describe the climate-related scenario analysis used to assess the effect of climate-related risks and, where applicable, opportunities on its business model, strategy and cash flows, its access to finance and its cost of	An entity shall disclose information that enables users of general purpose financial reporting to understand the resilience of the entity's strategy (including its business model) to climate-related changes, developments or	Aligned.

Strategy		
HKEX proposed Rules: Part D of Appendix 27	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
capital, and the resilience of its strategy and business model. An issuer should use a method of climate-related scenario analysis that is commensurate with an issuer's circumstances. [Paragraph 9]	uncertainties — taking into consideration an entity's identified significant climate-related risks and opportunities and related uncertainties. The entity shall use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience. When providing quantitative information, an entity can disclose single amounts or a range. [Paragraph 15] Mandate the use of climate-related scenario analysis[1] but amend the requirement to require entities to apply a method that is commensurate with its circumstance, and accordingly, remove references to 'alternative methods'. [ISSB decision (4 Nov 2022)]	
At a minimum, an issuer should disclose the following information: *Inputs used in the analysis* scope of risks (for example, scope of physical risks) and scope of operations (for example, business segment, location, sites or assets covered) covered; [Paragraph 9(a)] details of the assumptions (for example, geospatial coordinates specific to issuer locations or national- or regional-level broad assumptions); [Paragraph 9(b)]	how the analysis has been conducted, including: when climate-related scenario analysis is used: [Paragraph 15(b)(i)] the inputs used in the analysis, including—but not limited to—the scope of risks (for example, the scope of physical risks included in the scenario analysis), the scope of operations covered (for example, the operating locations used), and details of the assumptions (for example, geospatial coordinates specific to entity locations or national- or regional-level broad assumptions); and [Paragraph 15(b)(i)(7)]	Aligned.

[1] Paragraph 15(b)(ii) of the ISSB Climate Standard exposure draft regarding disclosures "when climate-related scenario is *not* used" is no longer relevant, and is not included in this table.

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where applicable, upstream and/or downstream activities in the value chain covered in the analysis; [Paragraph 9(c)]		
How the analysis has been conducted	how the analysis has been conducted, including: [Paragraph 15(b)]	Aligned.
which scenarios were used for the assessment and the sources of such scenarios; [Paragraph 9(d)]	which scenarios were used for the assessment and the sources of the scenarios used; [Paragraph 15(b)(i)(1)]	Aligned.
whether the scenarios used are associated with transition risks or increased physical risks; [Paragraph 9(e)]	whether the scenarios used are associated with transition risks or increased physical risks; [Paragraph 15(b)(i)(3)]	Aligned.
how the scenarios chosen are relevant to assessing the issuer's resilience; [Paragraph 9(f)]	whether the analysis has been conducted by comparing a diverse range of climate-related scenarios; [Paragraph 15(b)(i)(2)] whether the entity has used, among its scenarios, a scenario aligned with the latest international agreement on climate change; [Paragraph 15(b)(i)(4)] an explanation of why the entity has decided that its chosen scenarios are relevant to assessing its resilience to climate-related risks and opportunities; [Paragraph 15(b)(i)(5)]	Aligned.
critical assumptions about the way the transition to a lower-carbon economy will affect the issuer; and [Paragraph 9(g)]	assumptions about the way the transition to a lower-carbon economy will affect the entity, including policy assumptions for the jurisdictions in which the entity operates; assumptions about macroeconomic trends; energy usage and mix; and technology.	Aligned.

