



**Date:** Monday, April 9, 2012

**To:** Hong Kong Exchanges and Clearing Limited, Corporate Communications Department

**From:** The Global Reporting Initiative ( [REDACTED] )

**Subject:** Re: Consultation Paper on ESG Reporting Guide

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First of all GRI wants to congratulate the Hong Kong Exchange (HKEX) for the initiative in promoting discussions about the importance and use of ESG data from companies' performance. GRI strongly believes that the value created by business can't be expressed by financial data only and ESG (sustainability) information is critical for all types of investors and society alike.

GRI has reviewed two documents from Hong Kong Exchange (HKEX): one is a questionnaire (QUESTIONNAIRE ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE) and the other a discussion paper (ESG consultation paper 2012).

Unfortunately, as GRI, is a "de facto" standard setter for the sustainability reporting, we are unable to give specific opinions to the questions in your questionnaire. However, we are more than happy to provide feedback and comments to your consultation paper. Furthermore, we have also included other developments related to ESG and sustainability reporting trends that are relevant for HKEX to take note of.

### **Part I – Content of the proposed Environmental, Social and Governance Reporting Guide**

GRI has reviewed the Questionnaire attached to the Consultation Paper and has identified several areas where there is linkage between the proposed guidance by HKEX and the GRI Sustainability Reporting Guidelines. Without going into detail of the proposed KPIs, GRI would like to highlight this and provide some relevant comments on the following sections of the Questionnaire: Introduction section (question 3), General Approach section (question 4) and Reporting Guidance section (question 5).

Majority of the comments are related to include a reference of the GRI Sustainability Reporting Guidelines for the following reasons:

- A. HKEX encourages the 'issuers' to refer to adopted international standards and guidelines, including the GRI. GRI are the most widely used guidelines for Sustainability reporting; therefore this would make the reporting easier for the users of their guidance
- B. HKEX current Guidance document does not include specific performance indicator definitions and references; therefore, including a reference to the GRI Sustainability Reporting Guidelines will make it easier for reporters to use your Guidance if/when they would like to have more clarity on specific performance indicators.

**Question 3: Do you agree with the Introduction section?**

*In points 2 and 3 of the Introduction section reference is being made to existing ESG reporting guidance for relevant industry or sector.*

The HKEX may consider including a reference to the GRI Sustainability Reporting Framework which is the world's most comprehensive reporting framework for ESG reporting and is currently being used by thousands of organizations worldwide, of all sizes and sectors, to understand and communicate their sustainability performance.

*In point 4 it is mentioned that ESG information may be disclosed within an annual report.*

The HKEX may consider inserting information on Integrated Reporting and adding links to the websites of the International Integrated Reporting Council (IIRC) and GRI where information on integrated reporting can also be found.

**Question 4: Do you agree with the guidance under the General Approach section?**

*Identify subject areas, aspects and indicators that are relevant.*

The GRI Reporting Guidelines include reporting principles for defining report content. Issues addressed in this sub-section of the General Approach section are in line with what is covered in the GRI Reporting Principle on Materiality where it is stated that:

“The information in a report should cover topics and indicators that:

- Reflect the organization's significant economic, environmental, and social impacts or that
- Would substantively influence the assessment and decisions of stakeholders.”<sup>1</sup>

As this is in agreement with what is being proposed in the above-mentioned section in the HKEX Consultation paper, the HKEX may consider including a reference to the GRI Sustainability Reporting Guidelines.

*Engage Stakeholders*

The GRI Reporting Guidelines include a section on Stakeholder Engagement (points 4.14 – 4.17)<sup>2</sup>. There the following disclosure items are covered:

- List of stakeholder groups engaged by the organization

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<sup>1</sup> GRI G3.1 Reporting Guidelines, p. 3. See [www.globalreporting.org](http://www.globalreporting.org).

<sup>2</sup> GRI G3.1 Reporting Guidelines, p. 24. See [www.globalreporting.org](http://www.globalreporting.org).

- Basis for identification and selection of stakeholders with whom to engage
- Approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group
- Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting

As this is in agreement with what is being proposed in the above-mentioned section in the HKEX Consultation paper, the HKEX may consider including a reference to the GRI Sustainability Reporting Guidelines.

