

# PRI RESPONSE

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## **HKEX CONSULTATION PAPER ON ENHANCEMENT OF CLIMATE-RELATED DISCLOSURES UNDER THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE FRAMEWORK**

14 July 2023

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To inform this briefing, the following investor group has been consulted: PRI Regional Policy Reference Group for (mainland China and Hong Kong SAR). This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

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**United Nations  
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# 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 Stock Exchange of Hong Kong's call for feedback on its Paper on Enhancement of Climate Disclosure under ESG Framework.

## ABOUT THIS CONSULTATION

The Stock Exchange of Hong Kong Limited (the Exchange), a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited (HKEX), published a [consultation paper](#) seeking market feedback on proposals to enhance climate-related disclosures under the environmental, social and governance (ESG) framework. Interested parties are encouraged to respond to the consultation paper by submitting a questionnaire on the [HKEX website](#) by 14 July 2023.

The Exchange proposes to mandate all issuers to make climate-related disclosures in their ESG reports, and introduce new climate-related disclosures aligned with the International Sustainability Standards Board (ISSB) Climate Standard, IFRS S2 *Climate-related Disclosures*. New climate-related disclosures based on the ISSB Climate Standard will be introduced as a new Part D of Appendix 27. The new climate-related disclosures will be categorised under four core pillars, namely Governance, Strategy, Risk management and Metrics and Targets.

Acknowledging the readiness of the issuers and their concerns, the Exchange proposes interim provisions for certain disclosures (e.g. financial effects of climate-related risks and opportunities, scope 3 emissions and certain cross-industry metrics) for the first two reporting years following the effective date of 1 January 2024.

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# KEY RECOMMENDATIONS

As the world's leading proponent of responsible investment, the PRI advocates for globally comparable, high-quality corporate sustainability disclosure to enable investors to incorporate sustainability risks and opportunities and consider sustainability outcomes in their investment decisions.

Interoperability between jurisdictional reporting requirements – allowing companies to collect and report in a manner that effectively serves both local and global requirements – is a key concern for investors who allocate capital globally and require comparable sustainability-related information across their portfolios.

Therefore, the PRI supports efforts by the IFRS Foundation to develop a global baseline for reporting on sustainability-related financial information, including decisions by the ISSB to confirm disclosure requirements that are key to meeting the needs of responsible investors. To generate high-quality, comparable and decision-useful sustainability disclosures for investors, jurisdictions should look to adopt and build on this global baseline to the extent possible.

In this regard, we strongly welcome the proposals of the Stock Exchange of Hong Kong (HKEX). As shown in Appendix III of the consultation paper, the requirements under consultation are closely aligned with exposure draft [IFRS S2 Climate-related Disclosures](#) and [ISSB decisions](#) related to this Standard. **To ensure interoperability, the HKEX should work to align climate disclosure requirements with final IFRS Sustainability Standards after these are released.**

Our response welcomes areas of alignment with the ISSB's proposals, and highlights where we believe further alignment is needed. The analysis and recommendations in this response reflect PRI's own analysis and were shared as a draft response with PRI signatories for feedback. In addition, this response incorporates insights from our wider engagement with signatories on their data needs that we have collected through targeted interviews, as part of our wider [Investor Data Needs](#) project.

Our key recommendations are listed below.

## Recommendations

- Require reporting on climate-related opportunities, and how they are identified, assessed and managed, where this information is material – in line with the approach for climate-related risks, IFRS Sustainability Standards and ongoing regional regulatory initiatives.
- Incorporate additional disclosure requirements on transition plans, such as:
  - agreed near term actions to deliver on the underlying strategy and key dependencies;
  - further information on financing the transition and alignment of engaging activities;
  - details on individuals, governance structures responsible for implementation; and
  - reporting on plans for net-zero alignment where relevant.
- Revise the timeline for disclosure of climate-related metrics in line with established practice in reporting against TCFD recommendations and ISSB decisions on IFRS S2:

- remove the interim period afforded to issuers for reporting: (i) exposure to transition risks; (ii) exposure to physical risks; (iii) exposure to climate-related opportunities; and (iv) capital deployment; and
- shorten the interim period for reporting Scope 3 GHG emissions, from two years to one year.
- Enhance disclosures on exposure to physical risks to improve the availability of data needed by investors and alignment with ongoing regional regulatory initiatives.
- Include additional examples and further guidance on calculating current and anticipated financial effects of climate-related risks and opportunities, to improve consistency across issuers and time periods.