Strategy		
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	[Paragraph 15(b)(i)(8)]	
time horizons used in the analysis. [Paragraph 9(h)]	the time horizons used in the analysis; [Paragraph 15(b)(i)(6)]	Aligned.
<u>Financial effects of climate-related risks and opportunities</u> *Current financial effect* Describe and, where material, quantify the effect of climate-related risks and, where applicable, climate-related opportunities identified on the issuer's financial position, financial performance and cash flows for the most recent reporting period; and [Paragraph 10(a)]	**Financial position, financial performance and cash flows** An entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning. An entity shall disclose quantitative information unless it is unable to do so. If an entity is unable to provide quantitative information, it shall provide qualitative information. When providing quantitative information, an entity can disclose single amounts or a range. [Paragraph 14] Specifically, an entity shall disclose: how significant climate-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows; [Paragraph 14(a)]	Consistent with the approach adopted in the IFRS accounting standards, we only require issuers to quantify the effect of climate-related risks where such effect is material. See Consultation Paper, paragraph 94. As not all issuers would have identified climate-related opportunities at this stage, issuers may opt to disclose effects of climate-related opportunities they may have identified. See Consultation Paper, paragraph 95.
describe whether and how such risks and, where applicable, opportunities may result in a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year. [Paragraph 10(b)]	information about the climate-related risks and opportunities identified in paragraph 14(a) for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year; [Paragraph 14(b)]	Aligned.
Notes:	---	---

Strategy		
HKEX proposed Rules: Part D of Appendix 27	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
(1) Issuers should account for climate-related matters in the financial statements in accordance with the requirements under HKFRS, IFRS, CASBE or the alternative overseas financial reporting standard acceptable to the Exchange. *(2) Where the quantitative information disclosed pursuant to paragraph 10(a) above is not expressed as a standalone item in the financial statements, the issuer shall explain how such information is reflected in its financial statements (e.g. identifying the relevant financial item).* *[Notes to Paragraph 10]*		
Interim provision During the Interim Period, issuers who have yet to provide quantitative information pursuant to paragraph 10(a) above should provide qualitative disclosures. [Paragraph 10]	if the entity is unable to disclose quantitative information for paragraph 14(a)–(d), an explanation of why that is the case. [Paragraph 14(e)]	More time is provided for issuers to prepare the required disclosures. See Consultation Paper, paragraph 95.
Anticipated financial effect Describe the anticipated effects of climate-related risks and where applicable, opportunities identified on the issuer's financial position, financial performance and cash flows over the short, medium and long term. This envisages disclosures on: [Paragraph 11] how the issuer expects its financial performance to change over the short, medium and long term, considering its strategy to address significant climate-related risks and opportunities; and [Paragraph 11(a)]	how it expects its financial performance to change over time, given its strategy to address significant climate-related risks and opportunities (for example, increased revenue from or costs of products and services aligned with a lower-carbon economy, consistent with the latest international agreement on climate change; physical damage to assets from climate events; and the costs of climate adaptation or mitigation); and [Paragraph 14(d)]	To provide more time for issuers to build models for analysing the anticipated financial impact of climate-related risks, we only require qualitative disclosures. See Consultation Paper, paragraph 99.
how the issuer expects its financial position to change over the short, medium and long term, considering funds (e.g. capital expenditure, R&D expenditure) required to pursue:	how it expects its financial position to change over time, given its strategy to address significant climate-related risks and opportunities, reflecting:	Aligned.

Strategy		
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- its current and committed plans; and - its planned sources of funding to implement its strategy to address significant climate-related risks and opportunities; and [Paragraph 11(b)]	(i) its current and committed investment plans and their anticipated effects on its financial position (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements); (ii) its planned sources of funding to implement its strategy; [Paragraph 14(c)]	
how the issuer defines short, medium and long term. [Paragraph 11(c)]	---	---
Interim provision During the Interim Period, issuers who have yet to provide information pursuant to paragraph 11 above should disclose: (1) information, to the extent reasonably available, that may enable investors to understand the aspects of the financial statements that are most affected; and (2) the work plan, progress and timetable for making the required disclosure. [Paragraph 11]	if the entity is unable to disclose quantitative information for paragraph 14(a)–(d), an explanation of why that is the case. [Paragraph 14(e)]	More time is provided for issuers to prepare the required disclosures. See Consultation Paper, paragraph 99.

