

Explanatory Memorandum

HKFRS S1 *General*
Requirements for Disclosure of
Sustainability-related Financial
Information and HKFRS S2
Climate-related Disclosures



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I. Introduction

1. The HKICPA (or Institute) is the sustainability reporting standard setter in Hong Kong.¹ It is publishing this explanatory memorandum (EM) to provide background information to HKFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and HKFRS S2 *Climate-related Disclosures* (HKFRS SDS).² This EM describes the development journey of the HKFRS SDS, summarises the feedback from stakeholders gathered through various consultations and explains the Institute's decision to align HKFRS S1 and S2 in full with IFRS S1 and S2.
2. There has been a growing demand globally in recent years for a set of comprehensive, global baseline standards for sustainability disclosures. This has stemmed from widespread calls from leading investors, analysts, securities regulators, policymakers and other stakeholders for more consistent and comparable sustainability disclosures to facilitate capital allocation decisions.
3. In response to this call, the IFRS Foundation (IFRSF) established the International Sustainability Standards Board (ISSB) in November 2021. The ISSB published the inaugural IFRS Sustainability Disclosure Standards (ISSB Standards)—IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* in June 2023, which marked a significant milestone in global sustainability reporting. In July 2023, the International Organization of Securities Commissions (IOSCO) endorsed the ISSB Standards as being fit for purpose in serving the needs of the capital market following its comprehensive review of the standards.
4. IFRS S1 sets out the general requirements for companies to disclose information about their sustainability-related risks and opportunities that is useful to users in making decisions relating to providing resources to the company. IFRS S2 specifies the requirements to disclose information about their climate-related risks and opportunities, while building on the requirements in IFRS S1.
5. In light of the rising international momentum in sustainability reporting, the HKSAR Government announced its commitment to adopt the ISSB Standards as appropriate in Hong Kong in the 2023 Policy Address and reaffirmed its decision in the [Vision Statement on Turning Obligations into Opportunities in Developing the Sustainability Disclosure Ecosystem in Hong Kong](#) (Vision Statement) in March 2024.
6. On 16 October 2024, the HKSAR Government announced in the [2024 Policy Address](#)³ that the Financial Services and the Treasury Bureau (FSTB) will launch a roadmap on the full adoption of the ISSB Standards, leading Hong Kong to be among the first jurisdictions to align the local sustainability disclosure requirements with the ISSB Standards. The

¹ Paragraph 8 of the [Vision Statement on Turning Obligations into Opportunities in Developing the Sustainability Disclosure Ecosystem in Hong Kong](#) published by the Financial Services and the Treasury Bureau on 25 March 2024.

² In this document, 'HKFRS SDS' is the same as 'Hong Kong Standards' used in the Roadmap on Sustainability Disclosure in Hong Kong published on 10 December 2024.

³ Paragraph 46 of the [2024 Policy Address](#).

[Roadmap on Sustainability Disclosure in Hong Kong](#) (HK Roadmap) was subsequently published on 10 December 2024. With support from the HKSAR Government and other relevant parties, the Institute has developed a set of local sustainability disclosure standards (i.e. HKFRS SDS) in full alignment with the ISSB Standards for cross-sectoral observance in Hong Kong.

7. Relevant authorities will conduct sector-specific engagements to determine the approach and timing of adopting the HKFRS SDS.
8. HKFRS S1 and HKFRS S2 are fully aligned with IFRS S1 and IFRS S2. In other words, HKFRS S1 and HKFRS S2 are the same as IFRS S1 and IFRS S2 subject to having an effective date of 1 August 2025. The decision of full alignment was reached by the HKICPA after a holistic assessment of relevant factors, including feedback from public consultations on the exposure drafts of IFRS S1 and IFRS S2 (ISSB EDs) and the exposure drafts of HKFRS S1 and HKFRS S2 (HK EDs) conducted in 2022 and 2024 respectively, as well as views collected from a wide range of stakeholders who participated in the technical feasibility study (TFS) on applying the ISSB Standards in Hong Kong in H1 2024.
9. As an international financial centre (IFC), Hong Kong's full alignment with the ISSB Standards has global significance as it would bolster the connection of global capital with local businesses as well as those in mainland China and other regions. We envision a future where robust and standardised sustainability reporting requirements through the HKFRS SDS would empower companies to drive sustainable growth, foster investor confidence and contribute to a resilient and vibrant economy in Hong Kong.
10. The rest of this explanatory memorandum is structured as follows:
 - 1) Part II sets out the development journey of the HKFRS SDS;
 - 2) Part III details the feedback from local consultations;
 - 3) Part IV presents our response to feedback received and our reasons for aligning HKFRS S1 and S2 in full with the ISSB Standards; and
 - 4) Part V discusses the impact of the HKFRS SDS on entities in Hong Kong.

II. The development journey of the HKFRS SDS

11. This part sets out how international and local developments over the past few years have informed the HKICPA in reaching the conclusion of full alignment with the ISSB Standards. It starts with the global call for consistent sustainability disclosures; the subsequent establishment of the ISSB and publication of IFRS S1 and S2; and moves onto how the results of various local bodies' engagements with stakeholders on the ISSB Standards since 2022 have provided strong evidence to support full alignment. All this is underpinned by robust, ongoing capacity building efforts.

