香港董事學會
The Hong Kong Institute of Directors
FOUNDED 1997

Accounting and Financial Reporting Council

Consultation Paper on the
Proposed Regulatory Framework for
Sustainability Assurance in Hong Kong (December 2025)

In relation to the captioned consultation paper, The Hong Kong Institute of Directors has the following views and comments.

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General comments

HKIoD supports the proposals. We believe the proposals set us in the right direction towards the core objectives of the proposed regulatory framework. High quality assurance aligned with international standards should give credibility, reliability and comparability of sustainable disclosures made. A robust, efficient and uniform regulatory regime will reduce the likelihood of regulatory gaps or arbitrage, levelling the playing field for all assurance providers.

Regulation as impetus

The present proposal may be a case of instituting policy requirement to foster market development and improvements. Many companies already do some kind of sustainability disclosure assurance, and some do them well. But without a regime stipulating uniform standards, there could be instances where lesser disclosure efforts will get by when wrapped up by suspect assurance. "Why pay more money to get the better assurance when it is not required?" As cynical and irresponsible as it may sound, some of our members would warn us of the pervert consequence. A policy to require independent assurance according to stipulated standards can help weed out low practices of uneven quality.

Capacity building

Capacity building efforts will continue to be required. There will certainly need to be training and continuing development to result in a quality class of sustainable disclosure and assurance practitioners. Education and continuous learning among reporting company personnel who will have a role and be involved in sustainable disclosure and assurance matters is another important aspect. HKIoD together with the Climate Governance Initiative Hong Kong Chapter which we host will have particular interest in fostering education and expertise among company directors in sustainability disclosure and assurance matters. We will also gladly work with other stakeholders in being part of the wider education campaign.

Phased approach

Under the proposals, certain reporting companies with higher weight of public interest that are required to adopt HKSDS will be required to have mandatory independent assurance of their sustainable disclosure. The exact scope and implementation timeline will be subject to further consultations by the Exchange and/or relevant regulators sometime during the year 2027. Consultation Paper para 5.1b. We do believe the eventual group of entities subject to mandatory independent assurance are likely to be reporting companies that have the better resources to do so, and a good portion may already be publishing sustainability assurance. See, e.g., Consultation Paper para 5.2. This should be a reasonable starting point.

The proposals call for *limited assurance* only, for Scope 1 and Scope 2 disclosure from the 3rd financial year after becoming subject to mandatory HKSDS disclosure (Phase 1), and all remaining disclosure from the 5th financial year (Phase 2). Full details will be subject to further consultation. We surmise some commentators will still believe the timeline can be accelerated. Allowing time for the Scope 1 and Scope 2 data to accumulate and the mandatory disclosure practice to mature over three financial years should enable a good basis for assurance vetting going forward. For the remaining mandatory disclosures, a longer period of five financial years is allowed, but there remain issues with uncertainties in arriving at those data required for disclosure.

The current proposal will not set a timetable for *reasonable assurance* at this stage. We surmise some commentators will still believe the timeline can be accelerated. Yet, we should allow some time for the capacity building efforts to get us to a healthy state of an ecosystem to support the wider implementation of reasonable assurance. Reporting companies however should be encouraged to early adopt the practice as they become more familiar with the drill of seeking assurance, and as quality, affordable assurance services become more widely available.

Signalling effect
Entities voluntarily reporting under HKSDS will not be subject to mandatory assurance requirements. Consultation Paper para 5.3c. But if a reporting company is already adopting HKSDS standards, it should not be too difficult for them to see the further benefits of seeking independent assurance on a voluntary basis. This can set them apart from other companies. The investor community and financial institutions are increasingly demanding good quality and reliable information on sustainability to help make their investing or lending decisions. In short, it is the "signalling effect" that can be at play.

