

PRI RESPONSE

EXPOSURE DRAFT HKFRS S1 GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION AND EXPOSURE DRAFT HKFRS S2 CLIMATE- RELATED DISCLOSURES

October 2024

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United Nations
Global Compact

ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the Hong Kong Institute of Certified Public Accountants' call for feedback on the Exposure Drafts HKFRS S1 and HKFRS S2.

ABOUT THIS CONSULTATION

The Hong Kong Institute of Certified Public Accountants (HKICPA) issued exposure drafts on HKFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and HKFRS S2 Climate-related Disclosures ([HKICPA EDs](#)) on 16 September 2024 and opened them for [public comments](#) until 27 October 2024. As the sustainability reporting standard setter in Hong Kong SAR, the HKICPA is proposing full convergence of HKFRS S1 and S2 with IFRS S1 and S2, thus the HKICPA EDs are the same as IFRS S1 and IFRS S2. The proposed effective date is 1 August 2025, and the HKICPA aims to publish the final HKFRS S1 and S2 by the end of 2024. The proposal for full convergence relates to IFRS S1 and S2 only and does not extend to any future ISSB Standards.

The HKICPA Standards will prioritise the application of publicly accountable entities (PAEs), including listed entities and regulated financial institutions in Hong Kong such as banks, fund managers, insurance companies and MPF trustees. Relevant authorities/regulators will conduct their own consultation to determine the adoption approach and timing of HKFRS S1 and S2, no later than 2029. Entities that are required to prepare sustainability disclosures will continue to report in accordance with the rules, regulations or guidelines specified by the relevant authorities/regulators.

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KEY RECOMMENDATIONS

The PRI welcomes HKICPA's publication of the HKICPA EDs. As an important international financial centre, Hong Kong's full convergence with the ISSB Standards will have significant positive impacts as it would contribute to the global alignment of sustainability reporting standards, and bolster the connection of global capital with local businesses as well as those in mainland China and other regions.

The successful application of ISSB-aligned HKICPA Standards would support the delivery of the ISSB global baseline, and help to provide investors with the decision-useful sustainability data across their portfolios they need and currently lack.¹ This will help investors to allocate capital efficiently, accounting for sustainability-related financial risks and opportunities and addressing sustainability goals².

The PRI's key recommendations are:

- **Continue the communication with relevant authorities/regulators to promote the implementation and application of the HKICPA EDs.** This would contribute to the process of promoting a mandatory sustainability disclosure system in Hong Kong SAR.
- **Eventually add disclosure requirements additional to the ISSB Standards, taking a building-blocks approach that captures further information on companies' sustainability impacts and dependencies.** Depending on their mandates and duties, investors may need information to assess and interpret a company's impacts and their alignment with sustainability goals and thresholds. Such additional requirements should build on the GRI Standards given their widespread global uptake.

¹ For example, FTSE Russell found that of the 4,000 large and mid-size constituents in the FTSE All World index, only 58% disclose both Scope 1 and 2 carbon emissions. Source – [Mind the gaps: Clarifying corporate carbon](#) (2022).

² Investors around the world are increasingly committed to incorporating and pursuing sustainability outcomes such as those posed by the UN SDGs, Paris Agreement and the Kunming-Montreal Global Biodiversity Framework. Legal analysis from the [Legal Framework for Impact \(LFI\) project](#) found that while there are differences across jurisdictions and investor groups, where investing for sustainability outcome approaches can be effective in achieving an investor's financial goals, the investor will likely be required to consider using them and act accordingly. The global LFI analysis and local LFI policy reports, such as the [Japan Report](#), have consistently found that for investors to be able to pursue sustainability outcomes, market mechanisms such as mandatory sustainability disclosure are critical.

DETAILED RESPONSE

CONSULTATION QUESTIONS

QUESTION 1: DO YOU AGREE WITH THE PROPOSAL TO ISSUE HKFRS S1 AND S2 ON A FULLY CONVERGED BASIS WITH IFRS S1 AND S2 WITH AN EFFECTIVE DATE OF 1 AUGUST 2025?

Yes, we agree with the proposal to issue HKFRS S1 and S2 on a fully converged basis with IFRS S1 and S2 with an effective date of 1 August 2025. We believe a mandatory and standardized sustainability-related disclosure reporting framework would provide comparable, high-quality reporting on sustainability issues, across time and markets.