(a) Global momentum for sustainability reporting and establishment of the ISSB

12. The HKICPA has been closely monitoring the developments in the international sustainability standard setting arena for several years, with a particular focus on the developments at the IFRSF since 2020. During this period, a global consensus among leading investors, analysts, securities regulators, policymakers and other stakeholders around the world emerged, advocating for enhanced consistency and comparability in sustainability disclosures to facilitate capital allocation decisions. This momentum led to the IFRSF's [public consultation](#) on whether it should establish a sustainability standards board to help consolidate the then fragmented sustainability reporting landscape. The HKICPA had consulted the public and [expressed](#) strong support for such an initiative. The establishment of the ISSB was announced at the 26th United Nations Climate Change Conference (COP26) in November 2021.

(b) ISSB EDs—baseline standards that benefit investors

13. Responses to the IFRSF consultation in 2020 confirmed the growing and urgent demand for a common set of global sustainability reporting standards. In March 2022, the ISSB issued the ISSB EDs which were built on the principles of the Task Force on Climate-related Financial Disclosures. This approach enhanced the ISSB EDs' interoperability with other sustainability reporting frameworks such as the Global Reporting Initiative (GRI) and European Sustainability Reporting Standards (ESRS). G20 Leaders have welcomed this programme of work and it has garnered support from market regulators, multilateral institutions, investors and companies worldwide.

(c) HKICPA's involvement in the ISSB Standards

14. The Institute launched a [public consultation](#) and conducted extensive outreach from March to July 2022 to gather local stakeholder views across different sectors on the ISSB EDs (2022 HKICPA Consultation). These stakeholders included banks, insurers, asset managers, investors, property developers as well as energy and transport companies.
15. The comments and feedback received from local stakeholders were thoroughly analysed and incorporated into the HKICPA's [comment letter](#) to the ISSB in July 2022. Overall, there was overwhelming support locally and internationally for the ISSB to establish a comprehensive global baseline of sustainability disclosures designed to meet the information needs of investors. Local stakeholder comments generally revolved around the availability and quality of data concerning scope 3 greenhouse gas (GHG) emission disclosures, whether qualitative disclosures could substitute for quantitative ones with

regard to anticipated financial effects and scenario analysis, as well as the need for more time and capacity building initiatives to support the proper application of the standards.

16. In June 2023, the ISSB issued its [inaugural standards - IFRS S1 and IFRS S2](#), ushering in a new era of sustainability-related disclosures for capital markets worldwide. In July 2023, [IOSCO endorsed these two standards](#)⁴ and called on its more than 130 members, including the Securities and Futures Commission (SFC) of Hong Kong, to consider ways in which they might adopt, apply or otherwise be informed by IFRS S1 and S2 within the context of their jurisdictional arrangements. Recognising that entities around the world have varying capabilities and levels of maturity in terms of sustainability reporting, the ISSB has made a number of notable changes to the proposals and incorporated proportionality mechanisms into the final standards. A detailed explanation is provided in Part IV(b)(R3).

(d) HKEX's initiatives to enhance its climate rules

17. In support of the global sustainability reporting initiative as well as to meet investors' information needs and maintain Hong Kong's competitiveness as an IFC, Hong Kong Exchanges and Clearing Limited (HKEX) launched a [consultation](#) in April 2023 to enhance the climate-related disclosure requirements under its ESG regulatory framework by incorporating the key requirements of IFRS S2 into Appendix 27 (now renamed as Appendix C2) to the Listing Rules.
18. Respondents to the HKEX's consultation paper were generally supportive of HKEX's proposal to introduce mandatory climate-related disclosures. After considering market feedback, HKEX finalised the new climate-related disclosure requirements (New Climate Requirements) and published the [consultation conclusions](#) in April 2024. The HKEX New Climate Requirements together with the accompanying implementation guidance⁵ (HKEX April 2024 IG) are closely aligned with the ISSB Standards.⁶
19. The New Climate Requirements serve as an interim step to prepare listed entities for climate reporting in line with the ISSB Standards. As contemplated in the HK Roadmap, HKEX will conduct a review in 2027 when the reports based on the New Climate Requirements become available. The goal is to launch a public consultation on mandating reporting in accordance with the HKFRS SDS for listed publicly accountable entities (PAEs) using a phased approach, with an expected effective date in 2028 for the first batch of listed entities.

⁴ IOSCO's report of its technical assessment of IFRS S1 and S2 is available [here](#).

⁵ [Implementation Guidance](#) for Climate Disclosures under HKEX ESG reporting framework.

⁶ See mapping of the New Climate Requirements to the requirements of IFRS S2 in Appendix V of HKEX's consultation conclusions. There are four main differences between these two sets of requirements: the reporting boundary as well as voluntary disclosures of (i) industry-based metrics, (ii) disaggregated scopes 1 and 2 GHG emissions disclosures between consolidated entities and other investees, and (iii) the percentage of remuneration linked to climate considerations.

