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Listing Newsletter

Contents

Welcome to the fourth edition of HKEX's Listing Newsletter! Here, we bring you the latest trends and developments shaping Hong Kong's listing market, and what's top of mind for issuers and investors.

Climate change is a pressing issue for us all and the 2021 United Nations Climate Change Conference (COP26) held in November 2021 drew the world's attention to the need for immediate action.

Regulators are focused on how national policies and regulations can support the transition to a low-carbon and sustainable future. Global investors are championing environmental footprints over excess profits, social impact over short-term performance, and governance over growth-at-all-costs.

Also, companies are increasingly conscious that they must serve the interests of all stakeholders, and are acknowledging that their commercial viability must co-exist with the environment in which they operate.

In this edition we draw attention to our contribution to this transition. In particular, we focus on the forthcoming global sustainability reporting standards on climate disclosures that will form part of our review of the ESG reporting framework later this year. We also explore the relevance to the low-carbon transition of Special Purpose Acquisition Companies (SPACs) — an addition to the Exchange's listing regime that we launched in January.

I hope you find this newsletter useful and informative. If you have any feedback or suggestions for future issues, please email us **here**.

Bonnie Y Chan
Head of Listing

New standards for climate disclosure

Key milestones / developments

Transparent and reliable ESG disclosure is key to preventing greenwashing from stalling the global transition to a low-carbon economy. Collaboration between issuers, investors, exchanges and regulators is essential to create the uniform ESG rules, or taxonomy, needed to govern the green and sustainable financial ecosystem.

Increasing regulatory focus on climate disclosures

Building on TCFD recommendations, the new global sustainability reporting standards to be developed by the International Sustainability Standards Board (**ISSB**) are expected to require more specific and quantitative climate disclosures (e.g. impact on an entity's financial position / performance; use of metrics including GHG Scope 3 emissions; scenario analysis) with an aim to improve comparability of data. To further align our regulatory requirements with the TCFD's recommendations and reflect the development of the ISSB's standards, the Exchange will review the ESG reporting framework this year with a focus on climate disclosures.

The role of education is particularly important for companies that have less expertise on ESG or climate-related issues. This year, we will review issuers' ESG practices (focusing on the changes effective from July 2020), and publish our recommendations on improvement areas. We will provide the guidance, resources and support needed to help our stakeholders accelerate their ESG journey and set climate action plans in motion.

1 Task Force on Climate-Related Financial Disclosures (TCFD) was established by the Financial Stability Board to improve and increase reporting of climate-related financial information. Its recommendations are structured around four core elements: governance, strategy, risk management, and metrics and targets.
2 **Announcement of issue of exposure drafts on sustainability and climate-related disclosures** by The International Financial Reporting Standards Foundation (IFRS).
3 The Green and Sustainable Finance Cross-Agency Steering Group was established in May 2020 to co-ordinate the management of climate and environmental risks to the financial sector, accelerate the growth of green and sustainable finance in Hong Kong, and support the Government's climate strategies.
4 **The Chief Executive's 2021 Policy Address**
5 **Hong Kong's Climate Action Plan 2050**
6 **ESG Academy**
7 **Guidance on Climate Disclosures**
8 **ESG in Practice**

It's time to take action

Here are some recommendations on what companies should prioritise when preparing new climate disclosures:

Keep abreast of latest developments

As a starting point, companies should look at the Climate-related Disclosures Exposure Draft (**Climate Standards**) published by the IFRS Foundation and identify gaps in internal policies and practices. This will help planning upgrades / enhancements to existing infrastructures / systems in preparation of reporting under the new requirements. Regular training or briefings should be provided to directors and the relevant employees to understand the latest requirements.