These recommendations broadly align with our recent letters and submissions on climate disclosures:

- PRI [joint statement with IFAC And WBCSD calling for stronger alignment of regulatory & standard setting efforts around sustainability disclosures](#) (June 2022).
- PRI's response to ISSB: [Exposure Draft IFRS S1 general requirements for disclosure of sustainability-related financial information](#) and [Exposure Draft IFRS S2 climate-related disclosures](#) (July 2022).
- PRI [statement of support for progress on IFRS Sustainability Disclosure Standards](#) (January 2023).

### **Beyond climate**

The PRI recognises the need to improve climate-related disclosures by issuers. However, investors require information on a wide range of sustainability topics that are material to investment decisions. We recommend that the HKEX acknowledges from the outset the need to bring other areas of sustainability reporting in scope over time, and looks to adopt future issue-specific IFRS Sustainability Standards after these are issued.

This is also in line with ISSB's proposal on its future [priorities for the next two years](#), where they plan to enhance the application of IFRS S2 by providing guidance for the disclosure of climate-adjacent risks and opportunities related to nature and the 'just transition' to a lower-carbon economy.

A just transition is understood as one that protects workers and communities that stand to lose out from the shift to a low carbon economy, and which ensures that the benefits of and opportunities from that transition are widely shared.

Investors can use a just transition lens to better understand and influence systemic and systematic risks, uncover investment opportunities, identify material drivers of long-term value, fulfil their fiduciary duty and align with economic, social and ecological development goals. To effectively integrate just transition issues into their decision-making, investors will need companies to provide clear, consistent and comprehensive information about the social issues they face during the low-carbon transition.

We therefore recommend that HKEX consider the risks and opportunities associated with social issues during the low-carbon transition and develop a standardised framework for disclosure as a next step. In a China-focused report, the PRI has proposed a disclosure framework for companies in

China to disclosure their recognition of and commitments to addressing a just transition, which is aligned with other global recognized just transition reporting frameworks.

- PRI [Investing for a just transition: Proposals for a just transition disclosure framework in China](#) (August 2022).

### Investor Data Needs

Finally, it is important to note that investors are not homogenous, and their needs vary depending on their investment objectives, strategy, mandate and other characteristics. All investors need sustainability-related information to inform their assessment of companies' risks and opportunities. However, investors also increasingly need information to assess and interpret a company's sustainability performance and their alignment with sustainability goals and thresholds.

While the IFRS Sustainability Standards are expected to enable disclosure of these elements of corporate reporting, it will not provide investors with all the information they need to fully assess and interpret a company's sustainability performance or their alignment with sustainability goals and thresholds.

This is less likely to apply to the issue of climate change, where the prevailing standards and frameworks (including ISSB Standards and TCFD recommendations) recognise that the companies' impacts are, in most cases, financially material.

However, this is currently not the case for other sustainability issues covered by Appendix 27 of the HKEX Listing Rules. To better meet the breadth of investor data needs, **the HKEX should consider adopting disclosure requirements additional to the ISSB Standards that capture further information on companies' sustainability impacts**, in line with the IFRS Foundation's "building blocks" approach. In doing so, the HKEX should build on requirements within the GRI Standards and European Sustainability Reporting Standards (ESRS) once finalised.

# DETAILED RESPONSE

## Detailed answer to the consultation questions

### MANDATING CLIMATE-RELATED DISCLOSURES [PARAGRAPHS 39-44]

**Question 1 Do you agree to upgrade climate-related disclosures to mandatory from “comply or explain”? Please provide reasons for your views.**

Yes, we agree to upgrade climate-related disclosures to mandatory from “comply or explain”. We believe a mandatory and standardized climate-related disclosure reporting framework would provide comparable, high-quality reporting on climate-related issues, across time and markets.