(e) Engagement with the CASG and the technical feasibility study

20. The Green and Sustainable Finance Cross-Agency Steering Group (CASG) was established in May 2020 and is co-chaired by the Hong Kong Monetary Authority (HKMA) and SFC.⁷ The CASG co-ordinates the management of climate and environmental risks to the financial sector, accelerates the growth of green and sustainable finance in Hong Kong and supports the HKSAR Government's climate strategies. In particular, the CASG has established a Working Group on Sustainability Disclosures⁸ (WGSD) to develop the HK Roadmap amongst other activities.
21. Since the publication of IFRS S1 and S2, the HKICPA has engaged in regular discussions within the WGSD to enable further deliberation at the CASG on formulating a comprehensive sustainability disclosure ecosystem in Hong Kong. Specifically, the HKICPA was tasked to conduct a TFS to identify areas where entities may need more assistance in terms of guidance, market infrastructure and/or time to get ready in applying the ISSB Standards in Hong Kong. The results of the TFS have been used to inform the development of the HKFRS SDS.
22. The Institute started preparing for the TFS together with HKEX and relevant financial regulators in late 2023. This included developing various questionnaires⁹ based on the feedback received from stakeholders during the 2022 HKICPA Consultation on the ISSB EDs. The questionnaires also sought views from participants on the key revisions and proportionality mechanisms that the ISSB had incorporated into the final IFRS S1 and S2 in response to feedback on the ISSB EDs.
23. During the TFS meetings held from March to June 2024, investors emphasised the importance of full alignment with the ISSB Standards for Hong Kong to remain competitive. Other participants expressed views that are consistent with those raised in the 2022 HKICPA Consultation and the 2023 HKEX consultation on enhanced climate disclosures. A summary of stakeholders' feedback and the HKICPA's response is set out in Parts III and IV respectively.

(f) HKICPA's public consultation of the HK EDs

24. Supported by the positive feedback received from the TFS and to keep pace with those jurisdictions that are progressing towards the adoption or other use of the ISSB Standards in their local legislative and/or regulatory frameworks, including Australia,¹⁰ Canada, China,¹¹ Japan, South Korea, Singapore and the United Kingdom (UK), the HKICPA launched a six-week [public consultation](#) on the HK EDs on 16 September 2024 wherein

⁷ The other members of the CASG are the Accounting and Financial Reporting Council, Environment and Ecology Bureau, FSTB, HKEX, Insurance Authority (IA) and Mandatory Provident Fund Schemes Authority (MPFA).

⁸ Members of the WGSD include the CASG members and HKICPA.

⁹ The Institute prepared four customised versions of the questionnaire to cater to the specific circumstances of different financial industries and to include new questions in response to the publication of the HKEX's consultation conclusions in April 2024.

¹⁰ Most notably the recent [re-alignment](#) of the local Australian sustainability standards with the ISSB Standards.

¹¹ The Ministry of Finance of the People's Republic of China has published a [consultation](#) on 'Corporate Sustainability Disclosure Standard—Basic Standard' on 27 May 2024 (Chinese only). The draft standard was [developed based on the ISSB Standards](#) while aligning with China's context and showcasing Chinese characteristics.

we proposed full alignment with the ISSB Standards with an effective date of 1 August 2025 (2024 HKICPA Consultation).

25. The 2024 HKICPA Consultation received overwhelming support for full alignment: 93% of respondents explicitly agreed therewith and no respondent disagreed. Investors reiterated that adhering to a global baseline would provide them with comparable and consistent sustainability-related information, which is critical for capital investment decisions. Stakeholders have also taken comfort in the robustness of all the ISSB Standards-related outreach activities conducted by the HKICPA and other local bodies in recent years and the ongoing efforts by the HKICPA, CASG and other relevant parties to put in place a series of measures to address comments raised in those consultations, as indicated by there being no significant new comments on the HK EDs.

(g) Other regulatory initiatives in relation to sustainability-related disclosures

26. Apart from the public consultations conducted by the HKICPA and HKEX, a number of local and international organisations and regulators, such as Basel Committee on Banking Supervision (BCBS), International Association of Insurance Supervisors (IAIS), IOSCO, HKMA, IA, SFC and MPFA, have also conducted their own public consultations or sought views from their constituents regarding climate- and/or sustainability-related disclosures in recent years.
27. Local financial regulators will explore ways to implement the HKFRS SDS with due consideration of any recommendations and guidance to be issued by international regulatory standard setting bodies as well as the preparedness and capabilities of industry participants. As indicated in the HK Roadmap, relevant regulators will conduct sector-specific engagements to determine the approach and timing of adopting the HKFRS SDS for different financial sectors. Subject to stakeholders' comments and feedback, the target is for financial institutions (being non-listed PAEs) carrying a significant weight to apply the HKFRS SDS no later than 2028.

