

# AA & T Consulting

Aug/Sep 2022 – Regulatory Alerts – ESG Series

## Content:

*Environmental, Social and Governance (ESG) Reporting:*

- *Introduction*
- *Highlights of ESG reporting requirements in Hong Kong*
  - *HKMA*
  - *SFC*
  - *HKEX*
  - *Insurance Authority*

*Dear Friends,*

*ESG or sustainability reporting is no longer some nice-to-have features for governance or reporting processes. While there is yet to have a generally adopted international standard, there are strong calls for convergence.*

*In this newsletter series, we will highlight ESG reporting requirements in various jurisdictions. We will cover the requirements in Hong Kong in this issue. Since there are many publications in this area, we will only highlight points of interests for ESG reporting practitioners here. Please enjoy!*

*If you need any advices or training on ESG or other regulatory matters, feel free to contact us via our website or email.*

*AA & T Consulting Advisory team*

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### Introduction

- ESG or sustainability reporting is no longer some nice-to-have features for many international and local corporates. It is now required as an integrated part of risk management and governance of regulated entities in many jurisdictions.
- In 2016, China formally signed and ratified the Paris Agreement, and announced its application to Hong Kong. In 2017, the “Hong Kong’s Climate Action Plan 2030+” set out Hong Kong carbon emission reduction target for 2030.

### Introduction (continued)

- Back in 2016, The Stock Exchange of Hong Kong, a subsidiary of the Hong Kong Exchanges and Clearing Limited (HKEX) published requirements under the Listing Rules requiring all listed companies in Hong Kong to report on ESG.
- Regulators, like the Hong Kong Monetary Authority (HKMA), Securities & Futures Commission of Hong Kong (SFC), Insurance Authority have also issued separate guidance or circulars related to ESG or sustainability reporting.

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## ESG reporting requirements in Hong Kong

### HKMA

- HKMA is the regulatory body for banks in Hong Kong. In 2019, it adopted a 3-phase approach to Green and Sustainable Banking:
  - Phase I: Developing “Greenness Baseline” for banks
  - Phase II: Setting tangible deliverables for promoting green and sustainable banking
  - Phase III: Setting the targets; implement, monitor and evaluate banks’ progress in this regard

### HKMA (continued)

- In Dec 2021, HKMA issued its Supervisory Policy Manual (SPM) GS-1 on Climate Risk Management which covers: 1) Governance, 2) Strategy, 3) Risk Management and 4) Disclosure of Climate Risk Management.
- Banks should develop appropriate approach to disclosing climate-related information to enhance transparency, at a minimum, aligned with TCFD recommendations\*. (6.2.1 of GS-1)
  - The TCFD’s 11 recommendations cover four thematic areas (i.e. governance, strategy, risk management, and metrics and targets) that address financial risks and opportunities posed by climate change. (6.2.2 of GS-1)

\* The Task Force on Climate related Financial Disclosures (TCFD) was set up in Dec 2015 by Financial Stability Board (FSB). It is a set of disclosure recommendations to provide climate risk information to investors, lenders & insurance underwriters.

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### SFC

- In Sep 2018, SFC, the regulator of securities firms and other licensed corporations, published its Strategic Framework for Green Finance, which covers three major areas:
  - i) enhancing listco, asset manager and investment product disclosures and their consideration of ESG factors (esp. climate risks)
  - ii) facilitating development of green or ESG-related investment products, and supporting investor awareness and capacity building;
  - iii) promoting Hong Kong as an international green finance centre

### SFC (continued)

- In Aug 2022, SFC published its Agenda for Green and Sustainable Finance to support Hong Kong's role as a regional green finance centre and will focus on:
  - i) Enhancing corporate disclosures
  - ii) Monitoring the implementation of and enhancing existing measures relating to ESG funds and expectations for fund managers
  - iii) Identifying an appropriate regulatory framework for any proposed carbon markets.