### (A) GOVERNANCE [PARAGRAPHS 45-49]

**Question 2 Do you agree to introduce new governance disclosures focusing on climate-related issues as set out in paragraph 1 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Yes, we agree with the proposed governance disclosures. This information is decision-useful to investors as it would help them to understand the climate-related internal controls within an issuer and their implementation – and thereby management’s ability to monitor, manage and react to climate-related risks and opportunities.

### (B) STRATEGY [PARAGRAPHS 50-100]

**Question 3 Do you agree to require disclosure of climate-related risks as set out in paragraph 2 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

The PRI supports this proposal.

There was support from all signatories interviewed on the ISSB’s proposed disclosures related to the effects of sustainability-related risks and opportunities. This reporting would provide investors with relevant information about the nature, source and time horizon of potential effects on an issuer, and where in the value chain such effects would be likely to materialise.

Investors need this information to evaluate: (i) the materiality of these effects; and (ii) the suitability of an issuer’s climate-related strategic / business model changes and targets.

**Question 4 Do you agree that issuers may opt to disclose the actual and potential effects of climate-related opportunities they may have identified in response to climate-related risks disclosed as set out in paragraph 3 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

No, the PRI does not agree that reporting on actual and potential effects of climate-related opportunities should be voluntary.

To ensure that issuers report all material information to investors, these disclosures should instead be subject to materiality, as is the case under ISSB exposure drafts and [draft European Sustainability Reporting Standards](#) (ESRS).

**Question 5 Do you agree that an issuer shall consider the applicability of and disclose the metrics when assessing and making disclosure of climate-related risks and opportunities as set out in paragraph 4 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

No response.

## **II. Transition plans [paragraphs 61-80]**

**Question 6 Do you agree to require disclosure of how the issuer is responding to climate-related risks and, where an issuer chooses to, any climate-related opportunities as set out in paragraph 5 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

The PRI supports the proposed disclosures on transition plans. All signatories involved in our interviews in relation to the ISSB standards recognised that reporting on strategy needs to include how an issuer will respond to sustainability-related risks and opportunities.

A company's climate transition plan is a time-bound action plan that outlines how the organisation will pivot its existing assets, operations and entire business model towards a trajectory that is aligned with a fixed, defined target, such as net-zero by 2050.

To provide investors with additional relevant information needed for decision-making, the PRI recommends further disclosure requirements on transition plans which are not currently captured in the HKEX's proposal, including:

- Assumptions and dependencies underlying transition plans, in line with [ISSB decisions](#) on IFRS S2.
- Reporting on net-zero, where applicable – include reporting on an issuer's strategy to pivot its existing assets, operations and entire business model towards a trajectory that is aligned with net-zero by 2050.
- Agreed near-term (in the coming 1-3 years) actions to deliver on this strategy, including:
  - alignment of direct and indirect industry and public sector engagement / lobbying activities; and
  - financing of the transition – companies should include amounts for capital expenditure and new product development where applicable.
- The individuals and governance structures responsible for successfully implementing this plan, including information on:

- skills and training – how the organisation plans to ensure it has the necessary in-house capacity to deliver on the transition plan; and
- remuneration – alignment of financial incentives with the successful implementation of the transition plan, or an explanation if there is no link between the transition plan and remuneration.

**Question 7 Do you agree to require disclosure of climate-related targets set by the issuer as set out in paragraph 6 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

The PRI supports the proposed disclosures on climate-related targets.

Reporting on climate-related targets and progress against these provides investors with relevant information on an issuer's current and anticipated performance in addressing material climate-related matters.

To enhance the relevance of reporting on climate-related targets, we recommend that the HKEX onboards the ISSB's reporting requirements on:

- the scope of targets and the greenhouse gases and emissions scopes covered, in line with the [November 2022 ISSB decisions](#) on IFRS S2 – this would greatly enhance comparability and verifiability of reporting on climate-related targets.
- how climate-related targets were informed by latest international agreement on climate change and/or jurisdictional commitments arising from that agreement, in line with the [January 2022 ISSB decisions](#) on IFRS S2 – investors may need this information track progress against their own commitments, conduct climate-related scenario analysis and manage climate-related risks; and
- whether they were validated by a third party and whether they derived using a sectoral decarbonisation approach – which can indicate verifiability of reporting on targets.