Take action at all levels

Climate action is no longer a "nice-to-have". This requires collaboration at all levels within the company:

- The board should integrate consideration of climate risks and opportunities into its strategy and decision-making process, and monitor the progress toward targets set.
- Finance and sustainability teams should work closely together. While the finance team may focus on the data and financial impact assessments, the sustainability team is key for infrastructure planning and validating the evidence.
- The communications / public relations team should help to align the company's sustainability objectives with public affairs goals. This facilitates stakeholders' understanding and assessment of the company's climate actions.

Net-zero plan

In light of the Government's carbon neutrality target and Hong Kong's Climate Action Plan, companies should start considering employing (and providing disclosures[9] on) infrastructure and/or technology to reduce carbon emissions and control climate-related risks.

Value chain plays an important part

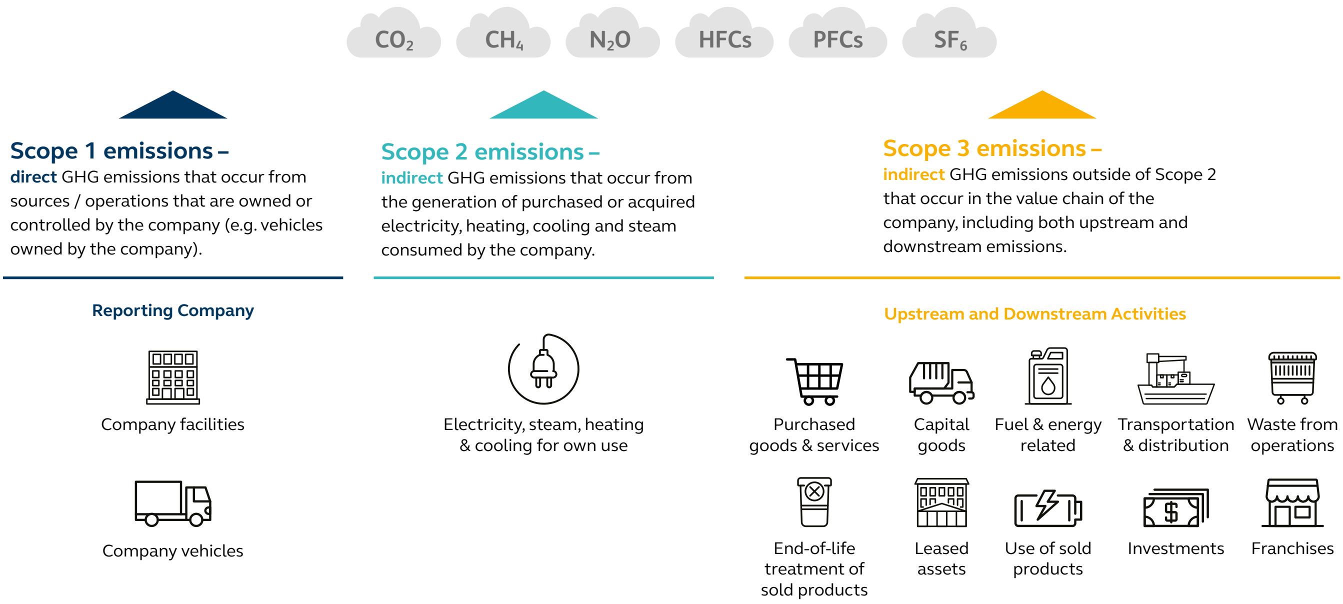
In addition to the company's own operation, stakeholders are also interested in the impact of climate risks and opportunities on the company's value chain[10]. A company's transition plans will not succeed without commitments across the value chain.

[9] The Climate Standards require disclosure of information that enables readers to understand an entity's assessment of the impact of significant climate-related risks and opportunities on management's strategy and decision making, including the entity's transition plans.
[10] The Climate Standards require disclosure of impact of significant climate-related risks and opportunities on an entity's business model, including the effects on its value chain, as well as Scope 3 GHG emissions (including upstream and downstream emissions, e.g. emissions along the supply chain).

