

Standard Setting Department
Hong Kong Institute of Certified Public Accountants
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To the Hong Kong Institute of Certified Public Accountants (HKICPA),

I appreciate the opportunity to provide feedback on the Exposure Drafts of HKFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and HKFRS S2 (Climate-related Disclosures). The ongoing commitment to aligning Hong Kong's sustainability disclosure framework with international standards is commendable and essential to maintaining Hong Kong's status as an international financial centre.

As part of this feedback, I would like to highlight several practical challenges that companies face and offer suggestions on how they might be addressed.

1. Challenges of Companies Listed in Hong Kong but Operating Elsewhere (e.g., Mainland China)

Many companies listed in Hong Kong conduct a substantial portion of their operations in other jurisdictions, such as Mainland China. This creates challenges in gathering region-specific data for emissions factors and climate risk scenarios, particularly for scope 3 disclosures and scenario analysis. The lack of Hong Kong-specific databases further complicates this process.

Recommendations:

- **Collaboration with Mainland China:** Establishing cooperative efforts between Hong Kong and Mainland China can facilitate the development of region-specific databases. This would streamline cross-border data collection, making scope 3 disclosures more accurate and reliable.
- **Investment in Green Fintech:** Encourage the use of technology solutions that allow for efficient data gathering across regions. Advanced platforms could help companies manage sustainability data from diverse locations.
- **Capacity Building:** Develop specialized training programmes that focus on cross-border sustainability accounting, ensuring that companies can navigate data and reporting challenges effectively.

2. Talent Development: Cooperation with the EU and UK

Hong Kong has a unique opportunity to strengthen its talent pool in sustainability reporting by partnering with more mature markets such as the European Union and the United Kingdom. Both regions have robust sustainability frameworks and can offer valuable expertise in carbon accounting and sustainability reporting.

Recommendations:

- **Joint Programmes:** Initiate exchange programmes between Hong Kong universities and institutions in the UK and EU. These programmes could focus on building expertise in carbon accounting, scenario analysis, and sustainability reporting.
- **Global Certifications:** Develop globally recognized certifications for sustainability professionals in collaboration with EU and UK bodies, ensuring that Hong Kong's talent is competitive on an international scale.
- **Best Practices Exchange:** Host joint workshops and conferences with EU and UK institutions to exchange best practices in sustainability reporting.

3. Sharing Best Practices on IFRS S1 and S2 Adoption Across Jurisdictions

The successful adoption of IFRS S1 and S2 in Hong Kong requires close cooperation with other jurisdictions that have already implemented these standards.

Recommendations:

- **Industry Associations:** Utilize industry associations to facilitate the exchange of best practices between Hong Kong and other global financial centres. These associations should play an active role in developing sector-specific guidance and sharing successful case studies from jurisdictions like the EU, Australia, and New Zealand.
- **Cross-jurisdictional Working Groups:** Establish working groups that include representatives from countries that have adopted the IFRS standards. These groups can discuss challenges and opportunities, helping to ensure consistency in application across global markets.

4. Isolating Climate Effects and Preparing for Future Standards

One of the key challenges raised by stakeholders is the difficulty in isolating climate effects from other factors, such as biodiversity or social risks, when quantifying financial impacts.

Recommendations:

- **Modular Disclosure Framework:** Encourage companies to adopt a modular approach to their sustainability disclosures. This would allow for the isolation of climate risks

while integrating related factors, ensuring consistency in disclosures as future standards on biodiversity and other risks are developed.

- **Forward-looking Approach:** While adopting IFRS S1 and S2, businesses should be encouraged to take a holistic and forward-looking view. This would help them prepare for future standards, such as those covering biodiversity risk, ensuring they remain competitive as new disclosure requirements emerge.

5. Challenges in Obtaining Data from State-owned Entities (SOEs) and the Defence Industry

State-owned enterprises (SOEs), particularly in sectors like defence, pose unique challenges for scope 3 emissions data collection, as these entities are often reluctant to disclose sensitive information.

Recommendations:

- **Engagement and Dialogue:** Foster stronger engagement between regulators and SOEs to encourage voluntary data disclosure. Highlighting the long-term benefits of transparency, such as improved ESG ratings and investor trust, may help incentivize cooperation.
- **Proxy Data and Estimations:** Where direct data is unavailable, encourage the use of proxy data or estimated emissions, based on sector-specific benchmarks, as recommended by global standards like the GHG Protocol.

6. Developing Exemplars for Internal Processes through HKICPA

Setting up internal processes for sustainability reporting can be a daunting task for many businesses. The HKICPA can play a pivotal role in easing this transition by developing exemplars and guidance materials.

Recommendations:

- **Exemplar Templates:** Create and share workflow templates for data collection, reporting procedures, and internal sustainability audits. These templates could include step-by-step manuals and visual aids to simplify adoption.
- **Training Programmes:** Regular workshops and webinars focused on internal process setup, data collection, and reporting would help businesses build capacity and reduce initial setup time.
- **Continuous Engagement:** Ensure that stakeholders are continuously engaged through regular updates, best practice sharing, and feedback loops to refine these internal processes.

Conclusion

The successful adoption of HKFRS S1 and S2 presents both opportunities and challenges for Hong Kong businesses. By addressing the challenges of data availability, talent development, and international cooperation, and by leveraging the expertise of global counterparts, Hong Kong can maintain its competitive edge in sustainability reporting. I am confident that the recommendations outlined above will support the effective implementation of these standards, further solidifying Hong Kong's role as a global leader in sustainability and finance.

Thank you for considering my comments.

Best regards,

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