25 October 2024

**Standard Setting Department**
**Hong Kong Institute of Certified Public Accountants**

Submitted via email: commentletters@hkicpa.org.hk

**Hong Kong Institute of Certified Public Accountants (Institute or HKICPA) Exposure Draft HKFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information; and Exposure Draft HKFRS S2 Climate-related Disclosures.**

MSCI[1] welcomes the opportunity to comment on the Hong Kong Institute of Certified Public Accountants (HKICPA) Exposure Drafts of Hong Kong Sustainability Disclosure Standards (HKFRS). As a leading provider of sustainability and climate data and analytics to the global financial industry, MSCI has collected climate and sustainability-related disclosures from thousands of companies globally for over two decades and developed tools to assist financial institutions in analyzing climate and sustainability risks within their investment and lending portfolios.

**MSCI supports the publication of the HKFRS and its full convergence of HKFRS S1 and S2 (HKFRS Sustainability Disclosure Standards) with IFRS S1 and S2.**

We have the following general comments set out for your kind consideration.

1. **Transition relief of Sustainability Disclosure Standards.** An early implementation timeline aligning with IFRS S1 would ensure consistency and comparability for Hong Kong entities with disclosing counterparts in global markets. HKFRS S1 and S2's foundation, structured around the four pillars of the ISSB standards[2] provides a clear and comprehensive approach to climate-related financial disclosures, aiding entities in navigating sustainability complexities. Clear guidelines and a structured approach support an accurate and consistent application of the standards, benefiting entities of all sizes, including SMEs, promoting transparency and reliability in disclosures.

2. **Ensure that the disclosure of GHG emissions aligns with the standards of the GHG Protocol[3] over time.** Given the critical importance of data comparability for investors, we recommend that the HKICPA aligns the disclosures of GHG emissions as closely as possible with the GHG Protocol, as outlined in the ISSB standards. The GHG Protocol's[4] reference in IFRS S2 climate-related disclosures (IFRS S2) emphasizes its significance, offering a standardized reporting methodology for GHG emissions, including Scope 3

[1] MSCI ESG Ratings, research and data are produced by MSCI ESG Research LLC, a subsidiary of MSCI Inc.
[2] ISSB issues inaugural global sustainability disclosure standards (ISSB, June 2023)
[3] GHG Protocol
[4] Overview of GHG Protocol Integration in Regulatory Climate Disclosure Rules (GHG Protocol, March 2024)

upstream and downstream categories, thus promoting consistency in environmental reporting. Additionally, Hong Kong's commitment to the 2050 Carbon Neutral Strategy[5] could be strengthened by aligning its Climate Action Plan disclosures with the GHG Protocol, ensuring consistency and reliability in environmental reporting.

3. **Mandatory disclosure of Scope 1-3 emissions, including upstream and downstream emissions.** Scope 3 disclosures should be made mandatory even if the company believes that climate-related value chain risks are not material for the company. Consistent Scope 3 disclosures would be crucial for comparability and providing a comprehensive view of climate-related value chain risks and opportunities. As per MSCI's research, of the 80 companies in the MSCI Hong Kong IMI universe, currently 82% disclose Scope 1 and 2 emissions, while only 18% disclose a limited number of Scope 3 upstream and downstream categories. (Please refer Exhibits 3 and 4 in the Annex).[6] On the other hand, we found that Scope 3 emissions make up over 70% of companies' carbon footprint in most sectors.[7] Standardized disclosures across all categories therefore enable comparative analysis and provide decision-useful information for investors.

4. **Financed emissions disclosures** in the financial sector are now on the rise and availability of data is no longer a major obstacle. The Partnership for Carbon Accounting Financials (PCAF) Standard[8] based on the GHG Protocol is increasingly being adopted by financial institutions around the globe for disclosing financed emissions.[9] Comparability of financed emissions reporting could be further enhanced with the inclusion of detailed sector-level breakdowns, and reporting gross absolute emissions disaggregated by Scopes 1, 2, and 3. To facilitate comparisons between financial institutions of varying sizes, disclosure of the gross financed emissions intensity could also be recommended. Adopting standards on financed emissions would help Hong Kong's financial sector enhance transparency and comparability by providing a clearer picture of the environmental impact associated with Hong Kong's financial institutions' investments and lending activities.

