

## Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below on the proposed change discussed in the Consultation Paper downloadable from the HKEx website at: <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201507.pdf>

Where there is insufficient space provided for your comments, please attach additional pages.

1. Do you agree with our proposal to amend Rule 13.91 to require issuers to disclose in their annual reports or ESG reports whether they have complied with the “comply or explain” provisions in the ESG Guide and if they have not, they must give considered reasons in the ESG reports?

Yes

No

Please give reasons for your views.

Despite the additional reporting requirements on companies under a "comply or explain" approach compared to the existing voluntary reporting approach, the benefits of such an approach will outweigh the additional costs by allowing investors to more fully understand whether and how companies identify and mitigate ESG-related risks. A "comply or explain" approach will build on existing reporting, which varies company to company, and will promote enhanced, uniform reporting while encouraging companies to enhance their ESG-related risk management. Investors, provided with more and better information, will be in a stronger position to make informed investment decisions and may be more inclined to invest in companies compliant with the ESG Guide. "Comply or explain" has proven effective in other countries by at the same time promoting compliance while allowing companies flexibility to respond in a manner appropriate to them.

2. Do you agree with our proposal to amend Rule 13.91 to require the issuer to report on ESG annually and regarding the same period covered in its annual report?

Yes

No

Please give reasons for your views.

Information concerning ESG-related risks and opportunities will likely be most beneficial to shareholders if issuers present this information at least on an annual basis. Annual reporting will allow shareholders to understand the company's performance and progress in the preceding year and will foster better comparability between the ESG report year over year and against peers.

We recognize, however, that certain ESG information could be difficult to obtain and verify, particularly if issuers are receiving third-party assurance on their ESG reporting. It is standard practice in other markets for sustainability reporting to be produced as many as 12 months following the end of the reporting period. We believe it is important for issuers to balance the constraints that may be presented by providing the proposed reporting with the benefits to investors of having such information in a timely manner.

3. Do you agree with our proposal to include a Note under Rule 13.91 to clarify that:

- (i) an ESG report may be presented as information in its annual report, in a separate report, or on the issuer's website; and
- (ii) the issuer should publish the ESG report as close as possible to, and in any event no later than three months after, the publication of the issuer's annual report?

Yes

No

Please give reasons for your views.

Increasingly, ESG issues are considered as significant and material aspects of a company's operations. In our view, companies that are effectively managing associated risks have considered them within the framework of their overall operations. Many ESG issues have the potential to have significant bottom-line effects on a company. As such, a growing number of investors are looking to see how companies are integrating these issues into their operations. Therefore, we believe material ESG risks should be considered in the same manner as any other risk faced by a company and should thus be addressed in the same manner as other operational risks or opportunities. Providing ESG information in an annual report ensures that ESG is not considered as a distinct factor, but is rather integrated into a company's operations. By including ESG information in an annual report, it assures investors that companies are considering and mitigating any associated risks and capitalizing on any potential opportunities. Additionally, it would allow investors to consider ESG issues alongside other financial and operational issues, ensuring that they are afforded a comprehensive view of the Company's performance.

Allowing issuers to publish their ESG reports up to three months following the publication of their annual reports could prove problematic for investors since this could potentially mean that a company would publish their ESG report after their annual meeting had occurred. For many investors, proxy voting is a significant, if not the main, avenue by which they engage with corporations. If they are not provided with this information prior to an annual meeting, it could deprive them of the opportunity to fully evaluate a company and its performance. Although we understand the guideline was intended to provide issuers with flexibility with respect to providing ESG reporting, we believe that not releasing an ESG report until after an annual meeting would significantly decrease the value of the information contained within that report to an issuers' shareholders.

4. Do you agree with our proposal to revise the introductory section of the Guide into four areas (i.e. "The Guide", "Overall Approach", "Reporting Principles" and "Complementing ESG Discussions in the Business Review Section of the Directors' Report"), and with the wording set out in Appendix II to the Consultation Paper?

Yes

No

Please give reasons for your views.

No opinion

5. Do you agree with the proposed wording of the Reporting Principles (i.e. “Materiality”, “Quantitative”, “Balance” and “Consistency”) in the introductory section of the Guide, as set out in Appendix II to the Consultation Paper?

Yes

No

Please give reasons for your views.

It is important to allow issuers latitude in their reporting on ESG issues given the wide disparity in company industry and operations. As these issues are both very nuanced and specific to a company, requiring that companies report on ESG issues that they deem to be material is vital, as it allows investors to understand how a company is identifying and mitigating ESG risks. Companies are affected by a wide range of issues that could be categorized as ESG-related; however not all of these necessarily rise to the level of presenting material risks. Nevertheless, investors benefit from the clear disclosure of such information.

