

Press release FOR IMMEDIATE RELEASE

Contact: Ashley Leung
Tel: +852 2109 5261
Email: asleung@deloitte.com.hk

Contact: HKCGI Marketing Department
Tel: +852 2881 6177
Email: marketing@hkcgi.org.hk

New Scope 3 emissions reporting requirements highlight urgency of supply chain transformation

Effective governance key to tackling ESG challenges for greater supply chain resilience and sustainability

Hong Kong, China – 14 June 2024

With the implementation of new climate disclosure requirements for listed companies starting from 1 January 2025, managing evolving environmental, social, and governance (ESG) concerns along the supply chain has emerged as a priority for governance professionals and business owners, according to a joint paper from Deloitte China and The Hong Kong Chartered Governance Institute (HKCGI).

The **Supply Chain Management: An Introduction & Applied Governance Perspectives** explores the latest developments in the regulatory environment and key considerations in supply chain resilience and sustainability, while exploring roadmaps for building future-ready supply chains.

According to a recent Deloitte report, over 40% of the more than 2,000 C-level executives surveyed globally identify climate change as one of their organisations' top priorities in the next year, with one-third citing supply chain disruption as a pressing issue. Due to mounting pressure from diverse stakeholder groups, businesses must pivot towards a new operational paradigm by enhancing operational excellence and industry collaboration and leveraging technology to improve traceability and insight in supply chain management.

Edward Au, Southern Region managing partner of Deloitte China, says, "In light of the global focus on climate change and sustainability, businesses worldwide are increasingly moving to integrate ESG considerations into their business strategies, risk management, and governance frameworks. Following the introduction of the HKEX's ESG Reporting Guide, we have witnessed an increase in demand for supply chain sustainability solutions over the years, driven by evolving stakeholder expectations, the wider scope of sustainability regulations and convergence in reporting standards."

In March 2024, the HKSAR Government issued its *Vision Statement on Turning Obligations into Opportunities in Developing the Sustainability Disclosure Ecosystem in Hong Kong*, which emphasises the city's aim to align its local sustainability disclosure requirements with the International Sustainability Standards Board (ISSB)

Standards. A month later, the Stock Exchange of Hong Kong published its consultation conclusions on the enhancement of climate-related disclosure requirements for listed companies in Hong Kong.

“As government initiatives including China’s ‘3060’ goals and Hong Kong’s Climate Action Plan 2050 are expected to drive market and regulatory shifts around sustainability disclosure, businesses need to reimagine supply chain models, with responsibilities and opportunities for sustainable value creation, expanding upstream and downstream beyond their immediate operations along with other material environmental and social governance concerns,” adds **Edward Au**.

From a supply chain perspective, shifting regulations and behaviours among stakeholders could result in product and service alterations, lost asset values and market dislocation if not properly managed. These supply chain concerns arising from ESG factors have highlighted the urgency for governance professionals to manage a wide range of risk profiles, covering policy, disclosure and compliance, technology, reputation, financial and physical.

David Simmonds FCG HKFCG, President of The Hong Kong Chartered Governance Institute; and Chief Strategy, Sustainability and Governance Officer of CLP Holdings Limited, says, “Supply chain management is an increasingly important aspect of sustainability governance. Regulatory requirements are growing along with the attention of investors, customers and other stakeholders. From a strategic standpoint, companies should be able to demonstrate operational resilience through effective knowledge and management of supply chain risks. In light of this, it is crucial that people in charge of supply chain management, including boards, senior management and governance professionals understand all material components of a supply chain rather than focusing only on issues that are currently topical.”

To address the Scope 3 challenge, the paper recommends that governance professionals adopt a comprehensive approach that involves identifying emission sources, setting meaningful reduction targets, collaborating with suppliers to decarbonise, and tracking progress. As organisations advance in Scope 3 emissions understanding, they transition from spend-based to activity-based reporting approaches. Accessing supplier-provided, activity-level emissions data enhances the accuracy of over-generalised emissions factors applied to spending.

