

# Alert

Updates on financial reporting, auditing, ethics  
and sustainability disclosures



Issue 47 (27 June 2023)

## **Development of the HKICPA's Sustainability Disclosure Standards**

Yesterday, the International Sustainability Standards Board (ISSB) [published](#) its two inaugural IFRS Sustainability Disclosure Standards (IFRS SD Standards): IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.

The ISSB was established in November 2021 following strong market demand for its formation with the aim of developing a comprehensive global baseline of sustainability-related disclosure standards focused on the needs of investors and the financial markets, as well as to consolidate the fragmented global sustainability standard-setting landscape.

In light of this development, we would like to outline our roadmap for developing sustainability disclosure standards for the accounting profession in Hong Kong.

### **Background**

The HKICPA has been closely monitoring the developments in the international sustainability standard setting arena for a number of years and the developments at the IFRS Foundation in particular since 2020. At that time, the call from leading investors, analysts, securities regulators, policy makers and other stakeholders around the world for more consistent and comparable sustainability disclosures for capital allocation purposes had culminated in the IFRS Foundation's public consultation on whether it should establish a sustainability standards board to help consolidate the fragmented sustainability reporting landscape. The HKICPA had [expressed](#) strong support for such an initiative and the establishment of the ISSB was announced at COP26 in November 2021.

As the statutory standard setter for the accounting profession in Hong Kong, the establishment of the ISSB and the development of IFRS SD Standards was a momentous occasion for the HKICPA. We recognized how this international development could impact the HKSAR Government's Climate Action Plan 2050 and other green and sustainable finance initiatives of the Green and Sustainable Finance Cross-Agency Steering Group (CASG), as well as the immense public interest that it entails. We were also fully cognizant of the standard setting role that the HKICPA could play in this development. As such, we had been engaging with the Financial Services and the Treasury Bureau (FSTB) at an early stage to clarify our role in setting sustainability disclosure standards for the accounting profession in Hong Kong.

In May 2022, the FSTB confirmed that the extant Professional Accountants Ordinance (Cap. 50) provides the statutory authority for the HKICPA to issue sustainability disclosure standards concerning the practice of accounting to be applied by certified public accountants. Since then we had set up a new work stream to undertake the tasks of the statutory sustainability disclosure standards setter for the accounting profession in Hong Kong.

### **Proposal to adopt the IFRS SD Standards as the HKICPA's sustainability reporting framework**

One of the immediate tasks of the new work stream was to assess the suitability of different international sustainability disclosure standards for use in Hong Kong. After a robust analysis of a number of factors, including an assessment of the ISSB's governance structure, standard setting due process, technical competence, capacity building programmes, implementation support, scalability mechanisms embedded in the IFRS SD Standards as well as the level of international recognition and adoption of the standards, Council has proposed to adopt the IFRS SD Standards as the HKICPA's sustainability reporting framework on a fully converged basis. This is consistent with our existing approach to adopting international accounting, auditing and ethics standards. The final decision to adopt the IFRS SD Standards by Council is subject to the endorsement of the standards by the International Organisation of Securities Commissions (IOSCO).

### **Do Hong Kong incorporated companies have to comply with the sustainability disclosure standards developed by the HKICPA?**

Unlike accounting standards where the extant Companies Ordinance (Cap. 622) (CO) requires Hong Kong incorporated companies to prepare financial statements in accordance with HKFRS Accounting Standards issued by the HKICPA<sup>1</sup>, there are no provisions in the CO requiring Hong Kong incorporated companies to prepare sustainability disclosures or that they must be prepared in accordance with a particular set of standards.

In practice, the framework for preparing sustainability disclosures depends entirely on the recipient's requirements, such as those of the HKEX, regulators, banks, insurers, finance providers, asset managers or investors. In the absence of any legislation or regulation mandating compliance with the sustainability disclosure standards issued by the HKICPA, it is up to the regulators and other parties to mandate their use or to require entities to use other standards.

### **Next steps**

We are preparing an information paper to explain the rationale for adopting the IFRS SD Standards as the HKICPA's sustainability reporting framework. We will also be conducting a live webinar to engage with the public and to explain our position once the information paper has been published. More information about this event will be made available in due course. In addition, we will continue to engage with the CASG and the Accounting and Financial Reporting Council to ensure that adopting the IFRS SD Standards aligns with their direction of travel.

---

<sup>1</sup> Section 380(4)(b) of the Companies Ordinance (Cap. 622) read with s2 of the Companies (Accounting Standards (Prescribed Body)) Regulation and the respective Prefaces of the HKFRS, HKFRS for Private Entities and SME-FRS & SME-FRS issued by the HKICPA.



In the meantime, we are analysing the final IFRS S1 and S2 against our comment letter on their exposure drafts and we aim to issue the Hong Kong equivalent standards following our usual standard-setting due process as soon as practicable, subject to the IOSCO's endorsement of the IFRS SD Standards.

Sincere regards,

Hong Kong Institute of Certified Public Accountants  
**CPA: The Success Ingredient**

Connect with us  