Requiring that KPIs be measurable and consistent is also extremely important to allow investors to evaluate companies and compare them to their peers. We believe the perspective that what is not measured is not managed is relevant here. Thus, confirming that quantitative elements are integrated into certain aspects of ESG performance ensures that companies have set specific goals and have monitored their progress toward those goals. From an investor perspective, allowing shareholders to monitor companies’ performance on a year-over-year basis allows them to more fully understand the risks presented to companies on account of ESG issues and to closely monitor the efficacy of companies’ strategies to mitigate such risks. Quantitative KPIs also have the potential to allow shareholders to assess a company’s performance in relation to its peers, which allows for a fuller understanding of a company’s ESG performance and risks.

6. Do you agree with the proposed wording in the Guide linking it to Appendix 16 to the Main Board Listing Rules (in relation to the requirement for ESG discussions in the business review section of the directors’ report), as set out in Appendix II to the Consultation Paper?

Yes

No

Please give reasons for your views.

We believe shareholders benefit when they are able to assess a company’s ESG performance alongside other performance factors. It is also relevant therefore that they are able to make this assessment when considering their votes at an annual meeting. By ensuring certain ESG information is contained in a company’s Director’s Report, investors will be able to make such an assessment prior to voting their shares.

7. Do you agree with the proposal to re-arrange the Guide into two Subject Areas (A. Environmental and B. Social) and re-categorise “Workplace Quality”, “Operating Practices” and “Community Involvement” under Subject Area B?

Yes

No

Please give reasons for your views.

No opinion

8. Do you agree with the proposal to change the heading “Workplace Quality” to “Employment and Labour Standards”?

Yes

No

Please give reasons for your views.

No opinion

9. Do you agree with our proposal to upgrade the General Disclosures for each Aspect of the ESG Guide to “comply or explain”?

Yes

No

Please give reasons for your views.

Companies should be encouraged to provide information on the policies they have in place concerning certain ESG matters provides issuers with a broad framework, under which they are able to communicate to shareholders how they are mitigating material ESG risks. This framework allows issuers to report on ESG matters in a consistent manner without being beholden to report on specific KPIs that may or may not be relevant to investors or issuers, given their industry or operations.

10. Do you agree with our proposal to amend the wording of paragraph (b) under current Aspects A1, A2, A4, B1, C2 and C3, re-numbered Aspects A1, B1, B2, B4, B6 and B7, to “compliance with relevant laws and regulations that have a significant impact on the issuer...” in order to align it with the language of the relevant provisions of the Companies Ordinance?

Yes

No

Please give reasons for your views.

No opinion

11. Do you agree with our proposal to revise proposed Aspect A1 (“Emissions”) by upgrading to “comply or explain” the current KPIs B1.1, B1.2, B1.4 and B1.5, re-numbered KPIs A1.1, A1.2, A1.4 and A1.5, concerning disclosure of emissions and non-hazardous waste?

Yes

No

Please give reasons for your views.

We believe companies should be encouraged to disclose risk factors relevant to the company, its industry and operations but, since some disclosure may not be relevant for all companies, we refrain from opining on the consistent benefits of disclosure of this specific item.

12. Do you agree with our proposal to upgrade to “comply or explain” the current KPIs B1.3 and B1.6, re-numbered KPIs A1.3 and A1.6, concerning disclosure of hazardous waste?

Yes

No

Please give reasons for your views.

We believe companies should be encouraged to disclose risk factors relevant to the company, its industry and operations but, since some disclosure may not be relevant for all companies, we refrain from opining on the consistent benefits of disclosure of this specific item.

13. Do you agree with our proposal to upgrade to “comply or explain” the KPIs under the current Aspect B2, re-numbered Aspect A2, “Use of Resources”?

Yes

No

Please give reasons for your views.

We believe companies should be encouraged to disclose risk factors relevant to the company, its industry and operations but, since some disclosure may not be relevant for all companies, we refrain from opining on the consistent benefits of disclosure of this specific item.

14. Do you agree with our proposal to upgrade to “comply or explain” the current KPI B3.1, re-numbered KPI A3.1, concerning disclosure of the significant impacts of activities on the environment and natural resources?

Yes

No

Please give reasons for your views.

We believe companies should be encouraged to disclose risk factors relevant to the company, its industry and operations including relating to the environment given the importance investors place on this issue.

15. Do you agree with our proposal to incorporate gender disclosure in proposed Subject Area B. Social, under the sub-heading “Employment and Labour Standards”?



Yes

No

Please give reasons for your views.

We believe companies should be encouraged to disclose risk factors relevant to the company, its industry and operations including relating to board gender diversity given the importance investors place on this issue.

- End -