Risk Management		
HKEX proposed Rules: **Part D of Appendix 27**	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
Process the issuer uses to identify, assess and manage climate-related risks and opportunities [Paragraph 16(iii) of Part B of Appendix 27]	The objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reporting to understand the process, or processes, by which climate-related risks and opportunities are identified, assessed and managed. [Paragraph 16]	Aligned.
Describe the process the issuer uses to identify, assess and manage climate-related risks. [Paragraph 12(a)]	To achieve this objective, an entity shall disclose: [Paragraph 17] the process, or processes, it uses to identify climate-related: (i) risks; and (ii) opportunities; [Paragraph 17(a)] the process, or processes, it uses to identify climate-related risks for risk management purposes, including when applicable: [Paragraph 17(b)]	Aligned.
This envisages disclosure of: how the issuer assesses the likelihood and effects associated with such risks (such as qualitative factors, quantitative thresholds and other criteria used); [Paragraph 12(a)(i)]	how it assesses the likelihood and effects associated with such risks (such as the qualitative factors, quantitative thresholds and other criteria used); [Paragraph 17(b)(i)]	Aligned.

Risk Management		
HKEX proposed Rules: Part D of Appendix 27	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
how the issuer prioritises climate-related risks relative to other types of risks, including its use of risk-assessment tools (for example, science-based risk-assessment tools); [Paragraph 12(a)(ii)]	how it prioritises climate-related risks relative to other types of risks, including its use of risk-assessment tools (for example, science-based risk-assessment tools); [Paragraph 17(b)(ii)] the input parameters it uses (for example, data sources, the scope of operations covered and the detail used in assumptions); and [Paragraph 17(b)(iii)]	Aligned.
how the issuer monitors and manages its climate-related risks; [Paragraph 12(a)(iii)]	the process, or processes, it uses to monitor and manage the climate-related: (i) risks, including related policies; and (ii) opportunities, including related policies; [Paragraph 17(d)]	Aligned.
how such process is integrated into the issuer's overall risk management process; and [Paragraph 12(a)(iv)]	the extent to which and how the climate-related risk identification, assessment and management process, or processes, are integrated into the entity's overall risk management process; and [Paragraph 17(e)]	Aligned.
any changes in the processes compared to the prior reporting period. [Paragraph 12(a)(v)]	whether it has changed the processes used compared to the prior reporting period; [Paragraph 17(b)(iv)]	Aligned.
Where applicable, an issuer may describe any process used to identify, assess and manage climate-related opportunities in respect of the provisions described in sub-paragraph (a) above. [Paragraph 12(b)]	the process, or processes, it uses to identify, assess and prioritise climate-related opportunities; [Paragraph 17(c)] the process, or processes, it uses to monitor and manage the climate-related: (i) risks, including related policies; and (ii) opportunities, including related policies;	As not all issuers would have identified climate-related opportunities at this stage, issuers may opt to disclose the process used to identify, assess and manage climate-related opportunities. See Consultation Paper, paragraph 104.

Risk Management		
HKEX proposed Rules: **Part D of Appendix 27**	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
	[Paragraph 17(d)] the extent to which and how the climate-related opportunity identification, assessment and management process, or processes, are integrated into the entity's overall management process. [Paragraph 17(f)]	
---	In preparing disclosures to fulfil the requirements in paragraph 17, an entity shall avoid unnecessary duplication in accordance with [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (see paragraph 78). For example, although an entity shall provide the information required by paragraph 17, when its oversight of sustainability-related risks and opportunities is managed on an integrated basis, providing integrated risk management disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity would reduce duplication. [Paragraph 18]	To be included in Implementation Guidance.

Metrics and Targets		
HKEX proposed Rules: Part D of Appendix 27	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
Metrics and targets the issuer uses to measure, monitor and manage significant climate-related risks and opportunities, and how the issuer assesses its performance (including progress towards the targets set) [Paragraph 16(iv) of Part B of Appendix 27]	The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant climate-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set. [Paragraph 19]	Aligned.
---	To achieve this objective, an entity shall disclose: (a) information relevant to the cross-industry metric categories (see paragraph 21), which are relevant to entities regardless of industry and business model; (b) industry-based metrics (as set out in Appendix B) which are associated with disclosure topics and relevant to entities that participate within an industry, or whose business models and underlying activities share common features with those of the industry; (c) other metrics used by the board or management to measure progress towards the targets identified in paragraph 20(d); and (d) targets set by the entity to mitigate or adapt to climate-related risks or maximise climate-related opportunities. [Paragraph 20]	---
Greenhouse gas (GHG) emissions Disclose absolute gross GHG emissions generated during the reporting period, expressed as metric tons of CO_2 equivalent, classified as: (a) scope 1 emissions; (b) scope 2 emissions; and (c) scope 3 emissions. [Paragraph 13]	An entity shall disclose information relevant to the cross-industry metric categories of: (a) *greenhouse gas* emissions—the entity shall disclose: (i) its absolute gross greenhouse gas emissions generated during the reporting period, measured in accordance with the *Greenhouse Gas Protocol Corporate Standard*, expressed as metric tonnes of *CO_2 equivalent*, classified as: (1) *Scope 1 emissions*; (2) *Scope 2 emissions*;	Aligned.