5. **Climate scenario analysis and guidelines involve applying climate scenarios across short-, medium-, and long-term horizons.** Climate scenario analysis, applied across short-, medium-, and long-term horizons, is a crucial tool for examining how future climate change could impact business models, value chains, and resilience. We support the TCFD's scenario analysis guidance[10,11] which provides a step-by-step approach for how disclosing entities could get started in applying scenario analysis, acknowledging the importance of key principles such as transparency, comparability and methodological consistency.

[5] Government announces Hong Kong's Climate Action Plan 2050 (The Government of Hong Kong, October 2021)
[6] While more than 25% report on Scope 3 categories (1,3,5,6,7), less than 20% report on Scope 3 categories (2,4, 8-15)
[7] K. Watanabe & A. Panagiotopoulos, Breaking Down Corporate Net-Zero Climate Targets (MSCI ESG Research, May 2021)
[8] Partnership for Carbon Accounting Financials (PCAF)
[9] C. Wang & A. Liang, G-SIBs' Financed Emissions, 2024 Progress Report (MSCI ESG Research, April 2024)
[10] Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities (TCFD, June 2017)
[11] Guidance on Scenario Analysis for Non-Financial Companies (TCFD, October 2020)

6. **The use of high-temperature scenarios to be encouraged.** According to the ISSB standards, disclosing entities must report whether their analysis includes a diverse range of climate-related scenarios, including one that aligns with the latest international agreement on climate change. MSCI provides a wide range of scenarios in line with the Network for Greening the Financial System (NGFS).[12] Additionally, to better understand the evolving nature of climate-related financial risks, we recommend that disclosing entities include a high-temperature scenario in their analysis, such as the NGFS's 3°C scenario or equivalent. This approach will help evaluate the most severe impacts of physical climate-related risks, including chronic and acute hazards from wildfires, floods, and extreme heat (non-exhaustive).

7. **Differentiating between acute and chronic risks.** Clearer guidelines on distinguishing acute and chronic risks as well as quantifying associated asset damage and business interruption impacts at the location level would increase transparency on climate-related physical risks disclosing entities are facing. Acute hazards involve sudden events like infrastructure damage and supply chain disruptions while chronic hazards develop more gradually but can pose significant financial risks of a similar magnitude to those of acute hazards.

8. **Disclosure of carbon credits.** HKFRS S2 aligns with IFRS S2 by requiring companies to disclose the planned use of carbon credits. These disclosures provide investors with critical information about the role carbon credits will play in corporate transition plans. By aligning with ISSB standards, investors can more effectively evaluate the credibility and ambition of a company's commitments, including: (i) the type of credits used, (ii) the standards against which they were verified, and (iii) other relevant details necessary to assess the integrity of these credits. Adhering to ISSB-aligned standards in carbon credit disclosures can make Hong Kong companies more attractive to investors by clearly demonstrating how they intend to offset unabated emissions credibly or contribute to climate mitigation through the use of credits. Additionally, disclosing current carbon credit usage is crucial for providing insights into near-term actions and how they complement companies' in-boundary emissions reductions, enabling investors to more accurately assess associated risks and opportunities.

9. **A standardized approach to the disclosure of transition plans.** A recent MSCI analysis revealed that only 3% of large-cap issuers and 1% of mid- and small-cap issuers in Hong Kong have disclosed climate targets deemed fully credible.[13] Climate-related disclosures can have a more significant positive impact on achieving climate targets when the disclosing entity explicitly outlines its contributions to adaptation or mitigation strategies.

[12] NGFS Scenarios Portal
[13] Final say on Climate Disclosure Requirements: Update on Assessing Hong Kong Companies' Climate Journey. (MSCI, August 2024)

The ISSB recently announced[14] that it will assume responsibility for the disclosure-specific materials developed by the Transition Plan Taskforce (TPT).[15] Therefore, the HKICPA may consider integrating the TPT's framework into reporting requirements to ensure future alignment with ISSB standards. A strong transition plan that aligns with the TPT framework will showcase Hong Kong companies' commitment to climate goals and bolster their global reputation.

Please do not hesitate to contact us to discuss our submission.

