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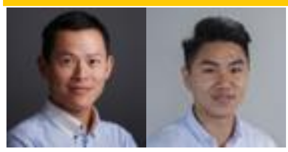
Business

Help is on the way for some Hong Kong-listed firms to help them comply with tough sustainability disclosures

- The bourse will consider the resource limitations of small and medium-sized firms when new disclosure rules come into effect, an exchange official said
- Assessing climate risks and collecting supply chain emissions data will present challenges, speakers at a listed-companies forum said

Business of climate change



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A cargo ship approaches Yantai Port in China’s eastern Shandong province on October 6, 2022. Photo: AFP

Hong Kong-listed companies face risk assessment and data availability challenges in meeting impending tougher requirements for climate and sustainability disclosures, but regulators will offer relief and help, an exchange official said on Thursday.

Companies will soon be required to put numbers on the potential impact from extreme climate events like severe typhoons, rising sea levels and extreme heatwaves under standards proposed by the International Sustainability Standards Board (ISSB). The final guidelines are due early next year after the ISSB incorporates feedback from a market consultation completed in July.

Hong Kong's bourse will take into account the resource limitations of small and medium-sized firms when upgrading disclosure rules after the ISSB publishes its standards, said Katherine Ng, head of policy and secretariat services of the listing division of Hong Kong Exchanges and Clearing.

"We are very cognisant of the fact that SMEs might have limited resources … It might not be proportional for them [hire many] consultants," she told a forum organised by the Chamber of Hong Kong Listed Companies on Thursday.

"We are looking for guidance from different accounting bodies [and consultants] for advice, while doing some internal analysis," Johnny Yu, adviser to chairman at Henderson Land Development said during the forum.

"If you talk to different experts you will get different answers, because they use different data sets … Market standardisation will be key going forward, so that everybody can [properly] understand our [ESG] report."

The standards are expected to find wide adoption internationally, including in Hong Kong and mainland China. Exactly how they will be implemented will be up to financial regulators across different jurisdictions.

Difficulty in collecting emission data from suppliers and customers is another challenge, said Andy Li, chief financial officer of garments manufacturer Crystal International Group.

"Most of our suppliers are not listed companies and they are not in Hong Kong," he said. "And most of our production facilities are in Southeast Asia. In those developing countries, the level of knowledge in ESG is relatively low, so it creates extra difficulty for us."

Emissions attributed to suppliers and customers are included in so-called Scope 3 greenhouse gas emissions under ISSB requirements. Scope 1 and 2 are generated directly by companies' own facilities, or indirectly through externally bought energy, respectively.

Earlier this month the ISSB decided that disclosure of all three categories will be mandatory, although relief provisions – including giving companies more time to provide Scope 3 and certain "safe harbour" protections – will be developed.

The ISSB was created under the International Financial Reporting Standards Foundation, which sets global accounting standards, last November during the global climate talks in Glasgow. It has consolidated standards launched by different organisations over the years to enhance the comparability of disclosures.

Calculating Scope 3 is complex and resource-intensive because it includes 15 sources of emissions by a company's suppliers and customers, Yu noted.

To help companies, HKEX has established an ESG information platform on its website, containing regulations, online learning materials and disclosure guidance.

Hong Kong is well positioned to attract more ESG capital and support the mainland to reach its goal to achieve carbon neutrality by 2060, said Megan Tang, a corporate finance division senior director at the Securities and Futures Commission.

"To benefit from these developments, it is very important that our regulatory framework and listed companies keep pace with development internationally, to maintain our status as an international financial centre," she said.

Reporting ESG issues should not be seen as a compliance exercise, and should be embedded into a company's business strategy and culture, said Melissa Fung, ESG leader at Deloitte CarbonCare Asia.

"Many companies delegate ESG responsibilities to their sustainability or finance department," she said. "But effectively implementing a company's ESG strategy should be the responsibility of the entire company and not just an individual department."

Companies should also invest in resources to strengthen their boards' ESG expertise and enable effective oversight, said Maurice Ngai, director of SWCS Corporate Services Group.

source: https://www.scmp.com/business/article/3197552/help-way-some-hong-kong-listed-firms-help-them-comply-tough-sustainability-disclosures