Metrics and Targets		
HKEX proposed Rules: Part D of Appendix 27	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
	(3) *Scope 3 emissions*; [Paragraph 21(a)(i)]	
Disclose the following information in relation to GHG emissions: a statement describing the standard in accordance with which the issuer's GHG emissions have been measured, which must be either (i) the GHG Protocol; or (ii) the protocol that the issuer is required to use by local legislation for measuring GHG emissions; [Paragraph 14(a)]	Grant relief from using GHG Protocol under specific circumstances, including where an entity is required by jurisdictional authority or the exchange on which it is listed to use a GHG emissions measurement method that is different from the GHG Protocol. [ISSB decision (Oct 2022)]	Aligned.
---	its greenhouse gas emissions intensity for each scope in paragraph 21(a)(i)(1)–(3), expressed as metric tonnes of CO_2 equivalent per unit of physical or economic output; [Paragraph 21(a)(ii)] Remove disclosure of GHG emissions intensity. [ISSB decision (Dec 2022)]	Aligned.
the GHG emissions consolidation approach used: equity share, financial control, or operational control; and[Paragraph 14(b)] a summary of specific exclusion of sources, facilities and/or operations with a justification for their exclusion. [Paragraph 14(c)]	for Scope 1 and Scope 2 emissions disclosed in accordance with paragraph 21(a)(i)(1) – (2), the entity shall disclose emissions separately for: (1) the consolidated accounting group (the parent and its subsidiaries); (2) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in paragraph 21(a)(iii)(1); [Paragraph 21(a)(iii)] the approach it used to include emissions for the entities included in paragraph 21(a)(iii)(2) (for example, the equity share or operational control method in the Greenhouse Gas Protocol Corporate Standard); [Paragraph 21(a)(iv)]	Aligned.

Metrics and Targets		
HKEX proposed Rules: Part D of Appendix 27	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
	the reason, or reasons, for the entity's choice of approach in paragraph 21(a)(iv) and how that relates to the disclosure objective in paragraph 19; [Paragraph 21(a)(v)]	
In relation to scope 3 emissions, disclose: (a) the categories of significant upstream or downstream activities along the value chain that have been included in the calculation; (b) the basis for selecting such upstream or downstream activities; (c) the basis for its measurement of scope 3 emissions when it includes information provided by entities in its value chain; and (d) the reasons for omission if it excludes those GHG emissions in paragraph 15(c) above. [Paragraph 15]	for Scope 3 emissions disclosed in accordance with paragraph 21(a)(i)(3): (1) an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions; (2) an entity shall disclose the categories included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported; (3) when the entity's measure of Scope 3 emissions includes information provided by entities in its value chain, it shall explain the basis for that measurement; (4) if the entity excludes those greenhouse gas emissions in paragraph 21(a)(vi)(3), it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure; [Paragraph 21(a)(vi)]	Aligned.
Interim provision During the Interim Period, issuers who have yet to disclose all information in relation to scope 3 emissions should disclose: (1) information, to the extent reasonably available, that may enable investors to understand the issuers' relevant upstream or downstream activities along the value chain; and (2) the work plan, progress and timetable for making the required disclosure.	Provide a transitional relief from disclosing Scope 3 GHG emissions in the first annual reporting period in which an entity applies the ISSB Climate Standard. [ISSB decision (Dec 2022) and ISSB decision (Feb 2023)]	More time is provided for issuers to prepare the required disclosures. See Consultation Paper, paragraph 118.