A closer look at greenhouse gas emissions

Issuers are currently required, on a “comply or explain” basis, to disclose greenhouse gas (**GHG**) Scope 1 and 2 emissions in their ESG reports[11]. As reporting on all Scope 1, 2 and 3 emissions is contemplated under the ISSB Climate Standards, issuers yet to report on Scope 1 and 2 should get ready for making enhanced climate disclosures.

Greenhouse gas (**GHG**) emissions can be classified into three scopes:



Source: Greenhouse Gas Protocol

Emission factors are a key component for calculating Scope 2 emissions. Issuers can refer to the latest sustainability reports from the relevant power / utilities companies for the applicable emission factors for operations in Hong Kong[12]. For issuers with operations outside Hong Kong, emission factors in the relevant countries / territories should be applied[13]. Issuers may also contact their energy suppliers for the relevant emission factors.

As Scope 3 emissions concern all the indirect emissions that occur in the company’s value chain, GHG Protocol categorises such activities into 15 reporting categories (as illustrated in the diagram above)[14] to facilitate measuring and managing such emissions. GHG Protocol **guidance** offers different calculation methods for selection based on criteria such as size of emissions of the activity, the company’s business goals, data availability and quality. Issuers may use either primary data (data directly from suppliers for a specific activity) or secondary data (industry-average-data from public sources, financial data or generic data) to calculate Scope 3 emissions. Primary data can be collected from suppliers via questionnaires or other engagement channels, while secondary data can be obtained from internationally recognised databases, or provided by governments or peer-reviewed.

Further details on GHG emissions (including what and how to report, calculation tools, and information on emission factors) can be found in:

(i) The Exchange’s “**How to Prepare an ESG Report - Appendix 2: Reporting guidance on Environmental KPIs**”; and
(ii) **Greenhouse Gas Protocol**.

[11] KPI A1.2 under Appendix 27 to the Main Board Listing Rules / Appendix 20 to the GEM Listing Rules.
[12] These include Hong Kong Electric, CLP and Towngas.
[13] For Mainland China, issuers can refer to the national emission factors published by the Ministry of Ecology and Environment.
[14] The 15 categories are: 1. Purchased Goods and Services; 2. Capital Goods; 3. Fuel- and Energy-Related Activities (not included in Scope 1 or Scope 2); 4. Upstream Transportation and Distribution; 5. Waste Generated in Operations; 6. Business Travel; 7. Employee Commuting; 8. Upstream Leased Assets; 9. Downstream Transportation and Distribution; 10. Processing of Sold Products; 11. Use of Sold Products; 12. End-of-Life Treatment of Sold Products; 13. Downstream Leased Assets; 14. Franchises; 15. Investments.

SPACs and ESG

What are SPACs?

A Special Purpose Acquisition Company is a type of shell company that raises funds through an IPO for the purpose of conducting an acquisition of an operating company within a pre-defined time period after listing (typically two years). SPACs do not have business operations or assets other than the proceeds from their IPO and the funds required to pay for expenses.

In January, we launched a listing regime to enable SPACs with experienced and reputable SPAC Promoters[15] to seek high quality De-SPAC Targets[16] to list on our market. As of the date of this newsletter, 12 SPACs have already applied to list and two listed one in March and one in June 2022.

ESG-focused SPACs

There has also been a notable surge in the number of ESG-focused SPACs and De-SPAC Transactions[17] worldwide.

De-SPAC Targets have been listed from sectors including environmental technology, transportation, industrials, water and energy in recent years and this trend is expected to continue.

In Hong Kong, three SPACs (of the ten with current listing applications) and one of the two listed SPACs intend to seek De-SPAC Targets from sectors including **climate action**, **green energy** and **green technology**.

[15] Promoters of SPACs has the meaning in Rules 18B.10 and 18B.11.
[16] A De-SPAC Target refers to the target of a De-SPAC Transaction (Rule 18B.01).
[17] A De-SPAC Transaction is an acquisition of, or a business combination with, a De-SPAC Target by a SPAC that results in the listing of a successor company (the listed issuer resulting from the completion of a De-SPAC Transaction (Rule 18B.01).

