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Listing Rules Amendments Enhance Climate-Related Disclosures for Hong Kong Listed Companies

The amendments, which will become effective from 1 January 2025, aim to reflect the ISSB Climate Standards to the maximum extent possible.

In April 2024, the Stock Exchange of Hong Kong Limited (the Exchange) released the consultation conclusions (the [Consultation Conclusions](#)) to its earlier Consultation Paper on Enhancement of Climate-related Disclosures under the Environmental, Social, and Governance (ESG) Framework (the [Consultation Paper](#)). The concluded measures will amend the existing ESG framework to mandate Hong Kong listed issuers to make climate-related disclosures (the New Climate Requirements) based on the IFRS S2 Climate-related Disclosures published by the International Sustainability Standards Board (ISSB) in June 2023 (the ISSB Climate Standard). The amended Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules) will come into effect on 1 January 2025.

The Exchange also published the [Implementation Guidance for Climate Disclosures under HKEX ESG Reporting Framework](#) (the Implementation Guidance) to assist issuers' compliance with the new climate requirements. The Implementation Guidance: (a) sets out principles, guidance, and illustrative examples for implementing the new Rules; and (b) refers issuers to step-by-step workflows, external frameworks, and tools to assist in preparing disclosures. Going forward, the Exchange will provide further guidance and training as appropriate.

What Are the New Climate Requirements?

The Exchange will introduce a Part D of the ESG Guide (revised to be the ESG Code upon the effectiveness of the new rules) as set out in Appendix C2 to the Listing Rules, to set out the climate-related disclosure framework. In line with the ISSB Climate Standard principles, the ESG Code also adopts a phased approach and implementation reliefs, allowing different categories of listed issuers to be subject to different reporting timeframes and at different levels of obligation.

Climate-Related Framework

Following the structure of the Recommendations of the Task Force on Climate-related Financial Disclosures issued by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) in June 2017 and the ISSB Climate Standard, the New Climate Requirements are organized under four pillars:

- **Governance:**
 - Disclose governance controls and procedures used to monitor and manage climate-related risks and opportunities.
- **Strategy:**
 - Disclose:
 - climate-related risks and opportunities, their effect on strategy and decision-making, and their current and anticipated effects on the business' operations, model, and value chain;
 - qualitative and quantitative information on the current and anticipated financial effects of climate-related risks and opportunities on the issuer's financial position, financial performance, and cash flow;
 - the resilience of the issuer's strategy (including its business model) and operations to climate-related changes by using climate-related scenario analysis; and
 - transition plans, targets and timetables, and the progress of such transition plans.
- **Risk Management:**
 - Disclose:
 - the processes and related policies the issuer uses to identify, assess, prioritise, and monitor climate-related risks and opportunities; and
 - the extent to which, and how, such processes are integrated to inform the issuer's overall risk management process.
- **Metrics and Targets:**
 - Disclose:
 - scope 1 and scope 2 GHG emissions, where disclosure of scope 2 GHG emissions shall use a location-based method;
 - scope 3 GHG emissions, including in-scope categories of significant upstream or downstream categories and the basis of their selection;
 - cross-industry metrics, including (1) the amount and percentage of assets or business activities vulnerable to climate-related transition and physical risks, (2) the amount and percentage of assets or business activities aligned with climate-related opportunities, and (3) the amount of capital expenditure deployed towards climate-related risks and opportunities;

- for issuers who maintain an internal carbon price, the internal carbon price and an explanation of how the issuer is applying the carbon price in decision-making, or otherwise a negative statement; and
 - how climate-related considerations are factors into remuneration policy, or otherwise a negative statement.
- Issuers are encouraged to refer to and consider the applicability of the industry-based metrics associated with disclosure topics described in the IFRS S2 Industry-based Guidance on implementing Climate-related Disclosures and other industry-based disclosure requirements prescribed under other international ESG reporting frameworks.