III. Consultation feedback

28. This part summarises stakeholder feedback on the HK EDs collected from relevant HKICPA outreach activities, including:
- The [2022 HKICPA Consultation](#) of the ISSB EDs;
 - The 2024 TFS; and
 - The [2024 HKICPA Consultation](#) of the HK EDs.
29. Over the past three years, the HKICPA has engaged in various events with a broad range of stakeholders within the sustainability disclosures ecosystem to solicit feedback on the application of the ISSB Standards in Hong Kong:
- **Over 80 attendees** participated in a [public roundtable discussion](#) with ISSB staff to provide feedback on the ISSB EDs in 2022;
 - **Over 80 listed entities, financial institutions, investors and industry associations** engaged in the TFS meetings, along with various sustainability specialists, HKEX and financial regulators, to share insights and provide feedback on the practical benefits and challenges of applying the ISSB Standards in 2024;
 - **Over 2,500 participants** attended a [public webinar](#) and a media technical workshop for a briefing on the scope and application of the HK EDs in 2024;
 - **50 written submissions** were received from investors, industry associations, preparers, academics, practitioners, consultants and other interested parties for the 2022 and 2024 HKICPA Consultations; and
 - **Over 90% of respondents** to the 2024 HKICPA Consultation explicitly supported full alignment of the HKFRS SDS with the ISSB Standards; no respondents disagreed.
30. Throughout all our engagements, investors continued to emphasise the importance for Hong Kong to align in full with the ISSB Standards. They conveyed the following key messages:
- A global baseline for capital markets is crucial for providing standardised and comparable data about material sustainability and in particular, climate-related risks and opportunities to make informed investment decisions.
 - Full alignment is necessary for Hong Kong to stay relevant at the international level as an IFC with a major capital market and remain competitive in global trade, especially when transacting with entities in jurisdictions that impose requirements on supply chain due diligence and/or have a strong climate focus.
31. Apart from the call for full alignment, stakeholders continued to ask for: (i) more clarity on Hong Kong's overall implementation plan; and (ii) additional guidance on several technical areas which have remained consistent throughout the different HKICPA consultations:

Hong Kong's implementation plan	Additional technical guidance
<p>Stakeholders highlighted the need for:</p> <ol style="list-style-type: none"> 1) Interoperability between different jurisdictions' and regulators' sustainability requirements; 2) A phased approach in adopting the HKFRS SDS: climate-first and more resourceful entities-first; and 3) Clarity on the interaction between the New Climate Requirements and HKFRS S1 and S2. 	<p>Stakeholders highlighted the need for additional support in the following areas:</p> <ol style="list-style-type: none"> 4) How to identify material information; 5) Data collection and methodology for estimating scope 3 GHG emissions, in particular, how to disclose financed and facilitated emissions by financial institutions; 6) More HK- and PRC-specific emission factors and localised climate scenarios; and 7) Disclosing anticipated financial effects.

32. Below is a summary of these seven key areas of feedback and how they map to our response. See Part IV(b) for details of the HKICPA's response.

1) ***Some stakeholders are concerned about the interoperability between different jurisdictions' and regulators' sustainability requirements***

Having interoperability is crucial for businesses with a global footprint. This is especially the case for those companies that are listed in more than one jurisdiction and that are subject to different regulatory reporting requirements e.g. listed financial institutions that are subject to banking-, insurance-, asset management- and/or pension-related regulations.

Stakeholders said that any difference or nuance in requirements would require additional investment in time and resources to understand the fine details, agree with relevant parties on how to interpret them and then set up systems, policies and procedures to obtain data to satisfy the different requirements. This would create additional reporting burden for them especially in the current economic environment.

Response: R1

2) ***Many stakeholders emphasised the need for a phased approach in adopting the HKFRS SDS: climate-first and more resourceful entities-first***

As disclosing scope 3 GHG emissions, anticipated financial effects and scenario analysis would require a significant amount of data, upskilling and resources, a phased approach is vital to the successful implementation of the HKFRS SDS.

Prioritising climate disclosures by more resourceful companies would help steer scarce ESG talents to those places where proper disclosures would have the greatest impact, and would allow those companies to refine their skills and disclosures over time for other companies to follow in due course. The phased approach would provide stakeholders with the necessary time for the data infrastructure to mature as well as for preparers and other professionals to build up experience.

Furthermore, SME financial institutions continued to highlight the practical difficulties they face in meeting the technical requirements in the HKFRS SDS. Smaller asset managers, banks, insurers and MPF trustees, especially those not forming part of global networks, often have limited capacity, resources and access to data. The issue is particularly acute for the insurance industry in Hong Kong due to the predominance of SMEs in that industry.

Local branches of foreign headquartered financial institutions also questioned the value of preparing standalone sustainability reports as investors make decisions based on the group-wide sustainability outlook and not on branch-level performance.

In addition, they also noted that preparing sustainability disclosures alongside other statutory and/or regulatory obligations with the same reporting deadline would create extra reporting burden for them.

Responses: R2, R3

3) ***A few stakeholders are unclear about the interaction between the New Climate Requirements and HKFRS S1 and S2***

At the TFS meetings, the HKICPA noted that there was a misconception that there is a big gap between the New Climate Requirements and IFRS S1 and S2. As such, the HKICPA made significant efforts to clarify the matter in the explanatory memorandum accompanying the HK EDs which seemed to have been effective as there were no related comments in the feedback on the 2024 HKICPA Consultation.

Be that as it may, a few preparers remained uncertain about how to transition from the New Climate Requirements to HKFRS S1 and S2 and which set of rules/standards they should apply when the HKFRS SDS are published. Such confusion might hinder the effective implementation of both the New Climate Requirements and the HKFRS SDS.

Response: R7

4) ***Preparers need more guidance on how to identify material information***

Preparers find it difficult to gauge what needs to be disclosed and how much to disclose. Although the definition and concept of materiality are consistent with the extant HKFRS/IFRS Accounting Standards, conducting a thorough materiality assessment would still be challenging. Preparers were concerned that aligning the materiality threshold used for sustainability reporting with that used in the financial statements might significantly increase the scope of reporting and were uncertain about how to apply the materiality concept in the context of value chain information in terms of how far up and down the value chain they should collect information.

