

# Response to AFRC's Consultation Paper on the Proposed Regulatory Framework for Sustainability Assurance in Hong Kong

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## **AFRC Consultation**

On [consultation launch date], the Accounting and Financial Reporting Council (AFRC) issued a consultation paper on the proposed regulatory framework for sustainability assurance in Hong Kong. The consultation aims to introduce a structured, phased regime requiring independent assurance of sustainability disclosures prepared under the Hong Kong Sustainability Disclosure Standards (HKSDS).

The proposals form a key component of Hong Kong's broader strategy to strengthen the quality and comparability of sustainability information, maintain its status as a leading international financial centre, and support the transition to a more sustainable economy. The framework is designed to move the market from largely voluntary, heterogeneous practices towards consistent, independently assured disclosures that are aligned with emerging global standards.

The consultation paper sets out a series of proposals covering the entities in scope, the phased scope and timing of assurance, the registration and eligibility of sustainability assurance providers, the standards to be prescribed, and the oversight, inspection and enforcement framework. From IFPHK's perspective, these proposals are particularly important because financial planners increasingly rely on sustainability information to assess product claims, compare issuers, and meet their fiduciary and suitability obligations when advising retail investors.

For the purpose of this submission, IFPHK has considered the consultation in terms of the following key proposals:

### **Proposal 1 – Entities required to obtain independent sustainability assurance**

AFRC proposes that entities required to report under HKSDS, starting with large publicly accountable entities, should be subject to mandatory sustainability assurance by independent providers.

### **Proposal 2 – Phased scope and timing of assurance**

AFRC proposes a phased approach in which limited assurance will initially apply to Scope 1 and Scope 2 greenhouse gas (GHG) emissions from the third financial year of mandatory HKSDS reporting, expanding to cover all mandatory HKSDS disclosures from the fifth year.

**Proposal 3 – Registration and eligibility of sustainability assurance providers (SAPs)**

AFRC proposes a profession - neutral registration regime for sustainability assurance providers, encompassing both CPA and non-CPA firms, subject to robust and comparable requirements on competence, ethics, independence, quality management, and capacity.

**Proposal 4 – Assurance standards to be prescribed**

AFRC proposes adopting a sustainability assurance standard based on ISSA 5000 (e.g. HKSSA 5000), supported by relevant local ethical and quality management standards, to ensure consistency with international practice and facilitate cross-border comparability.

**Proposal 5 – Inspection, oversight and enforcement**

AFRC proposes an inspection and enforcement framework for sustainability assurance, including powers to monitor compliance, conduct inspections, and impose appropriate sanctions where necessary, in line with its existing oversight of public interest entity auditors.

IFPHK's detailed responses and recommendations on each of the above proposals are set out in Section 2 below.

### **IFPHK submission**

The views expressed in this submission paper are not simple summaries of industry feedback, but reflect independent and critical analysis by IFPHK as a professional body. Not all views collected from members or stakeholders are recorded here, and not all views expressed in this paper have been formally endorsed by every representative consulted.

### **Proposal 1 – Entities required to obtain independent assurance**

#### **AFRC's proposal**

Entities required to report under HKSDS, starting with large publicly accountable entities, would be required to obtain independent sustainability assurance.

#### **IFPHK's views**

IFPHK supports requiring entities that are mandated to report under HKSDS—initially large publicly accountable entities—to obtain independent sustainability assurance. These entities have the greatest systemic impact, are widely held through retail products such as MPF schemes, unit trusts and direct equities, and are core holdings in many clients' portfolios.

Assured sustainability data on these entities is essential to:

- Assess climate - related and sustainability - related risks that may affect long - term performance.
- Evaluate transition plans and their alignment with clients' preferences.
- Compare ESG performance across portfolio holdings on a consistent basis.
- Meet fiduciary and suitability duties when recommending sustainability - related investment products.

Starting with large, systemically important entities is consistent with global practice (for example, the EU's focus on large companies above specified thresholds, and Australia's focus on the largest listed entities). It also recognises that a significant proportion of Hong Kong's large issuers already obtain voluntary sustainability assurance, which demonstrates market readiness and provides a useful benchmark when extending the regime to smaller entities over time.