Categories of Issuers

For compliance with the New Climate Requirements, listed issuers will be divided into the following categories:

- LargeCap issuers, defined as Hang Seng Composite LargeCap Index (HSCLI) constituents throughout the year immediately prior to the relevant reporting year. Please note that once an issuer becomes a LargeCap issuer, it must continue to disclose information according to the New Climate Requirements (even if it subsequently ceases to be an HSCLI constituent);
- Main Board issuers other than LargeCap issuers; and
- GEM issuers.

Level of Compliance and the Phased Approach

The New Climate Requirements have adopted a phased approach by allowing different categories of listed issuers to make disclosures on the basis of:

- “Comply or explain”: If a Main Board issuer does not report on one or more of the ESG Code provisions, it must provide considered reasons in its ESG report. Climate-related disclosures must be disclosed on a comply-or-explain basis, save for those subject to mandatory disclosure requirements.
- “Mandatory”: A Main Board issuer must report the information required under the ESG Code. The New Climate Requirements have updated the disclosure of scope 1 and scope 2 GHG emissions from “comply or explain” to “mandatory”. In addition, 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.
- “Voluntary”: GEM issuers are encouraged to report on the New Climate Requirements (in addition to scope 1 and scope 2 GHG emissions which are required to be disclosed by all issuers) for financial years commencing on or after 1 January 2025, on a voluntary basis.

Types of Issuers	New Climate Requirements Effective Date	
	Disclosure of scope 1 and scope 2 GHG emissions	Other disclosures (other than scope 1 and scope 2 GHG emissions)
LargeCap issuers	Mandatory: in financial years commencing on or after 1 January 2025	<ul style="list-style-type: none"> Comply or explain: in financial years commencing on or after 1 January 2025 Mandatory: in financial years commencing on or after 1 January 2026
Main Board issuers (other than LargeCap issuers)		Comply or explain: in financial years commencing on or after 1 January 2025
GEM issuers		Voluntary: in financial years commencing on or after 1 January 2025

Implementation Relief

In addition to the phased approach and to align with the ISSB Climate Standard, the Exchange has introduced four different types of implementation relief to address issues around issuers' readiness and concerns regarding data availability when preparing climate-related disclosures for certain disclosure requirements:

- Reasonable information relief:** A proportionate relief that enables issuers to use all "reasonable and supportable information" available at the reporting date without undue cost or effort to make certain disclosure. "Reasonable and supportable information" shall be information about past events, current conditions, and forecasts of future economic conditions that are available at the reporting date, and it may include external data (e.g., rating agencies' ESG ratings, sustainability disclosures, and economists' forecasts) and internal data (e.g., the issuer's risk management response, climate-risk assessments). The assessment of what constitutes undue cost or effort depends on the 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:** A proportionate relief to allow issuers to take an approach informed by or commensurate with their available skills, capabilities, and resources at the particular point of preparing climate-related disclosure. "Available skills, capabilities, and resources" may include both internal and external skills, capabilities, and resources, which could be developed through a process of learning and iteration.
- Commercial sensitivity relief:** A relief to exempt disclosure of information about climate-related opportunity when such information is commercially sensitive, and providing that:

- information about the climate-related opportunity is not publicly available;
- disclosure could reasonably be expected to seriously prejudice the economic benefits the issuer would otherwise be able to realise; and
- an issuer has determined it impossible to disclose that information in a manner that would enable the issuer to meet the disclosure requirement objectives without seriously prejudicing the economic benefit the issuer would otherwise be able to realise.

Where an issuer elects to use the commercial sensitivity relief, it shall, for each non-disclosed item omitted, disclose the fact that it has used the exemption, and reassess, at each reporting date, whether the information qualifies for the exemption.

- **Financial effects relief:** A relief to allow disclosure of qualitative instead of quantitative financial information when the following conditions are met:
 - the quantitative effects of climate-related risk of opportunity are not separately identifiable; or
 - the uncertainty involved in estimating those quantitative effects is so high that such information would not be useful.