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## Aug/Sep 2022 – Regulatory Alerts – ESG Series

### SFC

- In Aug 2021, SFC published a circular on Management and Disclosure of Climate-related Risks by Fund Managers:
  - i) requiring Fund Managers managing funds to consider climate-related risks in their investment and risk management processes covering 1) governance, 2) investment management, 3) risk management and 4) disclosure
  - ii) setting out the expected standards for Fund Managers which include (i) baseline requirements for all those managing funds and (ii) enhanced standards for “Large Fund Managers” with fund which equal or exceed HK\$8 billion

### SFC (continued)

- Large fund managers should comply with baseline disclosure requirements by Aug 2022 while others by Nov 2022. The disclosures include but not limited to:
  - i) Governance: governance structure, board and management’s roles and oversight of climate risks and issues at entity level
  - ii) Investment management: steps to incorporate climate risks into investment management process
  - iii) Risk management: key tools and metrics to identify, assess, manage and monitor climate risks
  - iv) Others: climate risk engagement policy and implementation at entity level; at a minimum, provide the portfolio carbon footprints of the **Scope 1 and Scope 2 GHG\* emissions** associated with the funds’ underlying investments at the fund level, and its calculation methodology, underlying assumptions

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\* GHG – Green house gases

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## Aug/Sep 2022 – Regulatory Alerts – ESG Series

### HKEX

- HKEX introduced ESG reporting (Appendix 27 of Main Board Listing Rule (MBLR)) back in 2016. It was subsequently amended to strengthen its requirements. In 2019, it was amended to introduce the following:
  - 1) mandatory disclosure requirements on:
    - A board statement of ESG issues
    - Application of relevant Reporting Principles (ie. materiality, quantitative, consistency & balance)
    - Reporting boundary and identification process
  - 2) disclosure of significant climate-related issues;
  - 3) Upgrading disclosure obligation of all Social KPI to “comply or explain”

### HKEX (continued)

- The current App. 27 includes: 1) Environmental; and 2) Social aspects: *(Note: Governance is covered by Corporate Governance Report as required by App. 14 of MBLR.)*  
*Environmental*
- *Disclosure on KPI and policies, include:*
  - 1) *Emissions: type & data of emissions, incl. Scope 1 and 2 of GHG\*; hazardous & non-hazardous waste*
  - 2) *Use of resources: Energy consumption and efficiency by type (eg. electricity); water consumption*
  - 3) *Environment and natural resources: impacts of activities to environment and natural resources*
  - 4) *Climate change: description of climate-related issues and its impacts and actions to manage them*

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Aug/Sep 2022 – Regulatory Alerts – ESG Series

## HKEX (continued)

### Social

- *Disclosure on KPI and policies, include:*

#### *Employment and Labour:*

- 1) Employment: Compliance; workforce and turnover rate by gender, age & region
- 2) Health and safety: Compliance; work-related fatalities; lost days due to injury; health & safety measures implemented
- 3) Development and training: employee trained % and hours by gender/grade/other categories
- 4) Labour Standards: Practices to avoid child and forced labour; actions when discovered

## HKEX (continued)

### Social (continued)

- *Disclosure on KPI and policies, include: (cont'd)*

#### *Operating Practices*

- 5) Supply Chain Mgt.: No. of suppliers by region; practices to engage suppliers & promote environmentally preferable products & services
- 6) Product responsibility: Recall % due to safety and health reasons; no. of products & services with complaints; practices protecting intellectual property rights; quality assurance procedures; customer data protection and privacy policies
- 7) Anti-corruption: No. of legal cases regarding corrupt practices & their outcomes; preventive and whistle-blowing procedures; training provided to directors and staff

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### *HKEX (continued)*

#### *Social (continued)*

- *Disclosure on KPI and policies, include: (cont'd)*

#### *Community*

8) Community investment: areas of contribution; resources contributed (eg., money/time)

### *Insurance Authority (IA)*

- In Apr 2022, IA issued a letter to insurers regarding the International Sustainability Standards Board (ISSB)'s public consultation on proposed general sustainability-related disclosure requirements and climate-related disclosure requirements.
- IA would work closely with the insurance industry to evaluate how ISSB's proposed disclosure requirements can be applied in HK.

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## How can AA & T Consulting help?

The above are some highlights of the current requirements on ESG reporting in HK. Hope that these will help preparing your journey to ESG reporting.

If you need any help, feel free to contact us by phone (+852 9181 8659 (HK); +61 452 371 753 (Aus.)), email ([advisory@aathk.com](mailto:advisory@aathk.com)) or via website's "contact us" page at: [www.aathk.com](http://www.aathk.com) or [www.aataus.com](http://www.aataus.com) .



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