

**AFRC CEO Ms Janey Lai's speech at the Deloitte Seminar:
"Beyond Compliance: Driving Sustainability with HK's Roadmap"**

6 February 2025

1. Good afternoon, Edward, distinguished guests, ladies and gentlemen. Thank you for the warm welcome.
2. I am honoured today to talk about sustainability assurance, a topic which is increasingly crucial within the sustainability reporting ecosystem.
3. At the AFRC, our mission is to uphold the quality of financial reporting, promote the development of the accounting profession, and reinforce Hong Kong's position as a competitive international financial centre. Sustainability is at the heart of each of these elements.

The evolution of corporate reporting

4. With investors increasingly considering sustainability information in their investment decisions, corporate reporting has undergone significant transformation. The issuance of the ISSB standards, which focus to connect sustainability and financial information, also marks a fundamental shift in how we think about corporate disclosures.
5. Now we are standing at a historic moment in Hong Kong's corporate reporting evolution. In December 2024, the HKSAR Government issued its roadmap for large listed entities and large financial institutions to report using the ISSB standards by 2028. The AFRC will work closely with stakeholders and other financial regulators to support the effective implementation of the roadmap through our work on assurance.

The importance of trust in sustainability reporting

6. Why is sustainability assurance important? Globally, US\$30.3 trillion has been currently invested in sustainable assets, and the number is still growing. To meet investor demands, companies must provide clear disclosures to facilitate

informed investment decisions. Like financial reports, independent assurance on sustainability disclosures is essential for building investor trust.

7. This underscores why assurance on sustainability reports is becoming as fundamental as audits on financial statements. According to a report from the International Federation of Accountants, in 2019, around half of large companies globally obtained assurance and in 2022 the number grew to 69%. A number of jurisdictions including the EU, Australia, Singapore and Malaysia have announced plans to mandate sustainability assurance. Therefore, developing a regulatory framework for sustainability assurance is important for reinforcing Hong Kong's position as an IFC and as the world's sustainable finance hub. Before discussing regulations further, let me talk about practices.

Hong Kong's practices

8. What are the current practices in Hong Kong? Last week, we published a study, *Analysing the Market Readiness for Sustainability Reporting and Assurance in Hong Kong*. Our study was conducted in two parts: a desktop research of sustainability assurance by Hang Seng Index entities, and surveys of PIE and PIE Auditors. The PIE survey got nearly 800 responses, or a response rate of 31%, which is very respectable for a voluntary survey. It shows the market has genuine interest in this topic. For those of you who answered our call, thank you for your insights.
9. I would like to share some of our key findings from the study:
 - a. The number of Hang Seng Index entities publishing assurance reports has increased from 51% in 2023 to 65% in 2024. Listed entities that obtained assurance see it as a way to enhance investor confidence, improve sustainability ratings, and strengthen brand reputation.
 - b. As of last May, over half of survey respondents were ready in at least one of three key reporting areas, which is: (i) data and technology; (ii) internal controls, systems and governance; and (iii) financial and human resources. The remaining 47% were still in the early stages of preparation. With new climate-related disclosure requirements effective this year, it is crucial for all entities to gear up in these areas.

- c. The most pressing issue cited by listed entities was the lack of sufficient in-house expertise. 46% of the respondents involved in-house accountants for all climate reporting tasks.
 - d. In terms of supply, at least 26 PIE auditors now offer sustainability assurance services. This is a good sign as more providers see opportunities in this area, and it demonstrates their commitment to ESG.
10. I want to touch further upon sustainability assurance practices. Since assurance is voluntary, we have wide ranging practices, which can cause confusion in the marketplace.
- a. Firstly, listed entities obtain different levels of assurance, including limited assurance, reasonable assurance, and other definitions of assurance.
 - b. In terms of assurance standards, the ISAE 3000 or its equivalent was most commonly used, and accounted for 70% of Hang Seng Index assurance engagements. Considering the ISSA 5000 standards are built upon the existing IAASB standards and guidance, its prevailing adoption is good news.
 - c. Lastly, assurance on Scope 1 and Scope 2 direct greenhouse gas emissions were the most prevalent, with 28 Hang Seng Index constituents obtaining them in 2024. The number of listed entities obtaining assurance on their Scope 3 emissions, a challenging but important area, increased from 11 to 18 year-on-year in 2024.
11. To summarise, we observe diverse market practices. In addition, for the assurance market to flourish, investors need to be better informed. They should know the distinction between limited and reasonable assurance, as well as the types of procedures performed. Without informed investors, the market may end up with so-called “the market for lemons”, where uninformed investors may misjudge assurance quality and make suboptimal investment decisions. Such instances will likely erode market trust and integrity. This may weaken the overall quality of our assurance market over time.
12. How do we address the problems caused by diverse market practices and less informed investors? Regulations cannot help people distinguish between good

and bad assurance providers, nor can it raise investor awareness. However, regulations set a minimum level of standards that all providers must adhere to, and drive clarity and consistency in the market. To reiterate, our objectives of the assurance regulatory framework are to:

- a. Promote high quality assurance by adopting international standards;
- b. Enhance credibility and reliability of sustainability disclosures; and
- c. Ensure a level playing field for assurance providers.

The way forward

- a. First, the AFRC will be issuing the regulatory framework for sustainability assurance for public consultation this year. We hope that the listed entities can set aside time and provide us with your response. Your valuable insights are essential for us to create a framework that's both robust and practical.
- b. Second, regulations, however well developed or implemented, only goes so far. We urge listed entities to treat sustainability beyond a mere compliance exercise. Take the opportunity to future-proof your business models and secure your company's long-term financial sustainability.

Closing

13. As I come to the end of my remarks, I would like to emphasise that sustainable finance plays a pivotal role in addressing climate change by channelling capital into environmentally responsible projects and businesses. By building a strong sustainability reporting and assurance ecosystem, we cultivate a more responsible business environment that benefits all stakeholders. And we fulfil our shared responsibility to create a better future for generations to come.
14. Thank you very much, and I wish you a fruitful seminar and prosperous Year of the Snake.