

# HKEx Publishes Consultation Conclusions on Enhancing Climate-Related Disclosure

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On 19 April 2024, the Stock Exchange of Hong Kong Limited (**HKEx**) published the [conclusions to its consultation on the enhancement of climate-related disclosures](#) under the exchange's environmental, social and governance (**ESG**) framework.

Effective from 1 January 2025, a new set of rules mandating climate-related disclosures (**New Climate Requirements**) will be added to the Environmental, Social and Governance Reporting Code (**ESG Code**) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (**Listing Rules**). The New Climate Requirements will be implemented in phases subject to certain implementation relief.

## Background

HKEx developed the New Climate Requirements to reference the IFRS Sustainability Disclosure Standards (**ISSB Standards**) published by the IFRS Foundation's International Sustainability Standards Board (**ISSB**) in June 2023. The ISSB Standards aim to serve as the global baseline of sustainability reporting standards for entities worldwide to prepare consistent, comparable and reliable sustainability disclosures. The International Organisation of Securities Commissions (**IOSCO**) endorsed the ISSB Standards in July 2023 and called on its member jurisdictions to consider ways to adopt, apply or otherwise be informed by the ISSB Standards within the context of their jurisdictional arrangements.

In August 2023, Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group (of which HKEx is a member) announced its priorities to further strengthen Hong Kong's sustainable finance ecosystem and identified as a key priority the need to develop a comprehensive Hong Kong roadmap to adopt the ISSB Standards. In February 2024, the IFRS Foundation published the ISSB Adoption Guide Preview, which suggests a focus on entities whose securities are publicly traded. The guide allows jurisdictional regulators to (i) classify these entities into different market tiers according to thresholds such as an issuer's size, volume of traded securities or liquidity, and (ii) consider an accelerated introduction of the requirements of the ISSB Standards for more advanced market tiers.

The New Climate Requirements serve as an interim step in developing a comprehensive sustainability and climate reporting regime as part of the Hong Kong government's vision for sustainability disclosure. In particular, the government will work with financial regulators and stakeholders to develop a roadmap for the appropriate adoption of the ISSB Standards, and the Hong Kong Institute of Certified Public Accountants (**HKICPA**) will set the standards for local sustainability reporting (**HK Standards**) to align with the ISSB Standards.

The ISSB Standards consist of the IFRS S1 General Requirements for Disclosure of Sustainability-Related Financial Information (**IFRS S1**) and the IFRS S2 Climate-Related Disclosures (**IFRS S2**). The new ESG Code will enhance climate-related disclosure requirements based on IFRS S2, and HKEx has [published Implementation Guidance](#) with reference to IFRS S1 to assist issuers in complying with the New Climate Requirements.

## Key Components of the New Climate Requirements

The New Climate Requirements call for disclosure regarding the following four core pillars in relation to climate-related risks and opportunities:

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Core Pillar	Examples of New Disclosures Required
<b>Governance</b>	The governance process, controls and procedures an issuer uses to monitor, manage and oversee climate-related risks and opportunities.
<b>Strategy</b>	An issuer's strategy for managing climate-related risks and opportunities, including: <ul style="list-style-type: none"> <li>- Details of the climate-related risks and opportunities that could reasonably be expected to affect the issuer's cash flows, access to finance or cost of capital over the short, medium or long term.</li> <li>- Current and anticipated effects of climate-related risks and opportunities on the issuer's business model and value chain, strategy and decision-making.</li> <li>- Qualitative and quantitative information of the current and anticipated financial effects of climate-related risks and opportunities.</li> <li>- Resilience of the issuers' strategy and business model to climate-related changes, developments and uncertainties using climate-related scenario analysis.</li> </ul>
<b>Risk management</b>	The process an issuer uses to identify, assess, prioritise and monitor climate-related risks and opportunities.
<b>Metrics and targets</b>	The metrics and targets an issuer uses to understand its performance in relation to climate-related risks and opportunities, including: <ul style="list-style-type: none"> <li>- Scope 1, scope 2 and scope 3 greenhouse gas emissions. (This disclosure will be implemented in phases as further described below.)</li> <li>- The amount and percentage of assets and business activities vulnerable to climate-related transition and physical risks.</li> <li>- The amount and percentage of assets or business activities aligned with climate-related opportunities.</li> <li>- Capital deployment toward climate-related risks and opportunities.</li> <li>- Progress toward any climate-related targets the issuer has set and any targets it is required to meet by law or regulations.</li> </ul>

## Phased Approach for Implementation of the New Climate Requirements

The HKEx will adopt a phased approach to implement the New Climate Requirements, as follows:<sup>1</sup>

- All listed issuers will be required to disclose their scope 1 and scope 2 greenhouse gases (**GHG**) emissions on a mandatory basis for financial years commencing on or after 1 January 2025 (replacing the current “comply or explain” requirement).
- Issuers listed on the HKEx Main Board will be required to report on the New Climate Requirements (other than scope 1 and scope 2 GHG emissions, which all issuers are required to disclose) on a “comply or explain” basis for financial years commencing on or after 1 January 2025.

