



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

THOUGHT LEADERSHIP ARTICLES



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From sustainability narrative to financial implications: connected reporting under HKFRS SDS

Sustainability reporting is entering a new stage with the introduction of HKFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information, and HKFRS S2, Climate-related Disclosures (together, the “HKFRS Sustainability Disclosure Standards” or “HKFRS SDS”). Under these standards, companies are expected to explain sustainability-related risks and opportunities in a way that complements information about sustainability initiatives and performance with a clearer assessment of their financial implications, in order to provide more relevant and useful information for primary users of general purpose financial reports.

Assessing financial effects in practice

Practitioners need to assess how sustainability-related risks and opportunities may affect the entity’s cash flows, access to finance and cost of capital over the short, medium and long term. They should also consider whether related financial reporting judgements and estimates remain appropriate.

Consider physical climate risk such as flooding. A company facing greater flooding risk should assess:

- **Current financial effects** such as asset impairment, restoration costs, delays in project delivery and additional logistics costs.
- **Estimation uncertainty** around the frequency and severity of flooding may affect period-end estimates, such as the carrying amount of related property, plant and equipment
- **Anticipated financial effects** such as planned capital expenditure for enhanced flood defences, the financing mix (internal cash flows and debt) and the expected reduction in business disruptions over the medium to long term.

The same structured approach applies to other sustainability-related matters, such as carbon pricing, changing customer demand, or new regulatory requirements. These assessments require input from finance and relevant business functions to identify financial effects and understand how they may affect cash flows, access to finance and cost of capital across different time horizons.



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Connecting sustainability disclosures with financial statements

Once those financial effects have been identified and assessed, the next question is how those effects are reflected across sustainability disclosures and the financial statements. Responding to that expectation requires more than preparing the two sets of information in parallel. For many organizations, it requires stronger coordination across sustainability, finance, operations and other functions, supported by processes that produce clear, consistent and decision-useful information.

HKFRS SDS require companies to provide connected information that links sustainability disclosures with the related financial statements. While sustainability disclosures and financial statements serve different purposes, they should be consistent where appropriate including the reporting entity, reporting period, timing, currency, data and assumptions used, as well as information about current and anticipated financial effects. Significant differences should be explained where different data sets or assumptions are applied, and cross-references to the financial statements can further strengthen the connection.

This matters because both sets of information serve the same primary users. Financial statements explain an entity's assets, liabilities, equity, income and expenses, sustainability-related financial disclosures help users understand how sustainability-related risks and opportunities may affect those same elements. Producing the two in isolation without coordination across sustainability, finance and operations functions undertimes the usefulness of both.

Common pitfalls for practitioners

Even where companies grasp the principle of connected reporting, translating this into robust disclosure remains challenging in practice. Three pitfalls are particularly common.

1. Insufficient precision in assessing financial implications

Sustainability-related risks can affect asset values, operating costs, supply chains, financing conditions and market demand over different time horizons. Quantifying these effects often involves significant estimation uncertainty and requires supportable assumptions about future regulatory, technological and market developments. Disclosures that lack this rigor risk being too vague to be decision-useful.

2. Data and methodological gaps

Many organizations continue to manage financial and sustainability information in separate systems, making it harder to assess how sustainability-related matters



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translate into financial effects. Inconsistent data collection across business units and locations, and insufficient explanation of the assumptions, methodologies and limitations underpinning the analysis, are common weaknesses.

3. Challenges in applying materiality

Determining materiality can be difficult when financial effects are indirect, uncertain or expected to emerge over the longer term. As a result, disclosures may remain generic, limiting their usefulness for investors and other stakeholders seeking to understand the potential financial implications of climate-related risks and opportunities.

What practitioners should do now

These challenges underline the need for better assessment, stronger processes and closer coordination across functions. Avoiding common pitfalls starts with a more structured approach to identifying, assessing and documenting sustainability-related risks and opportunities, including their potential financial implications.

Understanding the financial impact

Sustainability practitioners should work closely with finance teams and relevant business functions to identify where sustainability-related risks and opportunities may affect financial performance, cash flows, asset values, financing conditions or business strategy, particularly when preparing financial statements.

Apply materiality rigorously

Materiality should be assessed from both quantitative and qualitative perspectives when considering disclosures of key judgements and assumptions about sustainability-related risks and opportunities. The practical question is whether the information could reasonably influence the decisions of primary users of the report, rather than whether the topic is important in a general sense.

Strengthen process and control readiness

Companies should assess the maturity of their sustainability reporting processes, control environment, data governance, policies and methodologies. Where gaps exist, a target-state reporting structure should be defined to support clear, consistent and decision-useful disclosures. Cross-functional training on common definitions, assumptions and documentation practices will be equally important.



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Ensure clarity, balance and consistency

Where assumptions are applied in both sustainability disclosures and relevant areas of the financial statements, companies should align those assumptions where appropriate and explain any significant differences, limitations or estimation uncertainties underpinning the analysis. Disclosures should be balanced, presenting both positive and negative financial implications of sustainability-related risks and opportunities.

For those preparing for implementation, useful reference materials and capacity-building support include:

- HKICPA HKFRS Sustainability Disclosure Standards Guidance [Part 1](#) and [Part 2](#)
- [HKICPA Platform for submitting implementation questions on HKFRS/IFRS S1 and S2](#)
- [HKICPA Sustainability Information Centre](#)
- [HKICPA Certificate on Sustainability Reporting](#)
- [IFRS Supporting materials for the IFRS Sustainability Disclosure Standards](#)
- [IFRS Transition Implementation Group on IFRS S1 and S2](#)

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To learn more about this topic, please refer to the Sustainability Insider - Webinar series: HKFRS S1 & S2 – Translating Sustainability into Financial Implications delivered by Ms. Chu. The webinar is available for [enrolment here](#).