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HKEx Moves Forward With Diversity, Climate and Sustainability Initiatives

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Key Points

- Hong Kong regulators have taken action in recent years on a range of ESG issues.
- Companies listed on the Hong Kong Stock Exchange will be required to have at least one female director on their board by the end of 2024.
- A new climate reporting regime has been proposed in line with international standards, but implementation has been postponed until January 1, 2025.
- Use of paper will be significantly reduced with the introduction of a new "paperless regime" for shareholder communications that began this year.

In recent years, investors and other members of the public have been focused on environmental, social and governance (ESG) issues, and financial regulators globally having been taking initiatives to require companies to meet these expectations.

Hong Kong Exchanges and Clearing (HKEx) is no exception, with a number of regulatory developments in this area intended to maintain Hong Kong's leadership position as a global financial center.

Three recent areas of focus for HKEx have been: board diversity, global standard climate reporting and green initiatives in the form of a new paperless filing and shareholder communication regime.

Board Diversity

On January 1, 2022, HKEx amended its listing rules to prohibit single-gender boards. The requirement applied to new listing applicants from mid-2022 on, while existing listed companies were given three years, through December 31, 2024, to comply.

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Two-thirds of the way through that transition period, significant progress has been made.

As of December 31, 2020, around 32% of Hong Kong listed companies had no female directors on their boards, according to data cited by HKEx in its April 2021 market consultation on the new rules. In November 2023, HKEx reported in its latest review of listed company corporate governance practices that the percentage of listed companies with single-gender boards had dropped to 21%.

While this shows significant progress, many companies still need to take action by the end of 2024 to meet the deadline. Companies should consider addressing the board diversity rule in the upcoming annual general meeting season rather than waiting until the deadline.

Progress has been made to bring women onto boards, but HKEx observed that of the companies with female directors, only about half had a female director sitting on mandatory board committees (audit, nomination and remuneration committees). The proportion of female chairs of the mandatory board committees also remained low, indicating that more action is needed to ensure meaningful female participation at the board level.

In terms of other diversity factors, while companies are required to put in place a policy on board diversity, HKEx has so far declined to impose any particular requirements. However, it stated in the Consultation Conclusions that companies "are encouraged to include a broader spectrum of diversity perspectives within their policies, recruitment approach and in their corporate reporting as appropriate."

Climate Reporting

In April 2023, HKEx consulted the market on a proposed new climate-related reporting regime for listed companies. The proposal would require companies to make a variety of climate-related disclosures under the four core pillars of governance, strategy, risk management, and metrics and targets. That would bring Hong Kong in line with the latest global standards on climate reporting.

Notably, companies would be required to disclose Scopes 1, 2 and — after an interim transition period — 3 greenhouse gas emissions. (Scope 1 emissions are direct emissions from sources controlled by a company. 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 and, as such, are very broad.)

The proposals were modeled on the International Financial Reporting Standard (IFRS) S2 Climate-Related Disclosures published by the International Sustainability Standards Board (ISSB). In June 2023, the ISSB published the final IFRS Sustainability Disclosure Standards, comprising the IFRS S1 General Requirements for Disclosure of Sustainability-Related Financial Information and the ISSB Climate Standard.

The ISSB had indicated that an adoption guide would be published by the end of 2023 to support local regulators implement the new standards, and HKEx had planned to take that guide into account when finalizing the relevant listing rule amendments. But by early November 2023, the guide had not been issued, prompting HKEx to postpone the effective date for the new climate disclosure requirements to January 1, 2025.

The final HKEx consultation conclusions and listing rule amendments have not yet been published.

Notably, the People's Republic of China (PRC) adopted a similar reporting framework in new guidelines on sustainability disclosures for listed companies published by the Shanghai, Shenzhen and Beijing Stock Exchanges in February 2024. While not explicitly adopting the ISSB standards, the PRC guidelines cover the same four core pillars (governance, strategy, risk management, and metrics and targets).

However, the PRC approach appears to be less stringent than that taken in Hong Kong. For example, companies will only be required to report on Scope 1 and 2 emissions, and encouraged to report on Scope 3 emissions where conditions permit. In addition, companies will be required to disclose their contributions to supporting China's national development strategies, including in areas such as rural revitalization, contribution to public welfare and promotion of innovation.

The PRC requirements will not apply across the board to all listed companies. For the Shanghai and Shenzhen Stock Exchanges, the mandatory reporting requirements will apply only to index constituents and dual-listed companies (covering approximately half of the total market capitalization of the two exchanges). The Beijing Stock Exchange, which is focused on small and medium-sized enterprises, is adopting a voluntary disclosure regime only.

The new reporting regime will require companies to issue their reports for the 2025 calendar year by April 30, 2026.

Ditching Paper and Going Green

Finally, HKEx has introduced a new paperless regime that will significantly reduce paper usage in the Hong Kong market by abolishing numerous paper filing requirements as well as mandating paperless shareholder communications.

Previously, shareholder communications such as financial reports, proxy materials and circulars were required to be sent to shareholders in printed paper form. Companies could choose to publish such communications in electronic form, provided they had obtained consent from each individual shareholder (either as an express consent or, more commonly, by the company sending letters to shareholders inviting them to submit a form to "opt in" to receive paper copies but otherwise deeming them to have consented to receive electronic communications only).

As of January 1, 2024, companies must send communications in electronic form only (provided this is permitted by their jurisdiction's laws of incorporation). There will be no need to seek shareholder consent for these arrangements; companies may rely on implied consent.

Companies must, however, allow shareholders to request paper copies if they so wish. Documents such as announcements, reports and circulars may be published on the HKEx and company's website, while actionable corporate communications requiring a response from shareholders must be sent to shareholders individually either electronically or by mail.

At the same time, HKEx has eliminated numerous requirements for the filing of paper documents with the exchange, either replacing them with electronic filing or scrapping the submission requirement entirely and instead building the relevant content of the submissions into listing rule requirements.

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