**Question 8 Do you agree that where an issuer has yet to disclose climate-related targets, it should make alternative disclosures as set out in note 2 to paragraph 6 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

No response.

**Question 9 Do you agree to require disclosure of progress made in the most recent reporting year in respect of plans disclosed as set out in paragraph 7 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

No response.

### III. Climate resilience [paragraphs 81-91]



**Question 10 Do you agree to require discussion of the issuer’s climate resilience as set out in paragraph 8 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

The PRI supports the proposed disclosures on climate resilience. Investors need these to predict an issuer’s current and future resilience to climate-related risks.

The proposed requirements would provide investors with information on scenarios used, scope of risks and operations covered in the analysis, time horizons, assumptions and uncertainties considered. This would allow investors to verify the suitability of scenario analysis undertaken, and to better understand the results of this analysis and any limitations.

**Question 11 Do you agree to require issuers to apply a climate-related scenario analysis that is commensurate with the issuer’s circumstances, and to require disclosure of information on climate-related scenario analysis as set out in paragraph 9 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

The PRI supports this proposal. The HKEX should require the use of climate scenario analysis in company reporting as per TCFD recommendations and in line with the [October 2022 ISSB decisions](#) on IFRS S2.

Forward looking as well as static disclosures, such as emissions data, are needed by investors since climate change is a risk that will grow over time. Therefore, sole reliance on historical data provides a partial and misleading view of a company’s position in relation to this business issue. Companies and investors naturally have a view of the future with respect to market trends, key risks, and growth opportunities. The function of climate-related scenario analysis is to provide means for incorporating climate change into existing views and assessing the resilience of the business strategy to a range of plausible future scenarios.

Further, disclosure on climate scenarios is important to investment and voting decisions as it demonstrates the degree of attention by companies to the issue and an understanding that the importance of climate change will not be static.

We note that **disclosure from climate scenario analysis is not necessarily a quantitative exercise but could be narrative based and to set in motion a learning process to build understanding of how climate-related risks and opportunities could evolve over time.** As issuers gain experience, the use of more quantitative information with greater rigor and sophistication may be warranted.

Finally, it is important to recognise that the cost and challenge of undertaking climate scenario analysis has been reduced by the growing number of off-the-shelf and free to use online tools and guides. In particular, the PRI recommends the HKEX highlight the following tools in the final rules and implementation guidance:

- The Climate Scenario Catalogue v1.0: an online and free-to-use tool published by the World Business Council for Sustainable Development (WBCSD) that collates and expands a range of

selected scenarios and variables to help companies meet the reporting requirements of the TCFD<sup>1</sup>.

- The Transition Pathway Initiative (TPI): sector-level analysis of companies' preparation for the transition to a low-carbon economy by evaluating and tracking the quality of companies' management of GHG emissions and of risks and opportunities related to the low-carbon transition. TPI uses company-disclosed data<sup>2</sup>.
- Carbon Tracker Report, 2 Degrees of Separation: in-depth company and sector-level analysis of the oil and gas companies' upstream exposure to climate transition risks, using asset-level data to examine whether supply options of the largest publicly traded oil and gas producers are aligned with demand levels consistent with a 2-degree carbon budget<sup>3</sup>.
- The IPCC and national climate impact assessment reports.

#### **IV. Financial effects of climate-related risks and opportunities [paragraphs 92-100]**

**Question 12 Do you agree to require disclosure of the current financial effects of climate-related risks, and where applicable, climate-related opportunities as set out in paragraph 10 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

The PRI supports this proposal. Information on current financial effects is highly relevant to investor decision-making, as it provides a needed link between climate-related risks and opportunities and an issuer's financial performance, financial position and cash flows.

