

LCQ10: Environmental, social and governance performance of listed companies

Following is a question by the Hon Edmund Wong and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (January 17):

Question:

The Hong Kong Institute of Certified Public Accountants (HKICPA) published a study report on "ESG Assurance in Hong Kong 2023: An evolving landscape" in November 2023. Regarding the environmental, social and governance (ESG) performance of Hong Kong-listed companies, will the Government inform this Council:

(1) as the aforesaid study report found that among the 1 882 December 2022 year-end listed companies, 141 adopted ESG external assurance, and although the figure represented an observable increase compared with the 85 listed companies found in a similar study conducted by HKICPA in 2021, the overall percentage of listed companies adopting ESG external assurance was still 7.5 per cent only, whether the Government has plans to spur the Hong Kong Exchanges and Clearing Limited to require listed companies to adopt ESG external assurance; if so, of the details; if not, the reasons for that;

(2) given that according to the aforesaid study report, only over 15 per cent (i.e. 290 companies) of the listed companies surveyed have put in place a board-level ESG committee, whether the Government will instruct the various regulatory bodies of listed companies to require listed companies to formulate a timetable for putting in place a board-level ESG committee; if so, of the details; if not, the reasons for that; and

(3) as HKICPA is of the view that the absence of a widely-adopted and harmonised set of international standards for ESG reporting has presented challenges to assurers, and the Government indicated earlier on that the Green and Sustainable Finance Cross-Agency Steering Group was considering adopting a gradual approach in aligning the relevant local requirements with the baseline of the International Financial Reporting Standards Sustainability Disclosure Standards published by the International Sustainability Standards Board in June 2023, of the timetable and progress of the relevant work?

Reply:

President,

With the global concern and focus on achieving carbon neutrality and

promoting green transformation, allowing investors to obtain more information to understand how climate change affects the business operations, assets, and financial condition of their investments is of utmost importance.

In consultation with the Securities and Futures Commission (SFC) and the Hong Kong Exchanges and Clearing Limited (HKEX), my reply to the three parts of the question is as follows.

(1) and (3) The International Sustainability Standards Board (ISSB) published the International Financial Reporting Standards – Sustainability Disclosure Standards (ISSB Standards) in June 2023, as the global baseline for corporate disclosure of climate and sustainability-related information.

In the Policy Measures of the Chief Executive's 2023 Policy Address, the Government has committed to working with financial regulators and stakeholders to develop a roadmap on the appropriate adoption of the ISSB Standards.

Formed by the Financial Services and the Treasury Bureau (FSTB), the Environment and Ecology Bureau, the Hong Kong Monetary Authority, the SFC, the Insurance Authority, the Mandatory Provident Fund Schemes Authority, the Accounting and Financial Reporting Council, and the HKEX, the Green and Sustainable Finance Cross-Agency Steering Group (Steering Group) has expressed support for adopting the ISSB Standards. The Steering Group has set up a working group, which is co-led by the FSTB and the SFC with members comprising financial regulatory authorities and stakeholders (including the HKEX and the Hong Kong Institute of Certified Public Accountants), to prepare the roadmap. The roadmap will comprise four key areas, namely sustainability reporting, assurance, data and technology, and capacity building. The working group will start the engagement with stakeholders to identify the specific circumstances that should be considered when implementing the ISSB Standards in Hong Kong.

In 2019, the HKEX conducted consultation on assurance arrangements in its consultation paper on environmental, social and governance (ESG) reporting. Respondents raised concerns on the varied quality of assurance in the absence of an accredited authority to govern the standards of assurance service. As an internationally-recognised ESG assurance standard was yet to be available, the HKEX decided not to require issuers to obtain independent assurance for ESG information, and included provisions in the ESG Reporting Guide (Guide) published in July 2020 to encourage (instead of require) issuers to seek independence assurance to enhance the credibility of ESG information.

In March 2023, the International Organization of Securities Commissions (IOSCO) Sustainable Finance Task Force (STF) set out its expectations of a global assurance framework for sustainability reporting. In August 2023, the International Auditing and Assurance Standards Board (IAASB) launched a consultation on its proposed International Standard on Sustainability Assurance 5000, which closed on December 1. The final standards to be published by the IAASB are expected to be the globally-accepted

sustainability assurance standards. The STF will review the final standards developed by the IAASB and the International Ethics Standards Board for Accountants respectively. If these final standards are considered as agreeable, the IOSCO will encourage its members to adopt or apply them voluntarily or mandatorily (or through other means) based on their own needs.

Establishing assurance standards can increase the credibility of sustainability-related information. We in collaboration with regulatory authorities concerned and the HKEX will closely monitor international developments and diligently work with stakeholders in considering the approach suited to Hong Kong's needs.

(2) Since July 2020, the Guide has included requirements for listed companies to disclose their boards' oversight and governance of ESG issues, ESG management approach and strategy, and how the boards review progress against ESG-related goals. Listed companies' ESG reports have showed that the vast majority have disclosed how their boards oversee and manage ESG issues, and provided information on their ESG governance structures as well as ESG working groups or committees. There is no plan at this stage to mandate issuers to establish ESG committees under the Guide.