Cross-border matters
A good number of the reporting companies subject to mandatory independent assurance will have actual business operations outside of Hong Kong and those business operations may be organised under complex company group structures. The sustainable disclosure and assurance for Hong Kong purpose may rest on work performed by practitioners and providers under the standards and regulatory requirements in other jurisdictions. Under the proposal, the responsible sustainability assurance provider for Hong Kong purpose will be subject to Hong Kong regulatory oversight by the future regulator. But to the extent the Hong Kong assurance work rests on work performed in other jurisdictions under different standards or other regulatory practices, there may be occasions where the future regulator can only hold accountable the Hong Kong provider even though the root causes of issues lie elsewhere. The future regulator may also want to have a blueprint in securing cross-jurisdictional cooperation in investigation work that may become necessary.

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<u>Specific proposals</u>
Subject to the general comments above, we state below our response to specific proposals as set out in the Consultation Paper.

Proposal 1:
Subject to the further consultations by HKEX and relevant financial regulators in relation to Mandatory HKSDS Reporting, all entities subject to such reporting must obtain independent assurance.

Question 1.1 – Do you agree with Proposal 1? Please state the reason(s) for your response.

HKIoD Response:

- AGREE
  - The proposal is for all entities eventually subject to Mandatory HKSDS reporting to also obtain independent assurance on a mandatory basis. These reporting companies are essentially the large cap issuers and those large non-listed financial institutions of significance in Hong Kong. These are entities of or carrying higher weight in terms of public interest, so this is a reasonable starting point.
  - We note that the exact scope and implementation timeline will be subject to further consultations by the Exchange and/or relevant regulators sometime during the year 2027. Consultation Paper para 5.1b. We do believe the eventual group of entities subject to mandatory independent assurance are likely to be reporting companies that have the better resources to do so, and a good portion may already be publishing sustainability assurance. See, e.g., Consultation Paper para 5.2.

Question 1.2 – What challenges do you foresee in implementing Proposal 1? Please provide details and, where possible, suggest revisions or solutions to address these challenges.

HKIoD Response:

- Capacity building, leading to a general availability of quality assurance service at reasonable cost.
- Additional time will be required for the assurance work to be done, but we believe reporting companies will be able to make those adjustments necessary in their work processes to accommodate.

Question 1.3 – In your view, what would be the most effective way to encourage entities that voluntarily adopt the HKSDS to obtain independent assurance?

HKIoD Response:

- Entities voluntarily reporting under HKSDS will not be subject to mandatory assurance requirements. Consultation Paper para 5.3c. But if a reporting company is already adopting HKSDS standards, it should not be too difficult for them to see the further benefits of seeking independent assurance on a voluntary basis. This can set them apart from other companies. The investor community and financial institutions are increasingly demanding good quality and reliable information on sustainability to help make their investing or lending decisions. In short, it is the "signalling effect" that can be at play.

Proposal 2:
Subject to further consultations by HKEX and relevant financial regulators in relation to Mandatory HKSDS Reporting, all entities subject to such reporting must obtain limited assurance on:

- Phase 1: Scope 1 and 2 GHG emission disclosures from the third financial year of the Mandatory HKSDS Reporting; and
- Phase 2: All remaining disclosures mandated under HKSDS from the fifth financial year of the Mandatory HKSDS Reporting.

Question 2.1 – Do you agree with the proposal for Phase 1? Please state the reason(s) for your response.

HKIoD Response:

- AGREE IN PRINCIPLE
  - The phased approach is all reasonable, though we surmise some commentators will still believe the timeline can be accelerated. For Phase 1, allowing time for the Scope 1 and Scope 2 data to accumulate and the mandatory disclosure practice to mature over three financial years should enable a good basis for assurance vetting going forward. For the remaining mandatory disclosures, a longer period of five financial years is allowed, but there remain issues with uncertainties in arriving at those data required for disclosure. We do note that it is for limited assurance only, and the full details will be subject to further consultation.

Question 2.2 – Do you agree with the proposal for Phase 2? Please state the reason(s) for your response.

HKIoD Response:

- AGREE IN PRINCIPLE
  - The phased approach is all reasonable, though we surmise some commentators will still believe the timeline can be accelerated. For Phase 1, allowing time for the Scope 1 and Scope 2 data to accumulate and the mandatory disclosure practice to mature over three financial years should enable a good basis for assurance vetting going forward. For the remaining mandatory disclosures, a longer period of five financial years is allowed, but there remain issues with uncertainties in arriving at those data required for disclosure. We do note that it is for limited assurance only, and the full details will be subject to further consultation.