**Question 13 Do you agree that during the Interim Period, where an issuer has yet to provide quantitative disclosures pursuant to paragraph 10(a) of Part D of the Proposed Appendix 27, it should make the interim disclosures as set out in the paragraph immediately following paragraph 10 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Since calculating such effects remains an emerging practice, the PRI supports allowing issuers to provide qualitative information where quantitative information cannot be provided.

In addition, the HKEX should issue these requirements alongside application guidance on calculating and disclosing such effects, for instance referencing guidance within the TCFD [Guidance on Metrics, Targets and Transition Plans](#) [cf. page 34].

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<sup>1</sup> WBCSD, Climate Scenario Catalogue 1.0 powered by WBCSD with analysis from Vivid Economics, available at: <https://climate-scenario-catalogue.shinyapps.io/final/>

<sup>2</sup> Transition Pathway Initiative, All Sectors, available at: <https://www.transitionpathwayinitiative.org/sectors>

<sup>3</sup> Carbon Tracker, PRI (2017), 2 Degrees of Separation - Transition Risk for oil and gas in a low carbon world, available at: <https://carbontracker.org/reports/2-degrees-of-separation-transition-risk-for-oil-and-gas-in-a-low-carbon-world-2/>

**Question 14 Do you agree to require disclosure of anticipated financial effects of climate-related risks and, where applicable, climate-related opportunities as set out in paragraph 11 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

The PRI supports this proposal. Information on anticipated financial effects is highly relevant to investor decision-making, as it provides a needed link between climate-related risks and opportunities and an issuer's future financial performance, financial position and cash flows.

**Question 15 Do you agree that during the Interim Period, where an issuer has yet to provide information required in paragraph 11 of Part D of the Proposed Appendix 27, it should make the interim disclosures as set out in the paragraph immediately following paragraph 11 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

Since calculating such effects remains an emerging practice, the PRI supports allowing issuers to disclose explanatory information and plans to provide the required information in the future.

As recommended in response to Question 13, the HKEX should reference application guidance that would help issuers to meet these requirements. This would improve the consistency of methodologies across issuers and enhance comparability of outputs for investors.

## **(C) RISK MANAGEMENT [PARAGRAPHS 101-104]**

**Question 16 Do you agree to require disclosure of the process an issuer uses to identify, assess and manage climate-related risks as set out in paragraph 12(a) of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

The PRI supports this proposal, as it would provide investors with information on the methodologies and reasoning used to identify and prioritise climate-related risks and opportunities – and how this is integrated into an issuer's wider policies and procedures.

**Question 17 Do you agree that issuers may opt to disclose the process used to identify, assess and manage climate-related opportunities as set out in paragraph 12(b) of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

No, the PRI does not agree that reporting on processes to identify, assess and manage climate-related opportunities should be voluntary.

This is relevant information, especially for investors that wish to: (i) better understand how climate-related opportunities are identified and managed; and (ii) engage with issuers on improving these processes.

## **(D) METRICS AND TARGETS [PARAGRAPHS 105-137]**

### **I. GHG emissions [paragraphs 111-119]**

**Question 18 (a) Do you agree with the proposed approach for the disclosure of scope 1 and scope 2 emissions and the related information as set out in paragraphs 13 to 14 of Part D of**

**the Proposed Appendix 27? Please provide reasons for your views. (b) Do you agree with the proposed approach for the disclosure of scope 3 emissions and the related information as set out in paragraphs 13 to 15 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

The PRI supports the proposed approach for disclosure of Scope 1, 2 and 3 greenhouse gas (GHG) emissions and measurement methodologies. Investors need this reporting to understand an issuer's climate-related impacts and exposure to transition risks.

The PRI supports disclosure of Scope 3 GHG emissions where they are a significant portion of an issuer's overall emissions profile.

**We recommend that the HKEX also require issuers to specify how and why they used specific inputs, assumptions and estimation techniques to measure their GHG emissions, and changes to estimation techniques and significant assumption during the reporting period.** This would be in line with the ISSB's [December 2022 decision](#) to include these disclosures within IFRS S2, and the approach suggested within the [US Securities and Exchange Commission's Proposed Rule on climate-related disclosures](#) [page 471].

