



HKEX's Latest Prospectus Disclosure Requirements on Corporate Governance & Environmental, Social and Governance under the Guide for New Listing Applicants

The Stock Exchange of Hong Kong Limited (the “**HKEX**”) has published the Guide for New Listing Applicants (the “**Guide**”), effective from 1 January 2024, introducing the new chapter on prospectus disclosure requirements of Corporate Governance (“**CG**”) and Environmental, Social and Governance (“**ESG**”) (Chapter 4.3 of the Guide). This update aims to provide further guidance and encourage early CG and ESG integration in the IPO journey.

This Guide incorporates specific updates to the disclosure requirements for CG and ESG within the existing guidance relating to new listings. Throughout the article, we extract some key disclosure requirement aiming to provide reader a high-level insight and summary for Chapter 4.3 of the Guide.

Corporate Governance

HKEX encourages applicants to consult additional chapters in the Guide, like 3.7 and 3.10 and other HKEX publications, including the 'Corporate Governance Guide for Boards and Directors', to gain a thorough understanding of governance requirements. HKEX recommends applicants to consider CG from various angles:

- Board Composition (e.g. board's skills, expertise, experience and diversity);
- Corporate Culture (e.g. fostering a compliance-oriented culture through incentives and key performance indicators); and
- Risk Management and Internal Control (e.g. managing identified risks, especially for hedging arrangements)

ESG

HKEX has organized the key disclosure areas into four main pillars: Governance, Strategy, Risk Management and Metrics and Targets, each backed by specific disclosure principles. We've extracted some key disclosure requirements from the Guide for your convenience. Such disclosures should be made under relevant sections like "Business", "Directors and Senior Management", "Risk Factors" and "Financial Information", where appropriate.

(1) Governance

The board should always maintain oversight responsibilities for CG and ESG. This includes maintaining a balance in skills, experience and diverse perspectives (like gender diversity) and ensuring director induction, time commitment and effort.

Suggested disclosures include:

- The board's roles and accountability in governance policies and compliance culture, including governance structure;
- Policies related to board diversity and remuneration;
- Integration of ESG-related risks and opportunities into the decision-making process; and
- The board's commitment to ethical and compliant business operations.

(2) Strategy

HKEX expects applicants to identify and disclose all significant ESG-related risks (and opportunities, if any) detailing their short, medium and long term financial impacts and their qualitative and quantitative effects on the business model, value chain and financial performance.

Suggested disclosures include:

- Risks from changes in ESG-related social trends and government policies, with risk exposure estimates;
- Key ESG-related laws, regulations and national carbon neutrality plans;
- Plans to address significant ESG-related risks, including metrics, targets and timelines; and
- Qualitative and quantitative (amount/range) financial data related to ESG risks.

(3) Risk Management

The board should always maintain oversight responsibilities for the applicant's risk management and internal control systems. This involves identifying, assessing and prioritizing risks, including ESG-related ones, aiding investor evaluations and explaining risk mitigation strategies.

Suggested disclosures include:

- Details on how the risk management and internal control framework addresses risks and ensures compliance, including the monitoring mechanism;
- Processes and criteria for identifying, assessing and prioritizing material risks, including ESG risks, supported by quantitative data; and
- Instances of material non-compliance with ESG-related laws and regulations.

(4) Metrics and Targets

Effective metrics and targets should help stakeholders evaluate how applicants manage ESG-related risks and impacts, like risk-adjusted returns and commitment to a low-carbon economy. Goals should be set to address ESG issues and enable comparison in ESG performance.

Suggested disclosures include:

- Measurement of greenhouse gas emissions (Scope 1-3);
- Environmental and natural resource impacts and management measures;
- Identification of assets and activities exposed to climate-related risks;
- Capital expenditure, financing and investments related to climate risks and opportunities;
- Comparative analyses against peers;
- Statutory ESG-related targets;
- Workforce composition;
- Fair labour practices, employee engagement and partnership with social-impact organisations;
- Preventive and monitoring measures in ethical conduct and whistleblowing procedures;
- Occupational safety measures (e.g. recording, handling and compliance procedures);
- Number of material accidents and relevant claims from employee; and
- Supplier ESG performance assessment



With AVISTA’s collective expertise in capital market and ESG disclosure advisory, AVISTA helps new IPO applicants to get ready for their IPO journey by offering a series of ESG integration services throughout the whole IPO process, including the preparation of the required ESG disclosures in the prospectus. We are committed to providing the best assistance for your ESG advisory needs. Contact us today to explore more ESG advisory services and create sustainable value.

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