Yours sincerely,

**/s**
**Meggin Thwing Eastman**
**Managing Director, ESG Research**
**MSCI ESG Research LLC**

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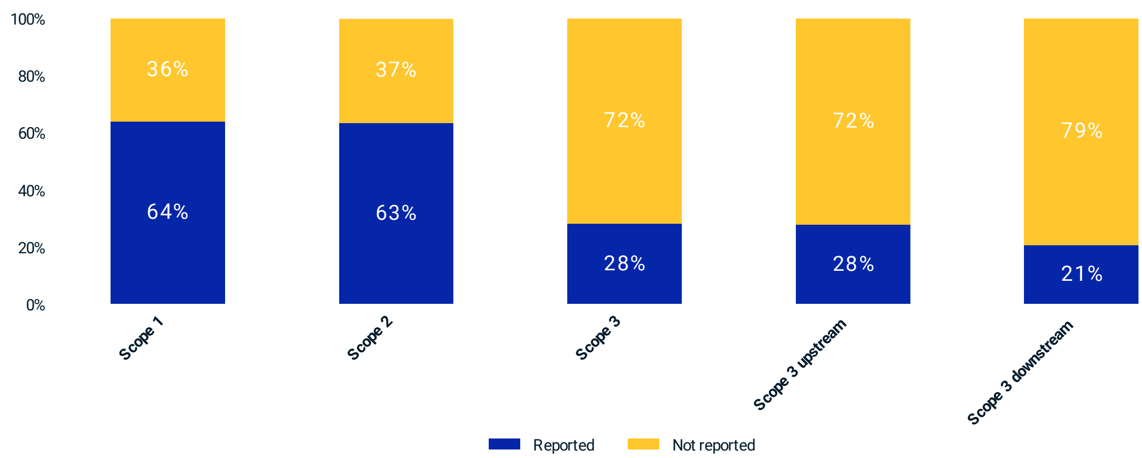
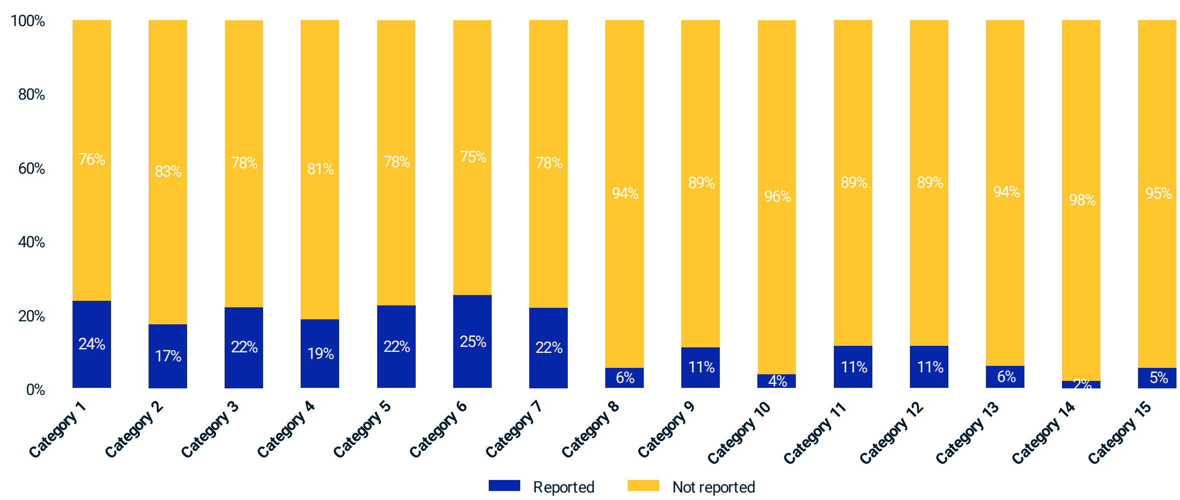
[14] ISSB delivers further harmonization of the sustainability disclosure landscape as it embarks on new work plan (IFRS, June 2024)
[15] Transition Plan Taskforce | Setting a gold standard, ISSB to consider implementing TPT guidance into standards "over time", Responsible Investor, 24 June 2024, https://www.responsible-investor.com/issb-to-consider-implementing-tpt-guidance-into-standards-over-time/