**Question 19 Do you agree with the proposed approach for the interim disclosures in respect of scope 3 emissions during the Interim Period as set out in the paragraph immediately following paragraph 15 of Part D of the Proposed Appendix 27? Please provide reasons for your views**

**The PRI agrees with the proposed interim disclosure but does not support the length of the Interim Period. We recommend a one-year exemption for disclosure rather than two years,** in line with the ISSB's [December 2022 decision](#) on IFRS S2.

While Scope 3 emissions are often more difficult to report, these are [the most impactful kind of emissions for some industries](#) such as oil and gas producers. Leaving them out could mean that a large share of actual emissions, where material, are not reported.

Finally, where possible, GHG emissions should be calculated in line with the [GHG Protocol methodology](#), the most widely used and recognised international standard for calculating GHG emissions. While we recognise outstanding methodological issues, this would help to achieve a standardisation of emissions data across jurisdictions, increasing comparability and facilitating aggregation for investors.

## **II. Other cross-industry metrics [paragraphs 120-135]**

**Question 20 (a) Do you agree to require disclosure of the amount and percentage of assets or business activities vulnerable to transition risks as set out in paragraph 16 of Part D of the Proposed Appendix 27? Please provide reasons for your views. (b) Do you agree with the proposed interim disclosures during the Interim Period in respect of the metric regarding transition risks as set out in the paragraph immediately following paragraph 16 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

The PRI supports the suggested requirements, as investors need this information to predict the future financial impact of exposure to transition risks.

**Given the importance of such reporting to investors and existing precedent under the TCFD recommendations, the PRI does not support an Interim Period.**

**Question 21 (a) Do you agree to require disclosure of the amount and percentage of assets or business activities vulnerable to physical risks as set out in paragraph 17 of Part D of the Proposed Appendix 27? Please provide reasons for your views. (b) Do you agree with the proposed interim disclosures during the Interim Period in respect of the metric regarding physical risks as set out in the paragraph immediately following paragraph 17 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

The PRI supports this proposal. Investors need this information to predict the future financial impact of exposure to physical risks.

**Given the importance of such reporting to investors and existing precedent under the TCFD recommendations, the PRI does not support an Interim Period.**

Furthermore, [investors would benefit](#) from further detail on how issuers are exposed to physical risks, and require information on how issuers are managing, mitigating and adapting to physical risk exposures to effectively consider such exposures in decision-making. The HKEX could help to improve the availability of the [data that investors need](#) by enhancing suggested disclosures in this area.

For example, the HKEX could consider recommending the following metrics:

- Asset location data of issuers' main facilities, operations and leading suppliers located in an area at risk of extreme weather events, such as:
  - percentage located in flood hazard areas and/or regions of high or extremely high water stress – as is proposed in the [US Securities and Exchange Commission's Proposed Rule on climate-related disclosures](#) [page 464]; and
  - assets in areas that are subject to wildfire risk, as the intensity and frequency of wildfires continue to increase<sup>4</sup>.
- How physical climate risk is assessed and considered in company's business interruption plans.
- Current and predicted financial losses from extreme weather events.
- Anticipated future financial impacts based on the results of physical risk-focused scenario analyses.

This would help to address [the lack of readily accessible and comparable location data](#) that has made it difficult for investors to determine the level of physical risks from climate change on issuers.

**Question 22 (a) Do you agree to require disclosure of the amount and percentage of assets or business activities aligned with climate-related opportunities as set out in paragraph 18 of Part D of the Proposed Appendix 27? Please provide reasons for your views. (b) Do you agree with the proposed interim disclosures during the Interim Period in respect of metrics regarding climate-related opportunities as set out in the paragraph immediately following paragraph 18 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

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<sup>4</sup> Metrics for physical climate risk were adapted in accordance with research by IIGCC available at <https://www.iigcc.org/resource/understanding-physical-climate-risks-and-opportunities-a-guide-for-investors/> and the UK Climate Financial Risk Forum's report on data and metrics available at <https://www.fca.org.uk/transparency/climate-financial-risk-forum>.