Response: R5, R7

5) ***Data collection and methodology for estimating scope 3 GHG emissions pose various operational challenges***

- Many companies mistakenly believe they must gather direct emission data from suppliers, customers and investments such as associates over which they have no control when reporting scope 3 GHG emissions.
- For those companies that are already using raw operational data to estimate GHG emissions, they find the internal processes of collecting and reporting data to be burdensome and laborious.
- Some companies questioned the reliability and credibility of scope 3 GHG emissions derived from estimates due to the lack of comparability and consistency in the emission factors, methodologies and assumptions used by different companies.

In particular, banks, fund managers, insurance companies and MPF trustees expressed concerns about whether and, if so, how scope 3 financed and facilitated emissions should be disclosed:

- The scope and definition of financed emissions, such as those related to derivatives, undrawn loan facilities, insurance and reinsurance underwriting portfolios especially for individual policyholders, are unclear.
- There is limited emission data due to the absence of mandatory carbon reporting requirements for many investees, especially unlisted ones and those in the South-East Asia region.
- There is a lack of established methodologies for calculating these emissions.
- The credibility and reliability of data sourced from data vendors are questionable due to varying methodologies and statistical models employed by them.
- Raw data from publicly available sources may not be assured and/or be subject to different level of assurance (reasonable v. limited) and/or assurance standards.

Responses: R2, R3, R4, R5, R6, R7

6) ***Stakeholders emphasised the need for more HK- and PRC-specific emission factors and localised climate scenarios***

Stakeholders noted that any existing data and resources that are publicly available are often incomplete, outdated and scattered among different websites. As such, entities have had to rely on data from other countries and international bodies such as the UK, US, EU, Intergovernmental Panel on Climate Change etc. to estimate their GHG emissions and use broader regional climate trajectories to estimate the physical and transitional impact of climate change to their local operations.

Accordingly, the resulting estimates may not accurately reflect the emission profiles of companies with predominantly Hong Kong or PRC operations, nor would they effectively capture an entity's exposure and resilience to climate risks and opportunities.

Responses: R2, R3, R4, R5, R6, R7

7) *There are practical challenges in disclosing anticipated financial effects*

One major concern is the difficulty in isolating climate effects from other factors when quantifying the financial impact. For instance, entities often find it difficult to distinguish between additional 'opportunities' and business-as-usual cases because as companies start to embed sustainability elements into their products and services, what was once an opportunity would become business-as-usual over time. There are also often multiple factors at play in any quantitative change of any particular input used in the determination of anticipated financial effects, e.g. a change in the price of raw material may only be partially related to climate change. A case in point is the increase in price of cocoa in Q4 2023 into H1 2024, which was caused partly by poor harvest in West Africa due to low rainfall (climate-related), plant disease and aging trees, coupled with market speculation. It is impossible to determine how much of the price increase was due to which factor alone.

Stakeholders were also concerned about the quality of the resulting quantitative financial impact due to what they consider to be a lack of reliability in the climate scenario models used in the first place. Stakeholders shared that different ESG data vendors often have different proprietary climate scenarios due firstly to the inherent complexity of climate science and secondly to the use of different statistical models, computational methodologies, assumptions and judgement.

All in all, entities are generally sceptical about the accuracy of any quantitative anticipated financial impact of sustainability risks and opportunities.

Responses: R3, R5, R6, R7

IV. Consultation conclusion

(a) Full alignment

33. In light of the overwhelming support for full alignment with the ISSB Standards from respondents, the HKICPA has decided to confirm its proposal to align HKFRS S1 and S2 in full with the ISSB Standards.

34. Accordingly, HKFRS S1 and S2 are the same as IFRS S1 and S2 subject to having an effective date of 1 August 2025. The decision of full alignment was reached by the HKICPA after a holistic assessment of relevant factors, including local and international developments as well as substantive evidence gathered from the Institute's extensive stakeholder engagement in the past three years, starting with the publication of the ISSB EDs in early 2022, conducting the TFS in H1 2024 and culminating in the completion of the 2024 HKICPA Consultation in Q4 2024.

35. The key reasons for full alignment are as follows:
 - (a) Investors have emphasised the need for Hong Kong to align in full with the ISSB Standards to remain competitive and to reinforce Hong Kong's status as an IFC. As the ISSB Standards sets the global *baseline* of sustainability disclosures, it is imperative for Hong Kong to meet the baseline requirements to provide global investors with consistent and comparable information for capital allocation purposes (see Part III paragraph 30);
 - (b) IOSCO has endorsed the ISSB Standards as appropriate to serve as a global framework for capital markets (see Part I paragraph 3). IFRSF found that, as of early November 2024, at least 30 jurisdictions, representing nearly 57% of global GDP, over 40% of global market capitalisation and over half of global GHG emissions, have already decided to use or are taking steps to introduce ISSB Standards in their legal or regulatory framework;
 - (c) The final ISSB Standards include proportionality mechanisms that cater to entities with varying capabilities and levels of maturity in sustainability reporting (see Part IV(b)(R3));
 - (d) There is robust support both locally and internationally for applying the ISSB Standards, including areas on which Hong Kong stakeholders have sought more guidance (see Part II(c), (e) & (f), Part IV(b)(R7)); and
 - (e) There was overwhelming support for full alignment from respondents to the 2024 HKICPA Consultation (see Part II(f)).

