**Feedback on Exposure Draft HKFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information; and Exposure Draft HKFRS S2 Climate-related Disclosures (HK EDs)**

**Reply Slip**

| **Please provide a rationale for your comments to the following questions, explaining why you agree or disagree with the proposed requirements. If you disagree, kindly specify the parts of the requirements with which you disagree, provide reasons for your disagreement and propose alternative solutions if applicable.** |
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| **Question 1**<br>**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?** |
| ▪ We prefer to take a more conservative approach in deciding the effective date given the application of HKSSB S1 and S2 (the "Standard") necessitates strategic planning and resource allocation, particularly in talent and resources, alongside with various new and upcoming regulatory compliance requirements for insurance industry. Moreover, transition support is required.<br><br>▪ Same as the first point above.<br>▪ Transition support in implementing the Standards may be required. We would propose the HKICPA keeps open the option of re-engaging with industry on the appropriateness of proposed transitional reliefs once the operational challenges in meeting the requirements of the Standard are more fully understood.<br><br>▪ Our company expresses support for the proposal to adopt HKFRS S1 and S2 in full convergence with IFRS S1 and S2. However, we would like to suggest that the effective date for implementation be set as mandatory from 1 August 2027. This time frame will allow Hong Kong companies the necessary period to digest the forthcoming road map from the HKICPA and consider its implications. Additionally, this will provide sufficient time for Hong Kong companies and the HKICPA to learn from and address any challenges faced by other markets that have already implemented ISSB-based disclosure rules with earlier effective dates.<br><br>▪ We generally agree with the proposal to issue HKFRS S1 and S2 on a fully converged basis with IFRS S1 and S2. This alignment ensures global consistency and comparability, enhancing the credibility and transparency of financial and sustainability-related disclosures. It supports multinational companies and investors by providing a unified reporting framework, reducing complexity and costs associated with multiple reporting standards.<br><br>For the HKIA to consider the effective date of HKFRS S1 and S2 for local insurance companies and insurance groups, we hope HKIA/HKFI can launch another round of discussion or consultation to gather our comments and work out a pragmatic transition plan. This would ensure that the |

specific needs and challenges of the local insurance sector are adequately addressed, facilitating a smoother transition to the new standards.

- See below in purple under ‘Other Comments’

- Disagree as it is too rush to be effective on 1 August 2025.

**Question 2**
**Do you have any other comments on the HK EDs?**

- (a) Interoperability with Hong Kong Stock Exchange Appendix C2 ESG Code (ESG Code), European Sustainability Reporting Standards (ESRS) and other Sustainability Reporting Standards.

  Insurers may subject to multiple sustainability reporting standards due to their own (or their parent’s) jurisdiction and listing status. The Standard is fully converged with IFRS S1 and S2, and also highly aligned with ESG Code and ESRS’ climate disclosures. Therefore, we need clarity on the interoperability of the Standard with ESG Code and ESRS, particularly on implementation reliefs from ESG Code as stated below:

| Relevant New Climate Requirement | Implementation relief | | | |
|---|---|---|---|---|
| | Reasonable Information Relief | Capabilities Relief | Commercial Sensitivity Relief | Financial Effects Relief |
| All paragraphs with respect to climate-related opportunities | | | ✓[32] | |
| Identification of climate-related risks and opportunities | ✓[33] | | | |
| Determination of the scope of the value chain | ✓[34] | | | |
| Quantification of current and anticipated financial effects | | ✓[35] (anticipated financial effects only) | | ✓[36] |
| Preparation of disclosures on anticipated financial effects | ✓[37] | ✓[37] | | |
| Use of climate-related scenario analysis | ✓[38] | ✓[38] | | |
| Measurement approach, inputs and assumptions of Scope 3 GHG emissions | ✓[39] | | | |
| Calculation of metrics in particular cross-industry metric categories[40] | ✓[41] | | | |

(b) Reporting on a group or entity level

Similar to ESRS, an exemption may apply to subsidiaries of larger groups. Subsidiaries are exempted from the HKSSB obligations if the parent company produces a consolidated sustainability report that conforms with the ISSB / the Standard.

(c) Insurance-related Value Chain Emission

In-scope insurance value chain emission is from asset holding. Insurers may outsource their investment functions, posing challenges to the scope 3 data collection. Therefore, it is imperative that robust communication mechanisms are in place with the fund industry. Their role in providing quality data to the insurance sector is crucial, when it comes to disclosure.

The availability / transparency of data varied among different asset types, particularly challenging for unlisted assets (private / alternative investment).

Scope 3 emission from underwriting activities is currently out of scope, the carbon accounting methodology for insurance-associated emission by Partnership for Carbon Accounting Financials are limited to certain general insurance products. It requires further expansion to address the climate exposure for different insurance products.

(d) Supervisory Guidance on the applications of the Standard

Further supervisory guidance on (i) materiality; (ii) scenario analysis approach and (iii) baseline for quantitative assessment on anticipated financial effects commensurate with insurers' circumstances would be appreciated. It can help facilitate the future regulator's approach to, and expectations in, reviewing insurers' climate disclosures. This will increase the comparability and consistency for such disclosures across the industry.