### ***Question 5: Do you agree with the guidance under the Reporting Guidance section?***

#### *Scope of reporting*

The GRI Reporting Guidelines offer guidance on Boundary Setting where it is stated (among other) that:

“The Sustainability Report Boundary should include the entities over which the reporting organization exercises control or significant influence both in and through its relations with various entities upstream and downstream”<sup>3</sup>

As this is in agreement with what is being proposed in the above-mentioned section in the HKEX Consultation paper, the HKEX may consider including a reference to the GRI Sustainability Reporting Guidelines.

#### *Approaches to reporting*

The GRI Reporting Guidelines include reporting principles for defining report content. Issues addressed in point 15 of the Reporting Guidance section are in line with what is covered in the GRI Reporting Principle on Comparability where it is stated that:

“Issues and information should be selected, compiled, and reported consistently. Reported information should be presented in a manner that enables stakeholder to analyze changes in the organization’s performance over time, and could support analysis relative to other organizations.”<sup>4</sup>

As this is in agreement with what is being proposed in the above-mentioned section in the HKEX Consultation paper, the HKEX may consider including a reference to the GRI Sustainability Reporting Guidelines.

The GRI Reporting Guidelines require reporters to report on their Management Approach. Issues addressed in point 16 of the Reporting Guidance section are in line with what is covered in the GRI

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<sup>3</sup> GRI G3.1 Reporting Guidelines, pp. 17 – 19. See [www.globalreporting.org](http://www.globalreporting.org).

<sup>4</sup> GRI G3.1 Guidelines, p. 14. See [www.globalreporting.org](http://www.globalreporting.org).

Guidelines where it says that “This should provide a brief overview of the organization’s management approach to the Aspects defined under each Indicator Category in order to set the context for performance information.”<sup>5</sup>

As this is in agreement with what is being proposed in the above-mentioned section in the HKEX Consultation paper, the HKEX may consider including a reference to the GRI Sustainability Reporting Guidelines.

The GRI Reporting Guidelines include a section where reporters are required to report on their organization’s Strategy and Analysis. This includes:

- Statement from the most senior decision maker of the organization about the relevance of sustainability to the organization and its strategy
- Description of key impacts, risks, and opportunities

As this is in agreement with what is being proposed in the above-mentioned section in the HKEX Consultation paper, the HKEX may consider including a reference to the GRI Sustainability Reporting Guidelines.

#### *Reporting on line items*

The GRI Reporting Guidelines offer 84 performance indicators divided into the following categories:

- Economic
- Environment
- Product Responsibility
- Labor Practices and Decent Work
- Human Rights
- Society

Each performance indicator is accompanied by a protocol that provides detailed information on how to report on that particular indicator. This includes measurements and references.

As the HKEX Consultation paper does not provide detailed information to reporters on KPI’s, the HKEX may consider including a reference to the GRI Sustainability Reporting Guidelines for additional guidance.

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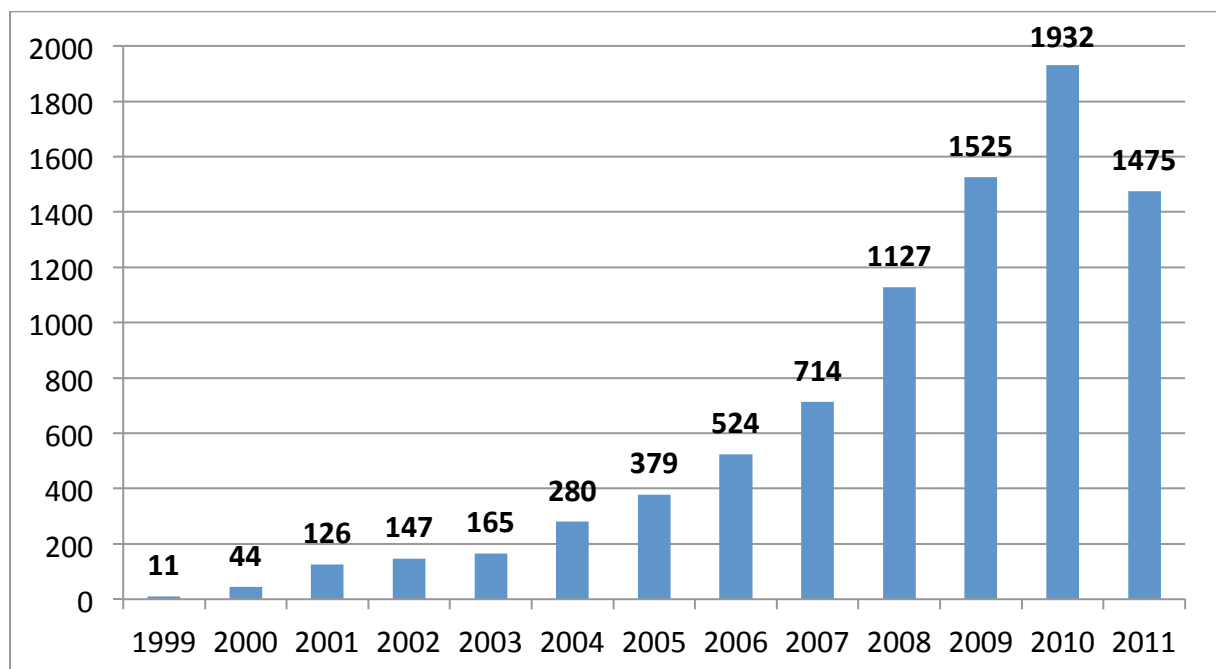
<sup>5</sup> GRI G3.1 Guidelines, p. 24. See [www.globalreporting.org](http://www.globalreporting.org).