36. The decision of full alignment relates to IFRS S1 and S2 only and does not extend to any future ISSB Standards. When the ISSB publishes any new standards in the future, the Institute will engage with relevant stakeholders to decide on the potential adoption of those new standards in Hong Kong as appropriate.

(b) Other matters

37. In addition to the call for full alignment, respondents' feedback revolved around two areas:

- 1) **Hong Kong's implementation plan:** this has been clarified in the HK Roadmap; and
- 2) **Additional technical guidance:** there is a concerted, ongoing effort both internationally and locally to enhance implementation support to stakeholders through capacity building activities as well as data and technology solutions.

Key to the successful implementation of the HKFRS SDS is to help stakeholders leverage the proportionality mechanisms embedded in the standards and the existing – and ever expanding – wealth of resources on these standards.

38. Our response on how to support implementation of the HKFRS SDS in light of these stakeholder comments is elaborated below.

(R1) Full alignment to enhance interoperability

39. Full alignment of the HKFRS SDS with the ISSB Standards can address stakeholders' comments about interoperability as the ISSB has carefully weighed and incorporated interoperability considerations in developing the ISSB Standards to reduce duplication in reporting. As jurisdictions and financial regulators across the world continue to progress towards the adoption or other use of the ISSB Standards in their local legislative and/or regulatory frameworks, having full alignment with the ISSB Standards will facilitate Hong Kong stakeholders in complying with other jurisdictions' and/or regulators' sustainability disclosure requirements once they adopt the ISSB Standards as the baseline.
40. Interoperability will remain a priority in the ISSB's 2024–2026 work plan. Over the past year, GRI has signed a memorandum of understanding with the ISSB and together they have released an [interoperability guide](#) regarding GHG emissions reporting. In May 2024, the two organisations announced [further collaboration](#) to optimise how GRI and the ISSB Standards can be used together to facilitate sustainability reporting. In addition, the IFRSF and European Financial Reporting Advisory Group (EFRAG) have developed a [joint interoperability guidance](#) to illustrate the high degree of alignment between the ISSB Standards and ESRS, as well as how a company can apply both sets of standards simultaneously.
41. Furthermore, the IFRSF has delivered and will continue to enhance interoperability and comparability in the sustainability disclosure ecosystem through the following activities:
 - CDP, a renowned global disclosure platform on environmental matters, has aligned its climate disclosure questionnaire with IFRS S2;
 - the IFRSF and GHG Protocol have signed a Memorandum of Understanding to put in place governance arrangements so that the ISSB is actively engaged in updates and decisions made in relation to the GHG Protocol standards and guidance;
 - the IFRSF will assume responsibility for the disclosure-specific materials developed by the UK Transition Plan Taskforce; and
 - The ISSB will leverage the recommendations of the Taskforce on Nature-related Financial Disclosures when it works on the research project on biodiversity, ecosystems and ecosystem services.

(R2) Relevant authorities to phase in the ISSB requirements

42. As indicated in the HK Roadmap, relevant authorities will design a well-defined pathway for the full adoption of the ISSB Standards, taking account of the readiness and capacity of Hong Kong stakeholders. Application of the HKFRS SDS will prioritise large PAEs such as listed entities and financial institutions carrying a significant weight in Hong Kong. Further details are set out in Part V.

(R3) Leverage the transition reliefs and proportionality mechanisms in HKFRS/IFRS S1 and S2

43. There are two types of reliefs in HKFRS/IFRS S1 and S2:

- 1) Temporary: first-year transition reliefs; and
- 2) Permanent: ongoing proportionality mechanisms.

44. In the first year of application of HKFRS/IFRS S1 and S2, entities can benefit from various **transition reliefs** which are designed to help them focus their initial efforts on reporting climate-related information. These reliefs include:

- reporting only climate-related information;
- no need to disclose comparative information;
- no need to disclose scope 3 GHG emissions;
- no need to use the GHG Protocol: A Corporate Accounting and Reporting Standard (2004) to measure GHG emissions; and
- deferring the reporting of sustainability information to after the publication of the financial statements.

45. After the first year of application, entities can leverage the **proportionality mechanisms** that are built into the HKFRS/IFRS S1 and S2 to help them meet the objectives of certain disclosure requirements. These proportionality mechanisms include:

- the 'reasonable and supportable information that is available at the reporting date without undue cost or effort' mechanism; and
- the 'skills, capabilities and resources available to the entity' mechanism.

46. These proportionality mechanisms are applicable to the requirements that stakeholders have found challenging to comply with, viz. anticipated financial effects, climate scenario analysis and scope 3 GHG emissions. When determining the methodologies, inputs and assumptions for these aspects, entities are not required to conduct an exhaustive search for information; instead, they only need to consider information that is reasonably available to them without undue cost or effort at the reporting date. This relief is intended to give companies confidence when reporting less than perfect information that results from 'best effort' endeavours.