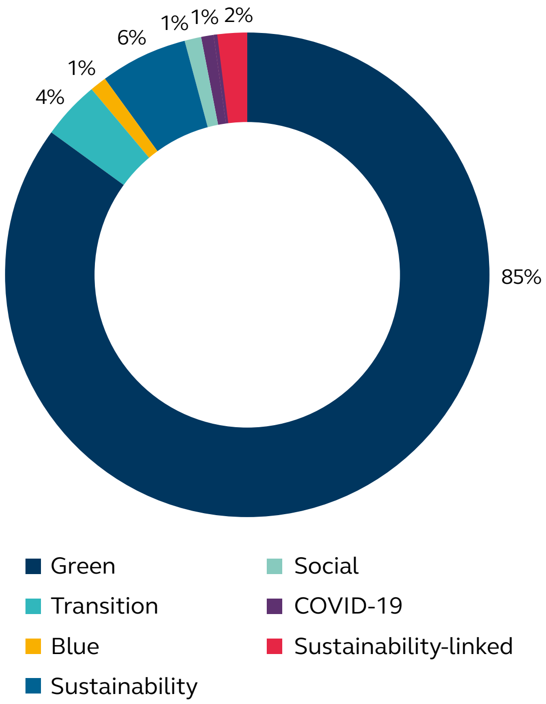
Recent listing developments

GSS listings

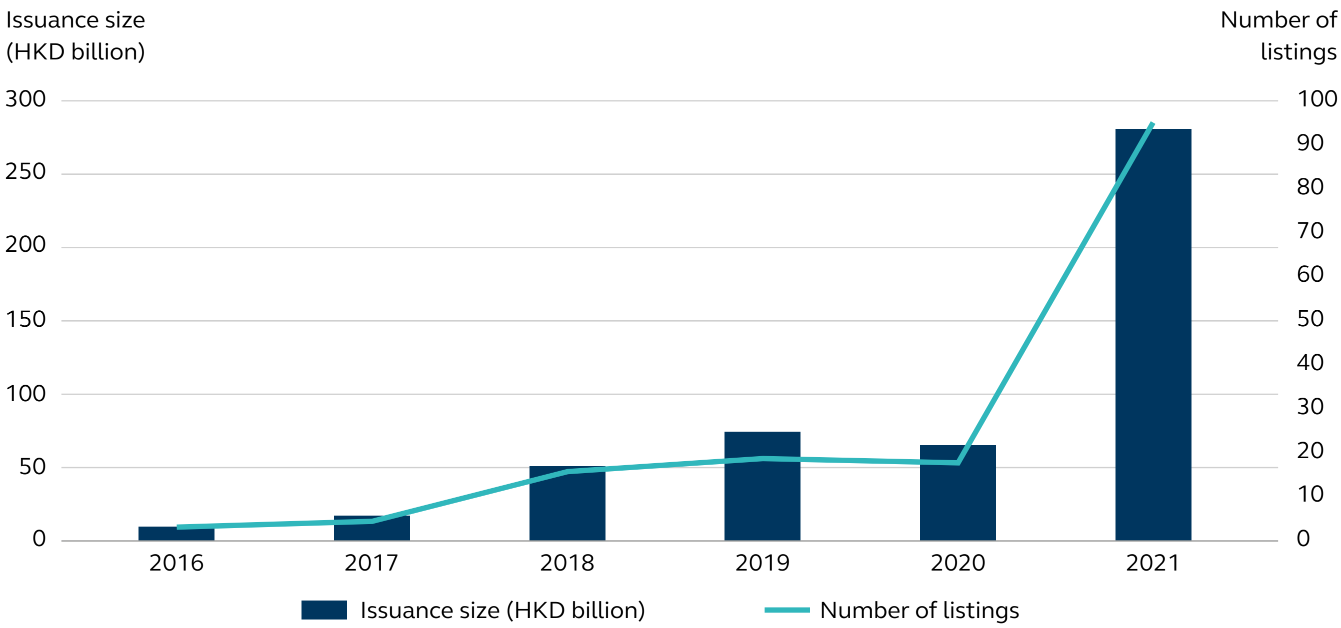
Apart from being a champion of various ESG-related initiatives, we have also provided a platform for the listing of green, social and sustainability bonds (including green bonds, transition bonds, sustainability-linked bonds) (**GSS Bonds**). In 2021, we have seen a surge in the listing of GSS Bonds on the Exchange, with 95 GSS Bonds newly listed, representing a more-than-fivefold increase in the number of bonds listed and raising a record-breaking HKD281.6 billion. Notable issuers include the HKSAR Government, Shenzhen Municipal Government, Malaysian Government (through a wholly-owned SPV), Bank of China Limited and China Construction Bank Corporation.