## **Proposal 2 – Phased scope and timing of assurance**

### **AFRC's proposal**

AFRC proposes that mandatory limited assurance will initially apply to Scope 1 and Scope 2 GHG emissions in the third financial year of mandatory HKSDS reporting, extending to all mandatory HKSDS disclosures in the fifth year. No timetable is proposed at this stage for moving from limited to reasonable assurance.

### **IFPHK's views**

IFPHK supports the proposed phased approach to mandatory limited assurance. Beginning with Scope 1 and 2 GHG emissions in Year 3 is appropriate because these metrics are relatively mature, widely reported, and commonly assured across international markets. In Hong Kong, a high proportion of large issuers that already obtain assurance include Scope 1 and 2 emissions, which indicates readiness.

Extending assurance to all mandatory HKSDS disclosures by Year 5 is also desirable. Financial planners and investors require more than emissions data; they need comprehensive information on climate-related risks and opportunities, transition plans and capital expenditure, climate resilience and scenario analysis, Scope 3 emissions where material, and relevant

metrics and targets. The Year 5 timeline balances the need for richer information with the need to build preparer and provider capacity.

IFPHK agrees with AFRC's decision not to fix a timetable for reasonable assurance at this stage. Experience from other jurisdictions suggests that reasonable assurance is more resource-intensive and generally more suitable once data systems and reporting practices have matured. IFPHK recommends that AFRC conduct a structured review during Years 3–4 of Phase 1 to assess costs and benefits, market capacity, the quality of limited assurance, international developments, and user feedback before considering any move towards reasonable assurance.

### **Proposal 3 – Registration and eligibility of assurance providers**

#### **AFRC's proposal**

AFRC proposes a mandatory registration regime for sustainability assurance providers (SAPs), open to both CPA and non-CPA firms that satisfy robust requirements on competence, ethics, independence, quality management, and organisational capacity. Initially, the regime will focus on local providers.

#### **IFPHK's views**

IFPHK supports the establishment of a mandatory registration regime for SAPs and endorses the profession-neutral approach. A diverse provider market, subject to consistent regulatory standards, is essential to ensure sufficient capacity and specialist expertise while preserving public trust in assurance quality.

IFPHK considers it crucial that registration criteria be equally stringent for CPA and non-CPA firms. At the firm level, criteria should include demonstrable technical competence in

sustainability assurance and GHG quantification; effective quality management systems; adherence to appropriate ethical and independence standards; adequate staffing, training and technical resources; and suitable professional indemnity insurance. Recognition of existing international accreditations (such as ISO -based schemes) can help avoid unnecessary duplication.

At the individual level, IFPHK supports requirements for relevant academic or professional qualifications, minimum practical experience in sustainability assurance or related fields, continuing professional development focused on sustainability assurance, ethics training, and evidence of quality in past engagements. Initially limiting registration to local providers is reasonable to ensure effective oversight; however, AFRC should in due course consider mechanisms to recognise overseas providers from equivalent regimes, particularly for multinational groups and specialist technical areas.

#### **Proposal 4 – Assurance standards to be prescribed**

##### **AFRC's proposal**

AFRC proposes prescribing an assurance standard based on ISSA 5000 (e.g. HKSSA 5000), together with relevant local ethical and quality management standards, for sustainability assurance engagements in Hong Kong.

##### **IFPHK's views**

IFPHK supports the adoption of an ISSA 5000-based standard for sustainability assurance in Hong Kong. Convergence around ISSA 5000 in jurisdictions such as the UK and Australia, and similar approaches in other markets, will reduce complexity for multinational issuers and facilitate cross-border comparability. For users of sustainability information, including financial

planners, consistent application of a high-quality, principles-based standard will improve the reliability, transparency and comparability of assurance reports.

IFPHK also encourages AFRC to issue practical guidance and illustrative examples tailored to Hong Kong's context, including sectors that are particularly significant to the local economy. This will help preparers and providers interpret and apply the standard in areas such as scenario analysis, transition plans, and forward-looking disclosures.