Where an issuer takes advantage of the financial effects relief, it will be required to (1) explain why it has not provided quantitative information; (2) provide qualitative information about the relevant financial effects; and (3) provide quantitative information about the combined financial effects of the relevant climate-related risk or opportunity with other climate-related risks or opportunities.

Available Implementation Relief for Relevant Climate-Related Disclosure Requirements

Relevant New Climate Requirement Disclosure	Implementation Relief			
	Reasonable Information Relief	Capabilities Relief	Commercial Sensitivity Relief	Financial Effects Relief
All paragraphs with respect to climate-related opportunities			✓	
Identification of climate-related risks and opportunities	✓			
Determination of the scope of the value chain	✓			
Quantification of current and anticipated financial effects		✓		✓

		(anticipated financial effects only)		
Preparation of disclosures on anticipated financial effects	✓	✓		
Use of climate-related scenario analysis	✓	✓		
Measurement approach, inputs, and assumptions of Scope 3 GHG emissions	✓			
Calculation of metrics (in particular cross-industry metric categories)	✓			

International Standard and Assurance

Issuers may adopt international ESG reporting guidance, including the IFRS Sustainability Disclosure Standards, so long as the guidance includes comparable disclosures to those required under the ESG Code. ESG reports prepared in compliance with the IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and the ISSB Climate Standard are considered to have complied with Part D of the ESG Code.

As a globally-accepted assurance standard had yet to be developed, the Exchange did not impose mandatory independent assurance for ESG information at the current stage. In the meantime, issuers are encouraged to seek independent assurance to strengthen the credibility of ESG information disclosed, and to make relevant disclosures when such assurance is obtained.

Impact on Listing Compliance

The Exchange acknowledges that listed issuers are at different stages of their sustainability journeys. To align with the ISSB Climate Standard, the Exchange has adopted a phased approach and introduced the implementation relief, so as to address concerns about the reporting challenges issuers may face due to different levels of readiness to meet the new requirements.

On the other hand, the Exchange expects issuers will continue to develop their climate-related framework and strengthen their quality of disclosure over time through a process of learning and iteration. As such, we recommend issuers to consider taking the following actions:

- Undertake a gap analysis of current sustainability disclosures against the New Climate Requirements, enhance ESG strategies and policies, set out a detailed work plan, and create a reasonable timetable for improving climate-related governance structures.
- Identify climate-related risks and opportunities and conduct climate scenario analyses. If such risks and opportunities are material, carefully consider their impact on financial positions and performance, and make appropriate disclosures in both financial and ESG reports.

- Disclosure for scope 1 and 2 GHG emissions will be mandatory for all types of issuers for financial years commencing on or after 1 January 2025, meaning such disclosure will have to be included in such ESG reports to be published in 2026.
- While disclosure of scope 3 GHG emission will be mandatory for LargeCap issuers for financial years commencing on or after 1 January 2026 only, we recommend issuers to become familiarised with the requirements and start planning to collect relevant data.
- Where an issuer has yet to disclose information required under any of the New Climate Requirements, regardless of whether an issuer has (1) opted to “explain” why it has not made a particular disclosure; or (2) chosen to adopt any implementation relief available under the ESG Code (whether it is required to report on a mandatory or “comply or explain” basis), it is encouraged to provide information on the work plan, progress, and timetable for making the required disclosure.

Conclusion

Listed issuers should now familiarise themselves with the new climate disclosure requirements, particularly the mandatory scope 1 and scope 2 GHG emissions disclosure requirements. Notably, as implementation reliefs are available for certain disclosure requirements, listed issuers are advised to consider whether any of the implementation reliefs will be applicable. IPO applicants planning to submit an application to the Exchange should also be mindful of the New Climate Requirements and commence necessary preparatory work to implement the relevant systems, policies, and processes to ensure compliance after listing once the new Listing Rules take effect.

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