47. Furthermore, entities that do not have the skills, capabilities or resources to quantify the anticipated financial effects of a climate-related risk or opportunity may disclose qualitative information (HKFRS/IFRS S2.18-21). Similarly, entities may use an approach that is commensurate with their skills, capabilities and resources to disclose a climate-related scenario analysis, such as providing a qualitative scenario narrative (HKFRS/IFRS S2.B1).
48. The HKICPA believes that many of the stakeholders' concerns could be addressed through proper application of these proportionality mechanisms which were specifically added by the ISSB into the standards in light of feedback from stakeholders on the ISSB EDs to cater to entities with different capacities and maturities in sustainability reporting. To enhance awareness and understanding of the proportionality mechanisms, the HKICPA has issued two pieces of educational guidance¹² in early 2024 to explain these concepts and the ISSB is in the process of developing further guidance on how to apply these proportionality mechanisms.

(R4) Stay up to date with the evolving discussions and practices on scope 3 financed and facilitated emissions

49. The HKICPA acknowledges the concerns of financial institutions regarding the disclosure of scope 3 GHG emissions, particularly whether the ISSB Standards allow entities to not disclose certain types of financed, facilitated and insurance-associated emissions despite their being material given a lack of established methodologies, which is explicitly acknowledged in IFRS S2.BC129. The ISSB's [Transition Implementation Group on IFRS S1 and IFRS S2](#) (TIG) has already had an initial discussion of this matter at its September 2024 meeting and there will be further deliberations within the ISSB. The HKICPA will actively monitor these discussions and consider appropriate next steps.

(R5) Collaborate to develop and share best practices

50. The HKICPA advocates for multilateral discussion and collaboration between different parties in the sustainability reporting ecosystem, including preparers, investors, ESG rating agencies and data service providers, consultants, regulators, assurance providers and standard-setters. This collaboration is essential for aligning expectations and formulating a holistic approach to developing implementation support resources.
51. Industry associations can play a key role in sharing best practices among industry members and showcasing how peers have overcome or are overcoming sustainability reporting challenges, for example, how to identify Hong Kong-specific physical and transition climate risks for their businesses and determine the associated anticipated financial effects. Furthermore, they can help develop industry-specific guidance as they possess the necessary industry expertise to ensure the resulting guidance would be fit-for-purpose.
52. In terms of niche topics such as banking and insurance-specific scope 3 GHG emission estimations, given the sheer scale of the undertaking, collaboration between different parties at the local, regional and even international level would expedite the development

¹² [Two important ideas in IFRS S1 and IFRS S2 to facilitate proportionality and scalability](#); and [Considerations of Skills, Capabilities and Resources in Climate-Related Scenario Analysis](#).

of appropriate solutions for the ecosystem as a whole. Through collaboration with relevant stakeholders including financial institutions, ESG consultants, sustainability assurance providers, international financial supervisory bodies (e.g. BCBS and IAIS), regulators, industry associations and other global organisations,¹³ one can develop GHG emission calculation methodologies, guidance and trainings that are tailored to the industry's needs. This collaborative effort aligns with the ISSB's intention to provide market participants with appropriate flexibility to innovate and develop appropriate GHG emission calculations methodologies for emerging asset classes.

(R6) Enhance data availability and quality

53. Enhancing data availability and quality is vital for ensuring that stakeholders have access to reliable and timely information to ascertain an entity's carbon footprint, thereby driving broader sustainability initiatives. This commitment is clearly articulated in the Vision Statement which highlighted that active efforts will be made to improve data availability, support data collection and reporting, and promote the use of green and sustainable financial technology solutions.
54. To achieve this goal, efforts could focus on enhancing the market infrastructure, in particular, data and technology solutions to enable the collection, organisation, reporting, analysis and sharing of data along the value chain. Once the enabling infrastructure is in place, it should be continuously enhanced to facilitate and expedite the reporting process (i.e. to make it more user-friendly) and to improve the quality and credibility of data shared in the process.
55. In the meantime, stakeholders can utilise the data tools offered by the CASG, such as the GHG emissions [calculator](#) and [estimator](#), as well as a digitised climate and environmental risk [questionnaire](#) to help companies in the value chains of PAEs to report GHG emission data, thereby assisting PAEs in their scope 3 reporting obligations. The CASG will continue to enhance these tools and explore developing connectivity with the Association of Southeast Asian Nations (ASEAN) to facilitate broader reporting of sustainability-related information. In addition, certain PRC emission factors¹⁴ are also available for public use.
56. To enhance physical risk data availability for the banking sector, the HKMA has launched a physical risk assessment platform. This platform comprises an analytical tool that allows users to assess the potential impact of physical risks on residential and commercial buildings in Hong Kong under different climate scenarios, as well as a database of more than 40 public data or data sources related to physical climate risk.

¹³ These organisations include Partnership for Carbon Accounting Financials, Network for Greening the Financial System, Glasgow Financial Alliance for Net Zero, amongst others.