## **Proposal 5 – Inspection, oversight and enforcement**

### **AFRC's proposal**

AFRC proposes an inspection and enforcement framework for sustainability assurance, including powers to monitor compliance, conduct inspections, and impose sanctions, broadly aligned with its existing powers in respect of public interest entity auditors.

### **IFPHK's views**

IFPHK supports the proposed inspection and enforcement framework. Effective oversight is essential to maintain public confidence in sustainability assurance, particularly given the rapid evolution of sustainability-related reporting and the potential for greenwashing. AFRC's ability to monitor, inspect and, where necessary, sanction assurance providers will help uphold standards and ensure that the regime delivers tangible benefits to investors.

IFPHK further recommends that AFRC coordinate closely with other relevant authorities and regulators, both domestically and internationally, to promote consistent expectations and address potential regulatory gaps. Over time, AFRC could also consider publishing thematic reviews and good-practice reports to support continuous improvement in sustainability assurance quality.

Enhancing public understanding of sustainability and climate change issues, as well as the overarching goals of sustainable development, is a fundamental prerequisite for the successful rollout of the assurance framework. In this regard, IFPHK encourages AFRC and relevant stakeholders to support broad-based investor and public education initiatives so that users of sustainability reports can better comprehend the scope, limitations and implications of assured information in their financial decision-making.

## **Institute of Financial Planners of Hong Kong (IFPHK) - Profile**

### **About IFPHK**

IFPHK was established in June 2000 as a non-profit organization for the fast-growing financial industry. It aims to be recognized in the region as the premier professional body representing financial planners that uphold the highest standards to benefit the public.

The Institute is the sole licensing body in Hong Kong authorized by Financial Planning Standards Board Limited to grant the much-coveted and internationally-recognized CFP® certification and AFP® certification to qualified financial planning professionals in Hong Kong and Macau.

Currently there are more than 230,000 CFP certificants in 28 regions; the majority of these professionals are in the U.S., China, Japan, Canada and Brazil. As at 31 December 2025, Hong Kong had approximately 3,465 CFP certificants.

At present, IFPHK has 5,863 members in Hong Kong including 1,088 Qualified Retirement Adviser (QRA) holders; and represents financial planning practitioners in diverse professional backgrounds such as banking, insurance, independent financial advisory, stock broking, accounting, and legal services.

### **About CFP Certification**

CFP certification is the global symbol of excellence in financial planning and represents financial planners who commit to standards of competency and ethics, and to putting clients' interests first. The CERTIFIED FINANCIAL PLANNER® credential represents financial planning professionals who commit to better serving their clients through rigorous international standards, ethical practices and lifelong learning.

### **IFPHK's interest in this consultation**

As the leading professional body championing the advancement and welfare of the financial planning profession, the Institute of Financial Planners of Hong Kong (IFPHK) is committed to fostering responsible, ethical, and sustainable practices across the industry. Guided by its Environmental, Social and Governance (ESG) Statement, IFPHK promotes ESG education and integration in financial planning, aiming to raise professional standards and support the development of a more sustainable financial ecosystem in Hong Kong and the region.

In alignment with global sustainability and regulatory trends, IFPHK recognizes that Certified Financial Planner (CFP) professionals play a vital role in integrating ESG considerations into holistic financial planning. To support this, IFPHK leverages academic research and industry expertise on ESG to inform its thought leadership and educational offerings, reinforcing the importance of ESG integration in practice. As a course provider under the Pilot Green and Sustainable Finance Capacity Building Support Scheme, IFPHK offers the “Professional Certificate in Sustainable Investment Management and ESG Integration,” contributing to the cultivation of green and sustainable finance talent in Hong Kong. Through these initiatives, IFPHK helps equip financial planning professionals with the knowledge and skills needed to drive sustainable investment, support the transition to a low-carbon economy, and deliver long-term value for clients and society.

Detailed responses from IFPHK can be found at <http://www.ifphk.org/ee/importance-of-advocacy>.