- (a) Interoperability with Hong Kong Stock Exchange Appendix C2 ESG Code (ESG Code), European Sustainability Reporting Standards (ESRS) and other Sustainability Reporting Standards

  Insurers may subject to multiple sustainability reporting standards due to their own (or their parent's) jurisdiction and listing status. The Standard is fully converged with IFRS S1 and S2, and also highly aligned with ESG Code and the EU ESRS' climate disclosures. Therefore, we would welcome clarity on the interoperability of the Standard with ESG Code and ESRS, particularly on implementation reliefs under the ESG Code as stated below:

| Relevant New Climate Requirement | Implementation relief | | | |
|---|---|---|---|---|
| | Reasonable Information Relief | Capabilities Relief | Commercial Sensitivity Relief | Financial Effects Relief |
| All paragraphs with respect to climate-related opportunities | | | ✓[32] | |
| Identification of climate-related risks and opportunities | ✓[33] | | | |
| Determination of the scope of the value chain | ✓[34] | | | |
| Quantification of current and anticipated financial effects | | ✓[35] (anticipated financial effects only) | | ✓[36] |
| Preparation of disclosures on anticipated financial effects | ✓[37] | ✓[37] | | |
| Use of climate-related scenario analysis | ✓[38] | ✓[38] | | |
| Measurement approach, inputs and assumptions of Scope 3 GHG emissions | ✓[39] | | | |
| Calculation of metrics in particular cross-industry metric categories[40] | ✓[41] | | | |

(b) Reporting on a group or entity level

- Similar to ESRS, an exemption may apply to subsidiaries of larger groups. We would seek clarification that subsidiaries are not required to separately produce financial disclosures under the Standard if the parent company produces consolidated financial disclosures that conform with the Standard or its equivalents as implemented in other jurisdictions.

(c) Insurance-related Value Chain Emission

- In-scope insurance value chain emission is from asset holding. Insurers, as asset owners, may outsource their investment and/or asset management functions to asset managers that are subject to challenges to the scope 3 financed emissions data collection. Therefore, it is imperative that robust communication and support mechanisms are in place with the fund and asset management industry. Their role in sourcing sufficient and quality data, appropriate for disclosure, for the insurance sector is crucial.

- The availability/transparency of data varied among different asset types, particularly challenging for unlisted assets (private/alternative investment). The development of broadly-accepted industry guidance and standards is at varying stages of development, depending on asset class and as such, the consistency and comparability of scope 3 financed emissions is expected to vary across asset classes. We acknowledge and support an ongoing pragmatic approach to scope 3 financed emissions, and support the transition relief exempting entities on reporting Scope 3 emissions in their first year reporting, as well as the principle that entities use all reasonable efforts and supportable information without undue cost or effort in the Standards.

- The ISSB has expressed that disclosure of Scope 3 financed emissions from underwriting activities for life insurers is not required under IFRS S1 and S2. The carbon accounting methodology for insurance-associated emission published by Partnership for Carbon Accounting Financials is limited to certain general insurance products, and we hope to see the development of such methodologies for different insurance products, including life insurance.

(d) Supervisory Guidance on the application of the Standard with respect to quantification of financial effects

- The Standards require reporting of material sustainability / climate-related impacts to financial position, financial performance and cash flows of organisations, together with stress and scenario analysis. This represents a significant hurdle across industries given challenges on data quality and availability, tools, methodologies and underlying assumptions, and the requirement to include short, medium and long-term financial effects. We are supportive of the principle of proportionality in applying the Standards and welcome further supervisory guidance on (i) materiality; (ii) scenario analysis approach and (iii) baseline for quantitative assessment on anticipated financial effects commensurate with insurers' circumstances. This would help facilitate the future regulator's approach to, and expectations in, reviewing insurers' climate disclosures and increase the comparability and consistency for such disclosures across the industry.

- For the industry-based guidance of insurance companies (volume 17), some requirements are not directly related to life insurance companies (e.g. net premiums written related to low carbon technology, use of catastrophe models). It is suggested HKFRS S2 to provide more clarification on whether these should be applied to life insurance companies, if not possible it would also be beneficial if HKIA can explicitly provide more granular guidance on this aspect when launching the standards for insurance companies and groups.

- Subject to the exact types of disclosures required for a private insurance company. In the proportionality mechanisms, some topics are still required for quantitative approaches.

- Our company agrees with the proposal to issue HKFRS S1 and S2 on the basis that the HKICPA's Explanatory Memorandum dated 16 September 2024 states that in "*approving HKFRS S2, the Financial Reporting Standards Committee of the Hong Kong Institute of Certified Public Accountants has considered and agreed with the International Sustainability Standards Board's (ISSB) Basis for Conclusions on IFRS S2*."

  By this, our company understands that BC 129 (page 570 of the Exposure Draft) will be specifically included in HKFRS S1 and S2. The relevant extract of BC 129 is copied below.