Decision-useful corporate sustainability reporting is a prerequisite for responsible investment. However, investors currently lack such information across their portfolios, including the most basic sustainability-related data. This makes it more difficult for them to allocate capital efficiently, accounting for sustainability-related financial risks and opportunities and addressing sustainability goals. A global system of comparable data can address this need, creating a strong baseline of reliable information.

The ISSB Standards (IFRS S1 and S2) are an opportunity to provide investors with the comparable, high-quality sustainability information they need from portfolio companies for decision-making. Crucially, they are underpinned by the structure and concepts of accounting standards from the International Accounting Standards Board (IASB) and build on the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommended framework, among other well established voluntary sustainability reporting frameworks. The ISSB Standards have also been endorsed by the International Organization of Securities Commissions (IOSCO)³.

National and regional policymakers and standard setters have an essential role to play through the introduction of sustainability disclosure requirements aligned with the ISSB Standards. The PRI is a strong advocate for the adoption of ISSB Standards by governments around the world.

We recently published a [call to action](#) for jurisdictions to commit to adoption of both ISSB Standards at pace. This was issued in collaboration with the London Stock Exchange Group, UN Sustainable Stock Exchanges initiative and World Business Council for Sustainable Development – and endorsed by 120 investors, companies, stock exchanges and other organisations.

To date, in the APAC region we have engaged in consultations on the adoption of the ISSB Standards in Australia, China, Hong Kong SAR, Japan, South Korea, Malaysia and Singapore (submissions [available online](#)). As we engage with local markets, we have consistently found that investors support the adoption of the ISSB Standards by international and local standard setting and policymaking bodies. Investors expect adoption to align with the ISSB Standards to the fullest extent possible in order to ensure the availability of decision-useful sustainability information. We are

³ IOSCO's endorsement recommends that its member jurisdictions consider ways in which they might adopt, apply or otherwise be informed by the standards.

committed to constructively engaging with governments, relevant financial authorities and relevant standard setters (such as HKICPA) to bring these investor voices to their attention.

QUESTION 2: DO YOU HAVE ANY OTHER COMMENTS ON THE HK EDS?

- **Promoting a mandatory sustainability disclosure system with relevant authorities and regulations in Hong Kong SAR.**

Until further decisions are made by the relevant authorities/regulators, entities preparing sustainability disclosures have the sole discretion to decide whether sustainability disclosures should be prepared in accordance with the HK Standards or other frameworks. We encourage the HKICPA to continue working with relevant authorities/regulators in Hong Kong including the HKEX, HKMA, SFC, MFPA, AND IA to promote and implement HKICPA Standards. In PRI's joint [call to action](#) with the London Stock Exchange Group, UN Sustainable Stock Exchanges Initiative and World Business Council for Sustainable Development, we call for commitments by 2025 from relevant authorities across jurisdictions to adopt both ISSB Standards on an economy-wide basis.

- **Additions to the baseline – reporting on impacts and dependencies**

Investors' data needs are shaped by the approach they take to responsible investment. Approaches can include a combination of: (i) focusing on incorporating ESG risks and opportunities; (ii) addressing the drivers of financially material sustainability risks; and (iii) actively pursuing sustainability outcomes beyond investment value. All three approaches exist within PRI's signatory base.

Therefore, while all investors need sustainability-related information to inform their assessment of companies' risks and opportunities, some investors also need information to assess and interpret a company's impacts and their alignment with sustainability goals and thresholds. PRI's [Legal Framework for Impact report](#) demonstrates that as part of their responsibilities to clients and beneficiaries, investors may need to assess the sustainability outcomes which affect the system-level risks to which their portfolio is exposed, and therefore long-term returns. This is especially true for so-called universal owners, such as sovereign wealth funds who invest across entire economies. Many institutional investors now accept that, in acting in their clients' and beneficiaries' best financial interests, they should consider and respond to system-level risks that may affect long-term returns.

While the ISSB Standards are expected to enable disclosure of some of this information, they are unlikely to provide investors with all the information they need on companies' impacts and dependencies. Therefore, in line with the IFRS Foundation's "building blocks" approach, the HKICPA should eventually consider disclosure requirements additional to the ISSB Standards capturing more information on companies' sustainability impacts and dependencies. These should build on the GRI Standards, similar to the approach of the European Commission and Chinese Ministry of Finance.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of HKICPA further to promote the application of a sustainability disclosure in line with the global baseline in HK SAR.

Please send any questions or comments to policy@unpri.org.

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