## Part II – Relevant ESG and Sustainability Trends and GRI’s background

### 1. Sustainability Reporting or ESG Disclosure is becoming a norm internationally and GRI Sustainability Reporting Framework is the most widely used sustainability reporting guidelines.

Sustainability reporting has increased significantly in the last five years and this upward trend will likely continue. In 2011 GRI launched a robust reports database, The Sustainability Disclosure Database, where information on both GRI and non-GRI sustainability reports is collected. The Database provides a variety of information including a benchmarking tool. Based on data from the Database, the trend in GRI reporting can be seen in the graph below (please note that the numbers for 2011 are incomplete as GRI is still registering reports from this reporting year into its database).

Furthermore, the GRI Guidelines are used by companies around the world. Recent research by KPMG<sup>6</sup> shows that 80% of the largest 250 companies in the world use the GRI Guidelines as guidance for their sustainability report.



### 2. Governments role in mandatory sustainability reporting and/or disclosure of non-financial data has increased – however sustainability reporting does not necessarily need to be mandatory.

The role of governments in non-financial disclosure has increased, as it also has been clearly stated in your consultation paper.

GRI believes that sustainability reporting does not necessarily need to be mandatory: If regulators were to adopt a report or explain policy, companies could still be free to choose what information to

<sup>6</sup> KPMG International Corporate Responsibility Reporting Survey 2011  
<http://www.kpmg.com/global/en/issuesandinsights/articlespublications/corporate-responsibility/pages/2011-survey.aspx>

disclose. Such an approach could persuade more companies to report rather than to explain why they don't, and provide markets and society with information to judge their choices. For more information on the Report or Explain Campaign Forum, see [www.globalreporting.org](http://www.globalreporting.org).

### **3. Integrated reporting developments will have a significant impact on sustainability performance measurement and disclosure.**

Integrated reporting already has a considerable profile, and will have a big impact. Through integrated reporting, it is expected that many more companies and their stakeholders will become aware of sustainability performance measurement and disclosure and start acting on this information. GRI supports the development of integrated reporting as it has the potential to make a large contribution to the mainstreaming disclosure of sustainability impacts.

Several significant developments have already taken place with regards to integrated reporting. In 2010, the Johannesburg Stock Exchange made a listing requirement that companies must produce an integrated report or explain why not. In the same year the International Integrated Reporting Council (IIRC) was established. In September 2011 the IIRC published its discussion paper **Towards Integrated Reporting - Communicating Value in the 21st Century**, which offers initial proposals for the development of an International Integrated Reporting Framework and outlines the next steps towards its creation and adoption.

The IIRC's Integrated Reporting Framework aims to be of use in informing the reporting process, but not to provide a full reporting standard or guidelines. In financial and integrated reporting terms, a framework is a high-level paper that sets out the concepts and principles underlying corporate reporting. For the framework to provide complete guidance, it would need to be used alongside financial reporting standards and sustainability reporting guidelines.

Reporting standards, such as IASB's International Financial Reporting Standards (IFRS) or country-specific Generally Accepted Accounting Principles (GAAP), provide the IIRC with high quality guidance for financial reporting. These financial reporting standards must be matched by sustainability reporting guidance that is equally trustworthy. As pioneers of sustainability reporting, able to draw on the skills and experience of its multi-stakeholder network, GRI can provide the trustworthiness that integrated reporters will need.