  > "*The ISSB confirmed that IFRS S2 requires financed emissions disclosure only for insurance-related financial activities associated with an insurer's assets. In other words, IFRS S2 does not require disclosure of the 'associated emissions' of underwriting portfolios in the insurance and reinsurance industries.*"

  Our company strongly supports the specific inclusion of BC 129 under HKFRS S2 such that financed emissions disclosure under HKFRS S2 does not require disclosure of the associated emissions of an insurer's underwriting portfolio.

Our company understands that the ISSB's decision regarding BC 129 was reached based on ISSB's assessment that standards for Scope 3 emissions for insurers are not yet sufficiently well-established and accepted. Our company agrees with that assessment and considers the inclusion of BC 129 in the Exposure Draft as essential to achieving HKICPA's goal that Hong Kong, as an international financial centre, should ensure alignment to bolster the connection of global capital with local businesses as well as those in mainland China and other regions.

Our company provides the following additional context to in support of HKICPA's decision to explicitly note in the Exposure Draft that financed emissions disclosure under HKFRS S2 does not require disclosure of the associated emissions of an insurer's underwriting portfolio:

1. In our company's view, there is no viable way for Hong Kong general insurers to gather data which would allow the quantification of Scope 3 emissions across the broad clients they serve. That point is illustrated when considered against our company's personal and commercial client base, which includes individuals and corporations which range from small family-owned businesses to HKEX-listed entities. Firstly, many of these corporations will not be captured by the HKICPA's proposed laws requiring entities to prepare a sustainability report, and therefore these entities may not have the data that they are able or willing to provide to insurers like our company.

2. Secondly, our company is not aware of any method which would allow insurers to calculate the emissions associated with the social and economic activity of the individuals which they insure. By expressly carving out the associated emissions of underwriting portfolios from the requirement to report on financed emissions, HKICPA ensures that insurers like our company are not required to make guesses and estimations regarding the emissions of its policyholders or qualify and generalize disclosures to a point where they are effectively meaningless.

3. Separately, even if insurers were able to determine the total emissions arising from the activity of their client bases, our company's view is that insurers have no way of accurately attributing the emissions from third parties to their underwriting activity (commonly referred to as "insurance-associated emissions"). At a global level, our parent company has noted its technical concerns with the currently available methodologies for the calculation of insurance-associated emissions and remains concerned that these methodologies will not provide meaningful information to the company or its investors. By fully converging with the ISSB in explicitly carving out the associated emissions of underwriting portfolios from the requirement to report on financed emissions, Hong Kong insurers are not required to report to different standards than their global peers, thus promoting the consistent and comparable reporting of climate-related financial information.

4. With regards to disclosures on financial emissions related to insurers' investment assets, only disclosures supported by available public data would be made and it should be noted that certain investment issuers, such as those from the private sector, may not make available emissions information of those purchased investments to insurers.

- See below in purple under 'Other Comments'

| Other Comments |
| --- |
| - Are HKFRS S1 and S2 disclosure being compulsory requested for listed company to disclose such information in 2025 audited FS? For those private local insurance Limited should following the IA's sustainability disclosure requirement only (i.e. "S.SWM.Climate" return in proposed draft on Annual submission)?<br><br>Recent regulatory/ industrial changes have already put great pressure to the small and medium-sized insurers in the market.<br><br>HKFRS17 is effective on 1 Jan 2023; HKRBC and GL34 reporting is effective on 1 July 2024 and the HKFRS S1 and S2 will potentially effective on 1 August 2025.<br><br>- We welcome the commitments made by HKICPA to transpose the standards recently adopted by the ISSB. The ISSB standards were established as a global baseline for sustainability reporting, with the ultimate objective of supporting global consistency and comparability. As climate change is a global challenge, working towards a global approach for sustainability-related reporting is sensible and we therefore fully support the HKICPA's decision to fully adopt the ISSB standards.<br><br>- We are concerned that the draft Basic Guidelines do not appear to allow Hong Kong subsidiaries and branches of global groups to rely on their foreign parent's consolidated sustainability reports. This is an option which has either been adopted or is being proposed in other jurisdictions such as the European Union, Singapore, Malaysia and Bahrain. Global groups do not address climate change on a local basis, when considering their activities related to advocacy, insurance solutions or managing their own footprints. Group-level disclosures are therefore a much more relevant and accurate reflection of the sustainability performance of global groups. There would therefore be much greater value for Hong Kong users of climate-related financial disclosures to receive information that reflects the entirety of group initiatives, rather than the subset that occurs in that market.<br><br>- Given the global nature of the challenge at hand, and acknowledging that standalone disclosures in each jurisdiction would defeat the very purpose of the ISSB standards as a global baseline, **we urge HKICPA to include a reporting exemption for Hong Kong subsidiaries and branches** if:<br>    o their intermediary or ultimate parent is preparing climate or sustainability reports broadly consistent with the prescribed non-financial disclosures in Hong Kong; and if,<br>    o the material activities of the Hong Kong entities are considered in that parent's consolidated report. |

*October 2024*