Ernest Lee FCG HKFCG(PE), Immediate Past President of The Hong Kong Chartered Governance Institute; and Technical partner of Deloitte China, says, “While many supply chain transformation initiatives have historically been reactive, today, a growing number are being driven by a proactive desire to outperform competitors. Despite the potential risks and challenges, supply chain transformation has the potential to deliver vast opportunities for sustainable value creation.”

“Building a sustainable and resilient supply chain bolsters a company’s ability to weather volatility and enhances its capacity for growth and profitability. To initiate a successful sustainable supply chain transformation, businesses must adopt a holistic approach by evaluating their performance across all material ESG aspects within key value chain functions. While defining a sustainability vision, a comprehensive understanding of regulatory requirements, industry benchmarks and the expectations of customers and investors is also crucial.”

Click [here](#) to download the paper.

About Deloitte China

Deloitte China provides integrated professional services, with our long-term commitment to be a leading contributor to China's reform, opening-up and economic development. We are a globally connected and deeply locally-rooted firm, owned by its partners in China. With over 20,000 professionals across 30 Chinese cities, we provide our clients with a one-stop shop offering world-leading audit & assurance, consulting, financial advisory, risk advisory, business advisory and tax services.

We serve with integrity, uphold quality and strive to innovate. With our professional excellence, insight across industries, and intelligent technology solutions, we help clients and partners from many sectors seize opportunities, tackle challenges and attain world-class, high-quality development goals.

The Deloitte brand originated in 1845, and its name in Chinese (德勤) denotes integrity, diligence and excellence. Deloitte's professional network of member firms now spans more than 150 countries and territories. Through our mission to make an impact that matters, we help reinforce public trust in capital markets, enable clients to transform and thrive, and lead the way toward a stronger economy, a more equitable society and a sustainable world.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients.

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which are separate and independent legal entities, provide services from more than 100 cities across the region.

Please see www.Deloitte.com/about to learn more.

Disclaimer

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms or their related entities (collectively, the "Deloitte organization") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

© 2024. For more information, please contact Deloitte China.

About The Hong Kong Chartered Governance Institute

香港公司治理公會
Incorporated in Hong Kong with limited liability by guarantee)

The Hong Kong Chartered Governance Institute (HKCGI), formerly known as The Hong Kong Institute of Chartered Secretaries (HKICS), is the only qualifying institution in the Chinese mainland and Hong Kong for the internationally recognised Chartered Secretary and Chartered Governance Professional qualifications.

With over 75 years of history and as the Hong Kong/China Division of The Chartered Governance Institute (CGI), the Institute's reach and professional recognition extends to all of CGI's nine divisions, with about 40,000 members and students worldwide. HKCGI is one of the fastest growing divisions of CGI, having over 10,000 members, graduates and students with significant representations within listed companies and other cross-industry governance functions.

Believing that better governance leading to better decisions for a better world, HKCGI's mission is to advance governance in commerce, industry, and public affairs through education, thought leadership, advocacy, and engagement with members and the broader community. As recognised thought leaders in our field, the Institute educates and advocates for the highest standards in governance and promotes an expansive approach that considers all stakeholders' interests.

Better Governance. Better Future.

For more information, please visit www.hkcg.org.hk.

HKCGI Disclaimer. Notwithstanding the contents, this paper is not intended to constitute legal advice or to derogate from the responsibility of any person to comply with the relevant rules and regulations. Readers should be aware that this paper is for reference only and should form their own opinions on each case. In case of doubt, they should consult their own legal or professional advisers as they deem appropriate. The views expressed herein do not necessarily represent those of the Institute. It is also not intended to be exhaustive but to guide in understanding the topic. The Institute shall not be responsible to any person or organisation because of reliance upon any information or viewpoint set forth under this paper, including any losses or adverse consequences.

© 2024 The Hong Kong Chartered Governance Institute. All rights reserved.