GRI is currently developing the next generation of the Guidelines (G4). Key to the development of this next generation is that the Guidelines provide companies with a stepping stone towards integrated reporting and, in the context of the IIRC's framework, help users formulate content for integrated reports.

GRI believes that the successful company of tomorrow will have an integrated strategy to achieve financial results and create lasting value for itself, its stakeholders and society. A focus on a single bottom line cannot offer sufficient assurance that a company will survive, or help it to innovate for future improvements and success. To negotiate the risks of economic crises and sustainability challenges, and to take opportunities for value creation and long term growth, companies need a better understanding of their non-financial performance; better ways of disclosing it; and better ways of factoring it into their strategy and operations. Integrated reporting can show the connectivity between financial and non-financial information and reflects 'integrated thinking'.

GRI would recommend for HKEX to consider these market developments when designing current and future voluntary ESG reporting requirements in order to be more aligned with international reporting practices.

For more information on integrated reporting see the websites of the IIRC and GRI.

**4. The Next Generation of GRI Guidelines (G4) is currently being developed – GRI encourages HKEX and all its associates to provide feedback to ensure the incorporation of their views and experiences in the G4.**

GRI is currently working on the development of the fourth version of its Guidelines, the G4. The Guidelines' development is influenced by changes in the reporting field, such as the introduction of new concepts, trends and tools, and requests by new players. By developing guidance, GRI aims to drive and direct sustainability reporting, towards a sustainable global economy.

The landscape of sustainability reporting is evolving; this should influence the development of GRI's guidance. More stakeholders than ever – including regulators, investors, rating agencies and NGOs – are asking for non-financial data.

The next generation of GRI Guidelines – G4 – should address requirements for sustainability data, and enable reporters to provide relevant information to various stakeholder groups. It should also improve on content in the current Guidelines – G3 and G3.1 – with strengthened technical definitions and improved clarity, helping reporters, information users and assurance providers. Currently there are five Working Groups working on issues related to management approach, governance and remuneration, supply chain, boundary and application levels. In addition, the current version is being reviewed with the aim of improving technical accuracy.

As mentioned above, GRI welcomes the initiative of the HKEX to develop guidance on ESG reporting for Hong Kong reporters. As mentioned in the Consultation Paper: “The ESG Guide will bring ESG disclosure of Hong Kong issuers closer to international practices. In addition, consistent disclosure of ESG information by issuers may be useful for investors to ascertain the performance of the issuers over time and among their peers in the same industry.”<sup>7</sup>

The GRI Guidelines are developed through a multi-stakeholder consensus seeking process according to a defined due process. Part of the due process is public comment periods. The second public comment period for the G4 development will run between June and September 2012. GRI invites and encourages the HKEX and all its associates to take part in the public comment period and provide their feedback. This will help reach the objective mentioned above and make sure that the opinions of Hong Kong reporters will be incorporated into the feedback from GRI's worldwide network.

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<sup>7</sup> HKEX Consultation paper, paragraph, 66, p. 15.



## About GRI

The Global Reporting Initiative (GRI) is a non-profit organization that promotes economic, environmental and social sustainability. GRI provides all companies and organizations with a comprehensive sustainability reporting framework that is widely used around the world.

GRI has pioneered and developed a comprehensive Sustainability Reporting Framework that is widely used around the world. The Framework enables all organizations to measure and report their economic, environmental, social and governance performance – the four key areas of sustainability.

The Reporting Framework – which includes the Reporting Guidelines, Sector Guidelines and other resources - enables greater organizational transparency about economic, environmental, social and governance performance. This transparency and accountability builds stakeholders' trust in organizations, and can lead to many other benefits. Thousands of organizations, of all sizes and sectors, use GRI's Framework in order to understand and communicate their sustainability performance.

GRI's is a multi-stakeholder, network-based organization. Its Secretariat is headquartered in Amsterdam, the Netherlands. The Secretariat acts as a hub, coordinating the activity of GRI's many network partners. GRI has Focal Points – regional offices – in Australia, Brazil, China, India and the USA. Its global network includes more than 600 Organizational Stakeholders – core supporters – and some 30,000 people representing different sectors and constituencies.

GRI also enjoys strategic partnerships with the United Nations Environment Programme, the UN Global Compact, the Organisation for Economic Co-operation and Development, International Organization for Standardization and many others.

GRI's Guidelines are developed with the expertise of the people in its network. International working groups, stakeholder engagement, and due process – including Public Comment Periods – help make the Guidelines suitable and credible for all organizations.