

# HKEX Consultation Paper – Enhancement to Climate-related disclosures under the Environmental, Social and Governance Framework

First Sentier Investors (FSI) is an asset management business and the home of investment teams FSSA Investment Managers, Igneo Infrastructure Partners, Realindex Investments and Stewart Investors. Our vision is to be a provider of world-leading investment expertise and client solutions, led by our responsible investment principles. We are stewards of assets under management of AU\$215.5 billion (as at 31/12/22) across listed equities, fixed income and direct infrastructure on behalf of institutional investors, pension funds, wholesale distributors and platforms, financial advisers and their clients.

In order to transition to a low carbon economy, we need to have alignment between regulatory frameworks and climate goals. As allocators of capital, stewards of our clients’ assets and active shareholders in companies, we know that the decisions we make will influence the nature and speed of the transition to a low carbon economy. We need access to reliable and consistent information to identify where there are material climate related risks and opportunities, in order to adequately price in those risks and opportunities. This will in turn, help us protect and grow our clients’ wealth. Therefore, we are supportive of standardised corporate climate-related disclosures.

The IFRS Foundations International Sustainability Standards Board (ISSB) provide for globally consistent sustainability-related disclosures that will allow companies to report in a comparable manner. We are supportive of the proposed upgrades to mandatory climate-related disclosures for listed companies outlined in Part D of Appendix 27 by the Hong Kong Stock Exchange (“HKEX”) which are substantially aligned with the intentions of ISSB. In line with other global climate-related disclosure requirements, we agree that the proposed HKEX framework should follow the four core pillars of the Task-Force on Climate-related Disclosures namely; Governance, Strategy, Risk management and Metrics and Targets. It is positive to see that most of the proposed revised rules will apply from January 2024. It is also encouraging to see that existing ESG disclosures are being well adopted under both mandatory and ‘comply or explain’ models for HK listed entities.

Overall, we believe the enhanced HKEX proposals will support the intended goal of the HKEX playing a leading role in promoting sustainable regulatory frameworks and the Hong Kong governments carbon neutrality targets by 2050.

## FSI Consultation Responses

#	Question	FSI Response
1.	Do you agree to upgrade climate-related disclosures to mandatory from “comply or explain”? Please provide reasons for your views.	Yes, we support the change from voluntary to mandatory disclosure. The risk of voluntary and/or materiality-based assessed disclosure is that companies may focus on specific areas where they may do well and tend to omit where the company is lagging behind. Mandatory disclosure does bring more structure and a common standard that will help with better

### FIRST SENTIER INVESTORS

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		comparison of company reported data and should also lead to more concise and robust reporting.
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	Yes, we support new governance disclosures. Climate-related issues need to be owned and overseen by the board and its senior executive team. The new governance disclosures can add to a better understanding how this is implemented in practice. Setting out disclosures such as how often (frequency) board discussions take place, identities of board committees or board members responsible for oversight and board expertise and skills in place will enhance appendix 27 disclosures.
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.	Yes, we support the requirements for additional disclosure on the actual and potential impacts of climate risks and opportunities. Detailed disclosure allows investors to assess whether boards understand the impacts on the risks the business may face, but also seize opportunities that this may present and is an opportunity to show how they are managing those risk and opportunities in order to create a sustainable business model.
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.	We agree that issuers may opt to disclose the actual and potential effects of Climate related opportunities, but such opportunities may not be related to or in response to climate-related risks. For example, an Airconditioning manufacturer might find revenue increasing opportunities related to climate change due to warming temperature but may still face physical climate risk in its factories located in flood-prone areas or may need to pay carbon tax in certain jurisdictions. Suggest editing the language in the code slightly to decouple that.
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.	We support a common baseline of metrics and targets, including industry-specific and sector-specific metrics, based on TCFD, Sustainability Accounting Standards Board (SASB) and the forthcoming ISSB climate standard. Industry and sector-specific metrics and targets are central to achieving consistent and comparable data cross entities.
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.	<p>We agree with the requirement to disclose climate-related risk including under transition and adaptation planning. It is important for investors to understand how issuers are considering and mitigating risks to their business model, strategy and resource allocation. We agree with the requirement to disclose use of carbon credits to achieve decarbonisation targets and importantly whether such credits are independently verified.</p> <p>Additionally, climate related opportunities may not be applicable to all issuers, so we agree to not make it voluntary.</p>