Metrics and Targets		
HKEX proposed Rules: Part D of Appendix 27	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
[Paragraph 15]		
Transition risks Disclose the amount and percentage of assets or business activities vulnerable to transition risk. *Interim provision* During the Interim Period, issuers who have yet to provide quantitative disclosure should (a) describe the assets or business activities identified to be vulnerable to transition risk. Such description should, as a minimum, include the location, nature of asset/ business activity and the transition risk involved; and (b) disclose the work plan, progress and timetable for making the required disclosure. [Paragraph 16]	transition risks—the amount and percentage of assets or business activities vulnerable to transition risks; [Paragraph 21(b)]	More time is provided for issuers to prepare the required disclosures. See Consultation Paper, paragraph 125.
Physical risks Disclose the amount and percentage of assets or business activities vulnerable to physical risk. *Interim provision* During the Interim Period, issuers who have yet to provide quantitative disclosure should (a) describe the assets or business activities identified to be vulnerable to physical risk. Such description should, as a minimum, include the location, nature of asset/ business activity and the physical risk involved; and (b) disclose the work plan, progress and timetable for making the required disclosure. [Paragraph 17]	physical risks—the amount and percentage of assets or business activities vulnerable to physical risks; [Paragraph 21(c)]	More time is provided for issuers to prepare the required disclosures. See Consultation Paper, paragraph 125.
Climate-related opportunities Disclose the amount and percentage of assets or business activities aligned with climate-related opportunities. *Interim provision* During the Interim Period, issuers who have yet to provide quantitative disclosure should (a) describe the assets or	climate-related opportunities—the amount and percentage of assets or business activities aligned with climate-related opportunities; [Paragraph 21(d)]	More time is provided for issuers to prepare the required disclosures. See Consultation Paper, paragraph 125.

Metrics and Targets		
HKEX proposed Rules: Part D of Appendix 27	**ISSB Climate Standard exposure draft**	**HKEX Commentary**
business activities identified to be aligned with climate-related opportunities. Such description should, as a minimum, include the location, nature of asset/ business activity and the opportunity involved; and (b) disclose the work plan, progress and timetable for making the required disclosure. [Paragraph 18]		
Capital deployment Disclose the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities. *Interim provision* During the Interim Period, issuers who have yet to make quantitative disclosures should (a) describe the types of activities requiring capital expenditure, financing or investment towards climate-related risks and opportunities; and (b) disclose the work plan, progress and timetable for making the required disclosure. [Paragraph 19]	capital deployment—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities; [Paragraph 21(e)]	More time is provided for issuers to prepare the required disclosures. See Consultation Paper, paragraph 125.
Internal carbon prices In respect of issuers who maintain an internal carbon price, disclose: the price for each metric tonne of GHG emissions that the issuer uses to assess the costs of its emissions; and [Paragraph 20(a)] an explanation of how the issuer is applying the carbon price in decision-making (for example, investment decisions, transfer pricing, and scenario analysis). [Paragraph 20(b)]	*internal carbon prices*: (i) the price for each metric tonne of greenhouse gas emissions that the entity uses to assess the costs of its emissions; (ii) an explanation of how the entity is applying the carbon price in decision-making (for example, investment decisions, transfer pricing and scenario analysis); [Paragraph 21(f)]	Acknowledging the difficulty to ascertain an internal carbon price in the absence of a mature carbon market, we will not mandate issuers to maintain an internal carbon price at this stage. See Consultation Paper, paragraph 129.
Remuneration	remuneration:	As it might not be practical to quantify the actual percentage or