Further details on the issuance size, number of listings and types of bonds listed are available in the charts below. Currently, all GSS Bonds are listed under Chapter 37 of the Listing Rules and offered to professional investors only. As Listing Rules have no specific requirement for GSS Bonds, the same Listing Rules apply to GSS Bonds as all other bonds[18].

Types of listed GSS bonds



GSS bond listings and issuance (HKD billions)



[18] Based on information in listing documents.

Other developments to enhance the quality of the Hong Kong market are set out below:

Market development

- Created a Hong Kong listing framework for SPACs to provide issuers and investors with greater diversity of choice, within appropriate safeguards.
- Enhanced and streamlined our Listing Rules on the listing regime for overseas issuers to increase the accessibility of our markets for issuers listed overseas without compromising protection for shareholders in Hong Kong.
- Proposed changes to extend Chapter 17 of the Rules to also govern share award schemes, in view of the increasing adoption of these schemes.
- Published Information Paper on Consequential Rule Amendments to reflect new requirements of the SFC Code of Conduct[19] regarding the conduct of issuers and intermediaries involved in bookbuilding and placing activities and the related FAQs.

Market quality

- Revised the Corporate Governance Code and related Listing Rules to further enhance corporate standards among listed issuers in Hong Kong, specifically in the areas of corporate culture, director independence and diversity.
- Launched new diversity repository, "Board Diversity & Inclusion in Focus" and introduced an "ESG in Practice" section to the ESG Academy, following the publication of the Guidance on Climate Disclosures.
- Published the Listing Committee Report 2021 to provide an account of the work of the Listing Committee of the Exchange for the year ended 31 December 2021, setting out a policy agenda of matters that the Listing Committee plans to consider in 2022 and beyond.
- Unified the Main Board and GEM websites to align corporate branding and optimise the technical infrastructure.

Listing rules training

We have also developed a series of Listing Rules e-training courses for listed companies' directors, management and compliance staff, market practitioners and professionals. The courses cover topics such as trading halts, continuing obligations, notifiable transactions, connected transactions, equity fundraising rules and trading arrangements for corporate actions. For details, please visit our website here.

[19] The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

Looking ahead

Share schemes of listed issuers

The consultation period on our **proposals** closed on 31 December 2021 and we are currently reviewing the responses received. Thanks to all who responded. We intend to publish our conclusions later this year.

Review of structured products regime

The listed structured products market is a significant component of the cash market as its average daily turnover of HK$20.1 billion contributed to 12% of the cash market turnover in 2021. As the current structured products regime was last reviewed in 2006, the Division is conducting a review of Chapter 15A of the Main Board Listing Rules to update the rules and bring them in line with market developments. The potential changes include enhancements of listing standards, facilitation of product issuances and building a more inclusive regime to facilitate new product development. We intend to publish a market consultation paper later this year.

Contact Us

If you would like to share your feedback with us,
send an email to: **listingnews@hkex.com.hk**.