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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.	<p>On 6 a) and c) noting that specific target set by the issuer for addressing climate related risks and opportunities may be different from setting GHG emissions reduction targets. It could be to increase the number of electric vehicle sales or to protect natural mangrove habitats on coastal areas for flood protection.</p> <p>We believe it would be useful to add another question on target setting methodology and another on any industry alliances or initiatives that a company joined to commit to such targets.</p>
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.	Yes, however it may be useful to shorten the length of the interim period by which companies need to have the required targets set that are in scope of paragraph 6 of Part D of Appendix 27.
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.	A qualitative/quantitative assessment of the progress made toward targets would be helpful, It will enable companies to make the necessary adjustments when falling short. We acknowledge that certain projects/transition plans and actions will take a while before they show an effect on progress data.
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.	<p>The sub-questions in this section may be asking similar info from other questions (e.g. 2 (e), 5 (a) and (b)); also similar language found in Chapter 2 paragraph 63, 64 and 69.</p> <p>The questions seem to seek info on climate response by issuers or extension of climate risk analysis, rather than the issuer's preparedness or adaptability as explained in the Chapter 2 paragraph 84.</p>
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.	<p>Regarding this point: "An issuer should use a method of climate-related scenario analysis that is commensurate with an issuer's circumstances." Will issuers be allowed to provide a different level of disclosure as per the three stages of progression in the use of climate-related scenario analysis (namely, just beginning, gaining experience and advanced experience) that would be part of the guidance to be developed by the ISSB?</p> <p>Paragraph 9 might be better suited as a subsection under the climate-related risks and opportunities section in paragraph 2.</p>

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		9(c) where applicable, upstream and/or downstream activities in the value chain covered in the analysis;" might be difficult to implement in climate scenario analysis.
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.	Since the effects of climate related risks and opportunities may manifest over a long-time horizon, such climate related risks and opportunities may not affect financial performance, position or balance sheet in a short time such as 1 or 2 years (in relation to the “most recent reporting period” and “financial statements within the next financial year” remarks). Proposed accounting adjustments (footnote 43) already include areas where subjective judgements come into play – more guidance on when to recognize and realize certain losses and write-offs would be helpful.
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 D of the Proposed Appendix 27? Please provide reasons for your views.	A link to paragraph 16-19 on interim provision guidance would be helpful for qualitative disclosures during the Interim period.
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.	It would be good to clearly define whether this question is targeting financial effects directly resulting from climate risks/opportunities only, or financial effects of implementing climate transition/decarbonization plan as a means to address such climate risk and opportunities, or both?
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 in the paragraph immediately following paragraph 11 of Part D of the Proposed Appendix 27? Please provide reasons for your views.	Link to paragraph 16-19 on interim provision guidance would be helpful for qualitative disclosures during the Interim period.

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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 paragraph 12(a) of Part D of the Proposed Appendix 27? Please provide reasons for your views.	12 (ii) is not very clear. Prioritization of climate-related risks vs, other types of risks would depend on the nature, severity, and impact of the risks. Is it asking how an issuer quantifies them using the same metrics (e.g. Value at Risk) and then how the issuer uses such info to prioritize certain risks? What could be some science-based risk-assessment tools?
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.	This response could be linked to scenario analysis section in paragraph 9.
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.	Yes, we agree that companies should disclose Scope 1 and Scope 2 emissions as it is key to understanding the company's business model and where GHG emissions are emitted and its potential efficiency. It also allows investors to assess where companies are moving directionally (still increasing or decreasing GHG emissions). For certain industries such as Oil and Gas it would be helpful to create consistency in approach as there can be quite large differences between GHG emissions disclosed based on equity share versus operational control and does make comparison challenging.
	b) Do you agree with the proposed approach for the disclosure of scope 3 emissions and the related information as set out in paragraphs 13 to 15 of Part D of the Proposed Appendix 27? Please provide reasons for your views.	Yes, we agree with the proposed approach, however, the interim period needs to be defined and companies should over time include all categories. Guidance on the significant category per industry may also be useful to ensure that there is consistency in disclosure and will enable investors to assess companies in similar industries on a like for like basis.
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.	Suggest to add disclosure on challenges to report scope 3 emissions and what they are doing to mitigate the issues. Defining the interim period and as per above it would be helpful with guidance on the significant categories per sector/industry to ensure companies focus on the most material categories.
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	Partly agree. Companies should be in a good position to understand which assets under their control or which activities that will be impacted by transition risks. As policy setting can differ according to the jurisdiction, companies should have a good understanding of the potential impact. Investors would largely benefit from a more detailed presentation what the transition risks are and where they are taking place. It would helpful to be more specific on what companies should disclose on.

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	(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.	No Comment
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.	No Comment
	(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.	No Comment
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.	No Comment
	(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.	No Comment
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.	Yes, we agree to require disclosure of capex towards climate-related risks. Capex is an important indicator of a company's planned investment in resiliency and transition. Disclosure of capex (and additionally turnover and opex) is used for corporate reporting under the EU's Corporate Sustainability Reporting Directive. Disclosing capex here will maintain alignment with global standards.



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	(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.	No Comment
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.	We agree that it is better to disclose the internal carbon price if used, but it is not required to maintain an internal carbon price.
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.	We agree that remuneration policies are important incentives for achieving a company's goals and objectives. We understand the proposed approach is to not mandate issuers to disclose the percentage of remuneration linked to climate-related considerations. Instead, issuers are required to describe how climate-related considerations are factored into remuneration policy. We agree with this measured approach given companies consider a range of factors in determining remuneration packages including other sustainability related targets.
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.	We agree with the approach of encouraging issuers to consider industry-based disclosures and make disclosures as they see fit. We agree that standards are still evolving and mandatory requirements could be revisited in due course.
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.	No Comment
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.	It would be useful to develop a set of sector-level examples quantifying the financial effects of climate risks.
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	No Comment

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	the proposals in this paper? Please share your views with us.	