¹⁴ - [2021 national, regional and provincial CO2 emission factors](#) for electric power published by the PRC Ministry of Ecology and Environment (MEE) in April 2024;
- Average emission factor of purchased [electricity in China](#) published by the MEE;
- Emission factors of purchased [electricity in China by region](#) published by the MEE; and
- Emission factors of [fuel used](#) in mobile combustion published by the National Development and Reform Commission

(R7) Ongoing capacity building activities

57. The HKICPA together with relevant CASG members would continue to enhance the comprehensive [training curricula](#) covering topics on which stakeholders have repeatedly sought guidance, such as materiality assessment, value chain and data collection, anticipated financial effects, scenario analysis, GHG emissions and industry-based metrics.
58. To build awareness of the importance of sustainability reporting and explain key sustainability reporting and assurance concepts, the HKICPA offers a wide range of trainings, workshops and publications. The HKICPA has also enhanced its Qualification Programme to include sustainability-related topics across different examination modules for entry-level accounting professionals.
59. The HKICPA has consolidated all its sustainability resources in a centralised database:
- **[Resource Centre for Sustainability Standards](#)**: A centralised hub for technical publications and reference materials relevant to sustainability reporting, assurance and ethics. It also provides [FAQs](#) and guidance materials covering topics such as the applicability of the HKFRS SDS (i.e. which entities must apply the standards and by when) and their interaction with the New Climate Requirements.
 - **[Sustainability Information Centre](#)**: A collection of thought leadership articles and learning resources to help stakeholders keep abreast of local and international developments.
 - **[Sustainability Community](#)**: An initiative aimed at engaging stakeholders beyond accountants to share knowledge, raise awareness of best practices and provide upskilling resources.
 - **[Implementation Support Platform](#)**: A platform designed to discuss implementation issues of HKFRS/IFRS S1 and S2 (to be launched by December 2024).
60. The ISSB is committed to supporting the implementation of the ISSB Standards, which it has assigned as top priority in the 2024-2026 workplan. The ISSB has been working intensively to broaden the capacity building resources, increase incorporation of the ISSB Standards in professional curricula and focus on jurisdictional interoperability challenges, amongst others.
61. To address stakeholder needs for guidance in challenging areas, the ISSB has released a two-part [webcast](#) about current and anticipated financial effects. In addition, a [comprehensive guide](#) has recently been published to help companies identify and disclose material information about sustainability-related risks and opportunities. The ISSB is also actively developing educational materials on proportionality mechanisms, including guidance on the concept of 'undue cost or effort' as well as climate-related scenario analysis. Furthermore, the ISSB has identified market needs for capacity building in GHG accounting.

62. As a member of the ISSB's [Capacity Building Partnership Framework](#) (Partnership Framework), the HKICPA can leverage the implementation support activities and guidance materials of the ISSB and supplement them with local initiatives to meet local stakeholder needs. One of the key outputs of the Partnership Framework is the [ISSB's Knowledge Hub](#) which hosts over 260¹⁵ case studies, good practice guidance, webinars and other useful materials designed to help preparers get ready for applying IFRS S1 and S2.

63. Given Hong Kong's full alignment with the ISSB Standards, local stakeholders can also benefit from the discussions of the ISSB's [TIG](#) which provides ongoing technical views on the implementation of the ISSB Standards.

¹⁵ As at early November 2024.

V. Impact on Hong Kong entities

64. The ISSB [Inaugural Jurisdictional Guide](#) sets out that the targeted entities for application of the ISSB Standards are PAEs, which are –
- (a) entities whose securities are traded in a public market or entities in the process of issuing securities for trading in a public market (sometimes called listed entities or public entities); and
 - (b) entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses (for example, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks) and have a significant weight in the jurisdiction, regardless of their ownership structure or listed status.
65. The ISSB Inaugural Jurisdictional Guide makes it clear that PAEs **do not include** –
- (a) entities whose securities are traded in private markets;
 - (b) entities whose securities are traded in relatively small public securities markets;
 - (c) entities that are generally characterised by small shareholder bases or low liquidity, or that are not subject to extensive corporate governance disclosure requirements;
 - (d) entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses and do not have a significant weight in the jurisdiction; or
 - (e) other entities such as **private entities** and entities without public accountability that are often referred to as **SMEs**.
66. HKFRS S1 and S2 are fully aligned with IFRS S1 and S2. As contemplated in the HK Roadmap, Hong Kong will prioritise the application of HKFRS SDS by large PAEs under a phased approach with reference to the ISSB Jurisdictional Guide. Large PAEs in Hong Kong including listed companies which are Large Cap Issuers (i.e. issuers that are [Hang Seng Composite LargeCap Index](#) constituents), as well as non-listed financial institutions carrying a significant weight will fully adopt the HKFRS SDS no later than 2028 through the following means:
- (a) HKEX will conduct a review in 2027 when the first mandated reports prepared based on the New Climate Requirements become available. The aim is to launch a public consultation on mandating sustainability reporting in accordance with the HKFRS SDS for listed PAEs using a phased approach, with an expected effective date of 1 January 2028 for the first batch of listed companies.
 - (b) relevant financial regulators, viz. the HKMA, SFC, IA and MPFA will conduct sector-specific engagements to determine the approach and timing of adopting the HKFRS SDS for different financial sectors. Subject to stakeholders' comments and feedback, the target is for financial institutions (being non-listed PAEs) carrying a significant weight to apply the HKFRS SDS no later than 2028.
67. Until further decisions are made by the relevant authorities and/or regulators, entities preparing sustainability disclosures have the sole discretion to decide whether sustainability disclosures should be prepared in accordance with the HKFRS SDS.