Question 2.3 – Do you agree with the proposal for not setting a timetable for reasonable assurance at this stage? Please state the reason(s) for your response, including any views on when this transition should be considered or made effective.

HKIoD Response:

- AGREE
  - We surmise some commentators will still believe the timeline can be accelerated. Yet, we should allow some time for the capacity building efforts to get us to a healthy state of an ecosystem to support the wider implementation of *reasonable assurance*. Reporting companies however should be encouraged to early adopt the practice as they become more familiar with the drill of seeking assurance, and as quality, affordable assurance services become more widely available.

Proposal 3:

Mandatory assurance must be provided by registered SAPs and their registered individuals. These SAPs comprise either:

• Registered local PIE auditors that meet additional criteria; or

• Accredited local non-CPA firms that meet similar criteria.

Question 3.1 – Do you agree with Proposal 3? Please state the reason(s) for your response.

HKIoD Response:

- AGREE

  - Including both PIE auditors and non-CPA firms should give more choice to reporting companies. Sustainability assurance involves a body of knowledge and expertise that differ from ordinary financial accounting and auditing. Though PIE auditors can also possess those expertise and credentials, we believe reporting companies should have access to specialty sustainability assurance firms and practitioners and choose among them as they wish.

Question 3.2 – Do you agree with the principles set out in paragraph 7.4(b) for firm registration? What other criteria should be considered?

HKIoD Response:

- AGREE
  - Consultation Paper para 7.4b calls for technical competence, capacity, integrity, effective quality management, and adherence to relevant standards. All reasonable; no further comments at this stage.

Question 3.3 – What registration criteria would you propose for individuals that ensure professional competence while accommodating the varied backgrounds of SAPs?

HKIoD Response:

- Familiar with the Hong Kong disclosure regime, obviously. But to the extent that many reporting companies will have actual business operations outside of Hong Kong, good ability and experience in handling the nuances in the differing reporting and assurance standards across jurisdictions can be one dimension of competence being sought after.

Proposal 4:
Mandatory assurance must be carried out in compliance with Hong Kong Standard on Sustainability Assurance 5000, which requires the concurrent application of:
• Hong Kong Standard on Quality Management 1; and
• Hong Kong Ethics Standards for Sustainability Assurance.

Question 4.1 – Do you agree with Proposal 4? Please state the reason(s) for your response.

HKIoD Response:

- AGREE
  - We agree with the objective to minimise regulatory fragmentation and to ensure credibility and comparability. Consultation paper para 8.4a and para 8.1.

Question 4.2 – What are the capacity building efforts and resources required to further support the implementation of the above standards? Please elaborate.

HKIoD Response:

- Capacity building efforts will continue to be required. There will certainly need to be training and continuing development to result in a quality class of sustainable disclosure and assurance practitioners. Education and continuous learning among reporting company personnel who will have a role and be involved in sustainable disclosure and assurance matters is another important aspect. HKIoD together with the Climate Governance Initiative Hong Kong Chapter which we host will have particular interest in fostering education and expertise among company directors in sustainability disclosure and assurance matters. We will also gladly work with other stakeholders in being part of the wider education campaign.

Proposal 5:
A single regulator model to:
- register and regulate all SAPs and their registered individuals, and
- oversee relevant standard-setting by the HKICPA.

Question 5.1 – Do you agree with Proposal 5? Please state the reason(s) for your response.

HKIoD Response:
- AGREE
    - We believe uniformity in regulatory oversight will set a level playing field for all sustainability assurance providers. Under the proposal, the responsible sustainability assurance provider for Hong Kong purpose will be subject to Hong Kong regulatory oversight by the future regulator. But to the extent the Hong Kong assurance work rests on work performed in other jurisdictions under different standards other regulatory practices, there may be occasions where the future regulator can only hold accountable the Hong Kong provider even though the root causes of issues lie elsewhere. The future regulator may also want to have a blueprint in securing cross-jurisdictional cooperation in investigation work that may become necessary.

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