Metrics and Targets		
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Describe how climate-related considerations are factored into remuneration policy. This may form part of the disclosure under paragraph 1(e) above. [Paragraph 21]	(i) the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations; and (ii) a description of how climate-related considerations are factored into executive remuneration (also see paragraph 5(f)). [Paragraph 21(g)]	amount of remuneration linked to a particular factor, we will not mandate issuers to disclose the percentage of remuneration linked to climate-related considerations. See Consultation Paper, paragraph 133.
Industry-based metrics Issuers are encouraged to consider the industry-based disclosure requirements prescribed under other international ESG reporting frameworks such as the SASB Standards and the GRI Standards, and make disclosures as they see fit. [Paragraph 22]	In preparing disclosures to fulfil the requirements in paragraph 21(b) – (g), an entity shall (a) consider whether industry-based metrics associated with disclosure topics, as described in paragraph 20(b), including those defined in an applicable IFRS Sustainability Disclosure Standard or those that otherwise satisfy [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* could be used in whole or part to meet the requirements; and (b) in accordance with paragraphs 37 – 38 of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, consider the relationship of these amounts with the amounts recognised and disclosed in the accompanying financial statements (for example, the carrying amount of assets used should be consistent with amounts included in the financial statements and when possible the connections between information in these disclosures and amounts in the financial statements should be explained). [Paragraph 22] • Maintain the requirement that entities provide industry-specific disclosures. • Classify the content in Appendix B as illustrative examples, while stating its intention to make Appendix B mandatory in the future, subject to further consultation.	Aligned.

Metrics and Targets		
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	[ISSB decision (Oct 2022)] In identifying, selecting and disclosing the metrics described in paragraph 23(a), an entity shall refer to and consider the applicability of industry-based metrics, as described in paragraph 20(b), including those defined in Appendix B, those included in an applicable IFRS Sustainability Disclosure Standard, or those that otherwise satisfy [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*. [Paragraph 24]	

APPENDIX IV: PRIVACY NOTICE

Hong Kong Exchanges and Clearing Limited and its affiliated companies (together "**HKEX**", "**we**", **our**" or "**us**") are committed to protecting all Personal Data under our custody, control, or possession. "**Personal Data**" is any information that relates to an identifiable individual or can be used to identify an individual – sometimes the individual is referred to as a "**Data Subject"** or consumer.

This privacy notice ("**Notice**") applies to the Personal Data we collect and further process from Data Subjects who respond to our public consultation papers.

If the correct Personal Data is not submitted to HKEX then we may not be able to ensure the correct details are published or contact respondents if we have queries about their comments and/or, we may be unable to process requests relating to their rights as Data Subjects under the applicable data protection laws.

What Personal Data do we collect and how do we collect it?

Information directly submitted by or collected from you:

- Identity data such as name and position in a company.
- Contact data such as phone number and email address
- Communications data such as subsequent correspondence with you to clarify your comments or to confirm your identity data.

For Data Subjects in Mainland China:

- to verify your identity, we may process your name, position, phone number, and email address ;
- to communicate with you, we may process your name, position, phone number, and email address;
- to register your response in our records or change your response upon your request, we may process your name, position, answers and reasons for those answers ;
- to prepare our publication material, we may process and publish your name and position (where your consent has been provided), and your answers and reasons for those answers .

For Data Subjects who are California residents:

To the extent the California Consumer Privacy Act and the California Privacy Rights Act apply, the types of Personal Data we collect (and have collected in the past 12 months) includes the categories listed below, as defined by California state law:

Category	Source	Purpose of Processing
Personal identifiers such as your name and email address.	Collected directly from you	For verification, record keeping and/or publication.

Category	Source	Purpose of Processing
Information About You including your name, position, and telephone number.		

Why do we use the Personal Data and how do we use it?

The "**Legal Basis**" is what data protection laws set out as the lawful reasons for processing Personal Data, such as a legitimate interest to operate our business so long as it does not materially and adversely impact your interests, rights, and freedoms.

Legal Basis	Purpose
Legitimate Interests	• Identity and contact data to verify and clarify responses • Identity data where consent has been provided for external publication
Consent	**Separate consent** • Required if you are a Data Subject in Mainland China and we need to share your Personal Data with a third party, publicly disclose it, or transfer it outside Mainland China
Legal or Regulatory Obligations	• Discharge the functions of HKEX and any company of which HKEX is the recognised exchange controller • Comply with a court order, subpoena or other legal process • Comply with a request by a government authority, law enforcement agency or similar body • Comply with laws applicable to us including domestic data protection laws

Do we disclose Personal Data to third parties or transfer it to another jurisdiction?