- Hang Seng Composite LargeCap Index constituents<sup>2,3</sup> (**LargeCap issuers**) will be required to report on the New Climate Requirements on a mandatory basis for financial years commencing on or after 1 January 2026.
- All GEM-listed issuers are encouraged, on a voluntary basis, to report on the New Climate Requirements for financial years commencing on or after 1 January 2025.

<sup>1</sup> See paragraph 17 of the ESG Code.

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New Climate Requirements Effective Dates		
	Disclosure on scope 1 and scope 2 GHG emissions	Disclosure other than scope 1 and scope 2 GHG emissions
LargeCap issuers <sup>2,3</sup>	Mandatory disclosure: FY2025	Comply or explain: FY2025 Mandatory disclosure: FY2026
Main Board issuers (other than LargeCap issuers)		Comply or explain: FY2025
GEM issuers		Voluntary disclosure: FY2025

## Implementation Relief

The ESG Code will introduce the following four grounds for relief from implementation of certain disclosure requirements to address concerns about the reporting challenges that some issuers may face due to lack of resources and/or technical knowledge and expertise:

- **Reasonable information relief** is a proportionality relief that enables issuers to use all reasonable and supportable information available to them at the reporting date without undue cost or effort to make certain disclosures. The assessment of what constitutes undue cost or effort depends on an issuer's circumstances and requires a balanced consideration of the costs and efforts for the issuer and the benefits of the resulting information for stakeholders.

- **Capabilities relief** is a proportionality relief to consider the skills, capabilities and resources available to an issuer.
- **Commercial sensitivity relief** exempts disclosure of information about a climate-related opportunity in limited circumstances where such information is commercially sensitive and not publicly available.
- **Financial effects relief** allows an issuer to disclosure of qualitative instead of quantitative financial information where certain conditions are met.

The table below summarises where implementing reliefs from the New Climate Requirements are available.

New Climate Requirement	Reasonable Information Relief	Capabilities Relief	Commercial Sensitivity Relief	Financial Effects Relief
All paragraphs with respect to climate-related opportunities			✓ <sup>4</sup>	
Identification of climate-related risks and opportunities	✓ <sup>5</sup>			
Determination of the scope of the value chain	✓ <sup>6</sup>			

(Continued on next page)

<sup>2</sup> Issuers that are Hang Seng Composite LargeCap Index (HSCLI) constituents throughout their entire financial year 2025 will be required to make mandatory climate disclosure regarding their ESG reports for financial year 2026. Once an issuer becomes subject to mandatory disclosure of the New Climate Requirements, the company must continue to disclose information in accordance with the requirements even if it subsequently ceases to be an HSCLI constituent.

<sup>3</sup> See note to paragraph 17 of the ESG Code.

<sup>4</sup> See note 2 to paragraph 20 of the ESG Code.

<sup>5</sup> See note 1(a) to paragraph 20 of the ESG Code.

<sup>6</sup> See note to paragraph 21 of the ESG Code.

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New Climate Requirement	Reasonable Information Relief	Capabilities Relief	Commercial Sensitivity Relief	Financial Effects Relief
Quantification of current and anticipated financial effects		✓ <sup>7</sup> (anticipated financial effects only)		✓ <sup>8</sup>
Disclosures on anticipated financial effects	✓ <sup>9</sup>	✓ <sup>10</sup>		
Use of climate-related scenario analysis	✓ <sup>11</sup>	✓ <sup>12</sup>		
Measurement approach, inputs and assumptions of scope 3 GHG emissions	✓ <sup>13</sup>			
Calculation of metrics in certain cross-industry categories for climate-related transition risks, physical risks and opportunities	✓ <sup>14</sup>			

Issuers subject to the comply-or-explain regime are required to provide considered reasons (including the application of any implementation relief) for nondisclosure of information called for under the ESG Code. In addition, where an issuer has yet to disclose information required under any of the New Climate Requirements, regardless of whether the issuer has (i) opted to explain with considered reasons why it has not made a particular disclosure under the comply-or-explain regime or (ii) chosen to adopt implementation relief available under the ESG Code (whether the issuer is required to report on a mandatory or a comply-or-explain basis), HKEx encourages the issuer to provide information on the work plan, progress and timetable for making the required disclosure.<sup>15</sup>

<sup>7</sup> See note 4 to paragraph 25 of the ESG Code.

<sup>8</sup> See notes 3 and 5 to paragraph 25 of the ESG Code.

<sup>9</sup> See note 2 to paragraph 25 of the ESG Code.

<sup>10</sup> *Ibid.*

<sup>11</sup> See note to paragraph 26 of the ESG Code.

## Recommendations

Listed companies should consider familiarizing themselves with the New Climate Requirements and the ISSB Standards, identifying any gaps in their internal procedures and systems and establishing necessary measures as soon as possible to position themselves to comply with the new reporting and disclosure requirements.

While the Implementation Guidance does not constitute part of the Listing Rules, issuers are encouraged to refer to and apply the guidance when preparing their climate-related disclosures under the ESG Code to help equip themselves for eventual climate reporting in accordance with the HK Standards.

<sup>12</sup> *Ibid.*

<sup>13</sup> See note 1 to paragraph 29 of the ESG Code.

<sup>14</sup> See note to paragraph 32 of the ESG Code.

<sup>15</sup> See paragraph 16 of the ESG Code.

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