## Exhibit 1: Emissions disclosure rates in the MSCI ACWI IMI



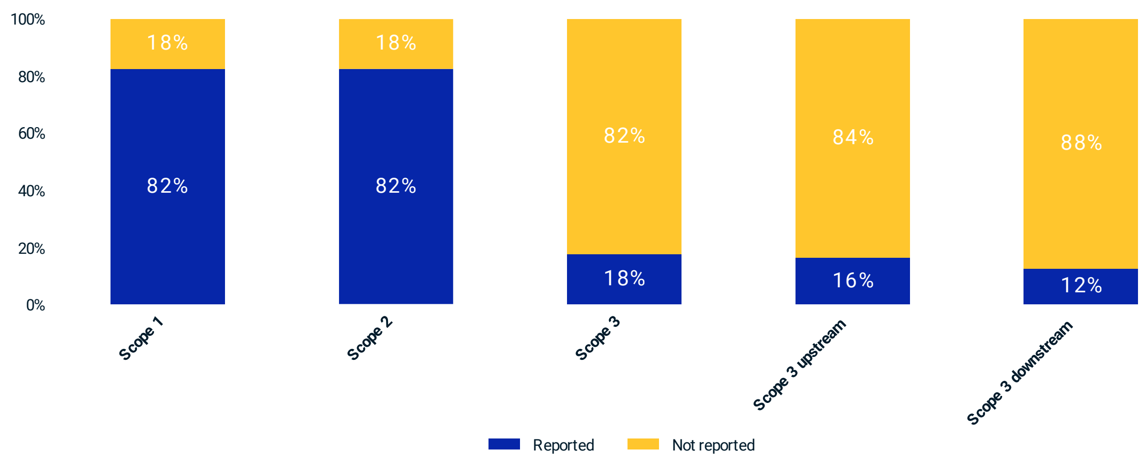

**Source:** CDP. Company Disclosures. MSCI ESG Research as of October 7, 2024. Notes: When companies did not define the categories of Scope 3 emissions they disclosed, we assumed companies have reported all categories of Scope 3 emissions. We are currently in the process of collecting FY 2023 corporate emissions data. There are in all 8,697 companies in the MSCI ACWI IMI.

## Exhibit 2: Emissions disclosure rates per scope and category in the MSCI ACWI IMI



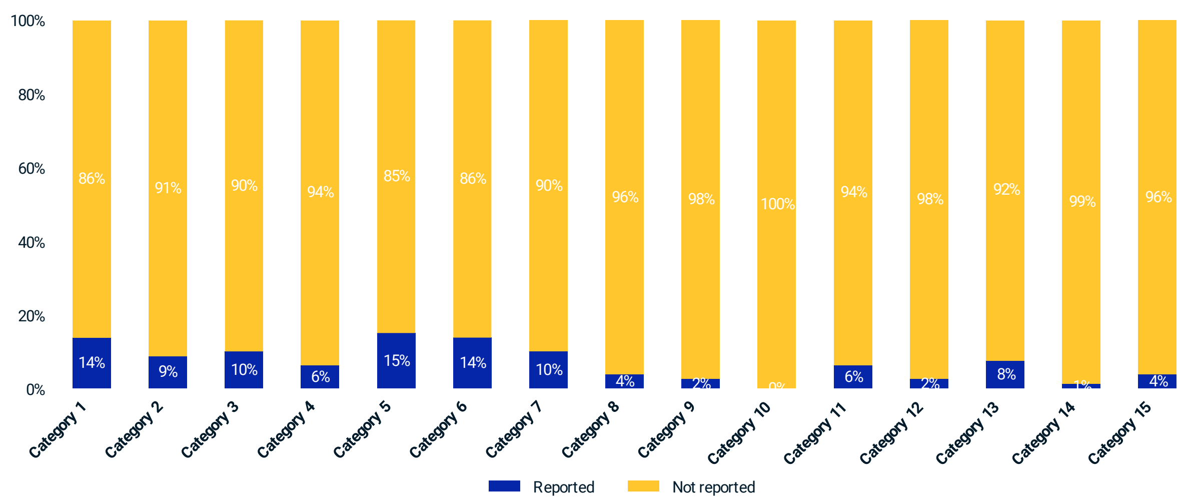

**Source:** CDP. Company Disclosures. MSCI ESG Research as of October 7, 2024. Notes: We are currently in the process of collecting FY 2023 corporate emissions data. There are in all 8,697 companies in the MSCI ACWI IMI.

## Exhibit 3: Emissions disclosure rates in the MSCI Hong Kong IMI




**Source:** CDP. Company Disclosures. MSCI ESG Research as of October 7, 2024. Notes: When companies did not define the categories of Scope 3 emissions they disclosed, we assumed companies have reported all categories of Scope 3 emissions. We are currently in the process of collecting FY 2023 corporate emissions data. There are in all 80 companies in the MSCI Hong Kong IMI.

## Exhibit 4: Emissions disclosure rates per scope and category in the MSCI HONG KONG IMI




**Source:** CDP. Company Disclosures. MSCI ESG Research as of October 7, 2024. Notes: We are currently in the process of collecting FY 2023 corporate emissions data. There are in all 80 companies in the MSCI Hong Kong IMI.