The PRI supports this proposal. Investors need this information to predict the future financial impact of exposure to climate-related opportunities.

**Given the importance of such reporting to investors and existing precedent under the TCFD recommendations, the PRI does not support an Interim Period.**

**Question 23 (a) Do you agree to require disclosure of the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities as set out in paragraph 19 of Part D of the Proposed Appendix 27? Please provide reasons for your views. (b) Do you agree with the proposed interim disclosures during the Interim Period in respect of the metric regarding capital deployment as set out in the paragraph immediately following paragraph 19 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

The PRI supports this proposal. Investors need information on how issuers are financing their transition plans and the amount allocated to predict future financial performance, financial position and cash flows.

**Given the importance of such reporting to investors and existing precedent under the TCFD recommendations, the PRI does not support an Interim Period.**

**Question 24 Do you agree that where an issuer maintains an internal carbon price, it should disclose the information as set out in paragraph 20 of Part D of the Proposed Appendix 27? Please provide reasons for your views.**

No response.

**Question 25 Do you agree with the proposed approach for the disclosure of how climate-related considerations are factored into remuneration policy as set out in paragraph 21 of Part D of the Proposed Appendix 27? Please provide reasons for your views**

Yes, the PRI agrees with the proposed disclosures on climate-related remuneration.

The PRI has long called for better reporting by companies on ESG targets, performance against those targets and actual impact on pay. Relevant ESG factors should be selected based on a nuanced understanding of what impacts the financial or the operating performance of a company and how an issuer's operations and products impact stakeholders and the environment, in the context of broader societal goals and planetary boundaries.<sup>5</sup>

Comprehensive and detailed disclosures of linkages between executive compensation and ESG factors are important for investors to ensure the integrity of compensation and reduce risks of pay padding, backward looking performance targets and other potential unintended consequences.

In order to prevent the abuse of ESG-linked pay, investors also have a role in holding issuers accountable, ensuring that selected ESG factors genuinely stimulate systematic progress towards sustainability ambitions, and do not reward executives for business as usual (e.g. maintaining compliance with laws and regulations) or for improving perceptions regarding sustainability

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<sup>5</sup> PRI (2021), ESG-linked pay: Recommendations for investors available at <https://www.unpri.org/executive-pay/esg-linked-pay-recommendations-for-investors/7864.article>.

performance (e.g. by tying pay to inclusion in sustainability indices, which are rarely specific to companies' ESG performance). Doing so, however, requires comprehensive, reliable, consistent, and comparable disclosure for investors to interpret and utilize in engagement and exercise of voting rights and investment decision-making.

### **III. Industry-based metrics [paragraphs 136-137]**

**Question 26 Do you agree with the proposed approach for the industry-based disclosure requirements prescribed under other international ESG reporting frameworks such as the SASB Standards and the GRI Standards as set out in paragraph 22 of Part D of the Proposed Appendix 27? Please provide reasons for your views**

The PRI supports this proposal as it would (i) improve relevance of reporting by ensuring that the potentially material factors identified under established ESG reporting frameworks are considered by management, and (where material) reported; and (ii) improve comparability of reporting on material climate-related risks/opportunities across issuers by harmonising the factors considered in determining these.

Although disclosure topics within industry-based requirements are based on consultation with users and subject matter experts on what is likely to be material to issuers in each sector, they cannot cover all potentially material risks/opportunities across a broad range of issuers. The requirements should therefore recognise that it will be on issuers to appropriately consider and assess all risks/opportunities that are reasonably likely to be material to them.

## **CONSEQUENTIAL AMENDMENTS TO APPENDIX 27**

**Question 27 Do you have any comments regarding whether the manner in which the proposed consequential amendments are drafted will give rise to any ambiguities or unintended consequences? Please elaborate.**

No response.

*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 the further to support the work of enhancing climate-related disclosures under the ESG framework in Hong Kong.*

*Please send any questions or comments to [policy@unpri.org](mailto:policy@unpri.org).*

*More information on [www.unpri.org](http://www.unpri.org)*