HKEX discloses Personal Data to one or more third party organisations that enable us to process public consultation papers and these include:

- Affiliates of Hong Kong Exchanges and Clearing
- Our contractors or vendors who provide telecommunications, IT security, or other technical assistance
- Our vendors who facilitate the availability of online forms
- Our vendors who provide strategy or other consultancy services in respect of our businesses
- Our agents, contractors or vendors who provide administrative support to us

To fulfil our legal obligations, we may also share your Personal Data with courts, regulatory authorities, government and law enforcement agencies, and other public authorities.

Further details about these third parties may be provided upon request to the address in the "Contact Us" section below. We shall endeavour to provide such information to the extent we are required to do so under applicable data protection laws.

Where required under applicable data protection laws, HKEX will only disclose Personal Data to third parties with your prior consent. In certain jurisdictions, HKEX may also be required to take additional measures prior to giving effect to such transfers (e.g. carrying out privacy impact assessments prior to the transfer).

HKEX may process Personal Data outside of the Data Subject's home jurisdiction, including sharing the Personal Data with third parties. HKEX shall use reasonable endeavours to ensure that the laws and regulations of the destination jurisdiction shall offer the same or comparable level of protection for Personal Data. Where this is not the case, we shall ensure appropriate safeguards are in place at the time of the transfer by implementing standard contractual clauses or other data transfer mechanism approved by the authorities of the relevant jurisdiction. Where required under applicable data protection laws, we shall also carry out additional measures for the offshore transfer such as carrying out a privacy impact assessment.

The regions where the Personal Data may be hosted or transferred to will vary from time to time, but typically include Hong Kong, the UK, US, EU, Switzerland, Singapore, Japan, India, and Mainland China.

Further details on the processing locations and our measures for safeguarding international transfers (including adequacy decisions) may be obtained upon request to the address in the "Contact Us" section below.

How long do we keep the Personal Data?

Personal Data is retained in accordance with our internal policies, including our Group Record Retention Policy, and applicable law.

Your Personal Data will be retained by us for as long as is necessary to fulfil the purposes required for the processing. HKEX will also refer to the following factors when determining or confirming the appropriate retention period of Personal Data:

- the original purpose of collection
- the termination of any contract involving the Data Subject's Personal Data
- the limitation period as defined in the applicable law
- the existence of any legal or regulatory investigations or legal proceedings
- specific laws or regulations setting out HKEX's functions, obligations, and responsibilities
- retention period set out in non-statutory guidelines issued by our regulators or international bodies
- the sensitivity of the Personal Data and the degree of risk from the associated processing activity

For Data Subjects in Mainland China, we usually retain the Personal Data for not more than 3 years from the last activity or interaction with us. Further details of our Personal Data retention period may be obtained upon request to the address in the "Contact Us" section below.

Where any Personal Data is no longer necessary for the purposes for which it is collected, we shall cease the processing of that Personal Data as soon as reasonably practicable (although copies may be retained as necessary for archival purposes, for use in any actual or potential dispute, or for compliance with applicable laws), and take reasonable measures to destroy the relevant Personal Data.

How do we keep your Personal Data secure?

We will take all practicable and reasonable steps to promote the security of the Personal Data we process in a manner consistent with applicable data protection laws and established international security standards. This includes physical, technical and administrative safeguards, to help prevent unauthorised access, collection, use, disclosure, copying, modification, disposal or similar risks, and the loss of any storage medium or device on which the Personal Data is stored, and to maintain the general security of the data.

Rights over the Personal Data

As a summary, the following Data Subject rights may be exercised to the extent provided under applicable data protection laws:

- confirm whether we hold the Data Subject's Personal Data and the type of Personal Data held by us
- access a copy of the Personal Data held by us
- delete your Personal Data held by us
- correct or supplement your Personal Data where it is found to be inaccurate
- restrict the processing performed on your Personal Data
- withdraw consent to the processing of your Personal Data in certain situations (e.g. processing carried out on the basis of our legitimate interests)
- transfer the Personal Data to another party in a machine readable format

In certain jurisdictions, Data Subjects may also be provided with additional rights.

California	• Request that we disclose the categories of third parties with whom we have shared the information and the categories of Personal Data that we have shared with third parties for a business purpose
Mainland China	• Explanation on the rules of processing the Personal Data • Extension of the Data Subject rights to a surviving next-of-kin where the applicable laws permit • Transfer of your Personal Data to your designated party, where the applicable laws permit
United Kingdom and Europe	• Right to object to processing. You have the right to object to processing to the extent we process your Personal Data because the processing is in our legitimate interests.
Singapore	• In certain circumstances, receive information about the ways in which the Personal Data has been or may have been used or disclosed by us in the year before the date of the request.

Where these rights apply, we shall use reasonable endeavours to fulfil the request or provide an explanation. Please note that under applicable data protection law, we are only obligated to respond to Personal Data requests from the same consumer up to two times in a 12-month period, and we may be limited in what Personal Data we can disclose which is also for the protection of your Personal Data.

We will endeavour to respond to you as soon as possible and, in any event, within the timeframe stipulated under the applicable data protection law. In the event of a potential delay, we will provide an explanation and the expected timeframe for delivery. Under applicable data protection law, we may also be required to charge a reasonable fee for the cost of processing the request.

Please note that we may need to seek confirmation of identity or clarification in order to fulfil the request. If you as the Data Subject would like to appoint an authorised agent to make a request on your behalf, we may require you to verify your identity with us directly before we provide any requested information to your authorised agent unless your authorised agent has power of attorney or acts as a conservator. Information collected for purposes of verifying your request will only be used for verification. For deletion requests, you will be required to submit a verifiable request for deletion and then confirm separately that you want Personal Data about you deleted.

If you would like to exercise your data subject rights, please contact the HKEX Group Data Protection Office via one of the channels below.

Contact Us

If you have any questions or comments relating to the content of this Notice, report any concerns about our Personal Data processing, or if you would like to exercise your Data Subject Rights, please contact us through the channels below:

By Post:
Group Data Protection Officer
GDPO Office
Hong Kong Exchanges and Clearing Limited
8/F., Two Exchange Square
8 Connaught Place
Central
Hong Kong

UK Representative: 10 Finsbury Square, London, EC2A 1AJ, United Kingdom
EU Representative: De Cuserstraat 91, 1081 CN Amsterdam, Postbus/PO Box 7902, 1008 AC Amsterdam, Netherlands

By email: DataPrivacy@hkex.com.hk

Please include the following details in any request to exercise your Data Subject Rights:

Identity of Data Subject

- *Full Name*
- *Company Name*
- *Email Address*
- *Address of principal residence*
- *Identity particulars if acting on behalf of a Data Subject*
- *Contact details held on file or Document(s) to verify identity*

Nature of the Request

- *Product or Service to which the Data Subject has subscribed*
- *Specific Right*
- *Purpose of the Request*
- *Preferred communication channel and address for receiving the results of the request*
- *Document(s) to support the rights request*

Any Data Subject who has contacted us to express concerns about the way we manage their Personal Data and is of the view that we have not addressed the matter satisfactorily, may also contact the relevant privacy regulator to resolve the matter or seek assistance.

The privacy regulator in the United Kingdom is the Information Commissioner, who may be contacted at https://ico.org.uk/make-a-complaint/ or by post to: Wycliffe House, Water Lane, Wilmslow, Cheshire, SK9 5AF, United Kingdom.

If you live outside of the UK, you may contact the relevant data privacy regulator in your country of residence.

Last Updated: 14 April 2023

Annex

This Notice relates to privacy practice of the following HKEX group entities. For the contact details of the following entities, please refer to the "Contact Us" section.

- The Hong Kong Stock Exchange of Hong Kong Limited
- Hong Kong Futures Exchange Limited
- Hong Kong Securities Clearing Company Limited
- HKFE Clearing Corporation Limited
- The SEHK Options Clearing House Limited
- OTC Clearing Hong Kong Limited
- HKEX Information Services Limited
- HKEX Information Services (China) Limited
- HKEX (China) Limited, HKEX Investment (China) Limited
- HKEX Investment (Hong Kong) Limited
- Qianhai Mercantile Exchange Co. Ltd.
- Hong Kong Futures Exchange Limited Singapore Branch
- The Stock Exchange Of Hong Kong Limited Singapore Branch
- HKEX (U.S.) LLC

Hong Kong Exchanges and Clearing Limited

8/F, Two Exchange Square
8 Connaught Place
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