18 September 2015

Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street Central
Hong Kong

Re: Consultation Paper on the Review of the Environmental, Social and Governance Reporting Guide

To Hong Kong Exchanges and Clearing Limited ("HKEx"):

We are writing to express our strong support for proposed amendments to the Environmental, Social and Governance Reporting Guide (the "ESG Guide" or "Guide") listed in the consultation paper released on 17 July 2015.

The RS Group is a Hong Kong-based private family office with a focus on sustainability. (Please see www.rsgroup.asia). As a responsible investor, we deeply appreciate the value of socially responsible investments ("SRI") and seek to encourage and contribute to mainstream society adopting environmental, social and governance (ESG) considerations into their wealth management process. The comments that follow reflect our position as an active and engaged asset owner/investor with an established commitment to both local society and Hong Kong's position as a leading international financial services centre.

Our support for the review of the ESG Guide is reflected in the following points:

Laying fundamental building blocks for products and platform in the Hong Kong market

- We applaud HKEx's proposal to raise the standard of its ESG guide to "comply or explain", and believe this is a necessary building block for structuring the platform and development of sustainable financial products in the Hong Kong market. This will address the current market gap for impact investors (like ourselves) who are on the rise and are increasingly seeking to integrate ESG considerations into their investment portfolio but lack the product and platform in the local market. For product providers, it will ensure they have the essential information needed for ESG analysis, and for issuers, it will increase the probability for them to be included in global sustainable indexes such as Dow Jones Sustainability Index (DJSI) and FTSE4Good Index, the foundation of SRI products.

- As a responsible investor integrating ESG factors into our investment criteria, it is RS Group's experience that a majority of more investable fund products are either managed overseas (mainly US/Europe) or have a higher US/European bias within their underlying holdings. In comparison, there are fewer Asia-focused products that factor in ESG considerations, and those in existence tend to be smaller in scale/asset under management (AUM). We believe that better and more proactive ESG reporting practices amongst Hong Kong issuers will enable Hong Kong to join the rank of other global financial hubs in becoming more representative in the responsible investment product space.

Increasing the engagement between investors and investees

- In our dialogue with fund managers of socially responsible funds with global underlying holdings, a recurring theme is that with the exception of a handful of top leading companies, Hong Kong's listed companies are generally more difficult to engage with on ESG issues. This has in turn impacted the fund manager's ability to include more Hong Kong listed companies into their investment universe. As the number of ESG-conscientious investors grow across the globe, this is a significant pool of capital that Hong Kong is not capturing.

- Ultimately, we believe increased ESG disclosure will be a catalyst for increased dialogue between investors and investee companies, which is critical for a company's healthy performance. Corporate performance, engagement and disclosure on a full range of environmental, social, and governance (ESG) issues will be a fundamental basis for market efficiency and transparency, which is critical to the future of Hong Kong's capital markets.

Enhancing ESG performance and alignment with other regulatory requirements

- We agree with all the reasons quoted in the consultation on the value of ESG disclosure and reporting (e.g. improved access to capital, risk management, supply chain demand, improved reputation, cost savings and increased profit margins, etc.). In particular, we wish to highlight the following:

    - As illustrated by the failed IPO[1] case of China Tuna Industry Group in 2014; ESG considerations can be a key decision factor in the success of a company's expansion. By not taking ESG disclosure seriously, companies expose themselves to reputational risks as well as limit their access to more capital.

    - Over the years, good ESG disclosure has been shown to frequently lead to good ESG practice[2], which in turn has demonstrated a positive correlation with financial performance[3]. Given this trend, it would certainly be to a company's benefit to provide better disclosure of the ESG aspects of their activities.

- Framing ESG disclosure obligations in the context of the Business Review Section of the annual Director's Report (codified in Appendix 16 of Listed Rules), reinforces the idea that material ESG issues are closely related to the company's business setting. We trust that this will in turn encourage companies to proactively inform the market about material ESG developments that impact their operations.

- To go one step further to provide a more cohesive and integrated regulatory framework, we would also encourage a more explicit integration of issuer's obligation under both Appendix 14 (Corporate Governance Code) and 27 (ESG Guide) to ensure that issuers address the role of governance in their ESG reports, and environmental and social matters in their corporate governance reports. We believe that in the longer run, this will contribute to a more integrated style of reporting and setting a higher standard for the Hong Kong market.

- Finally, we also note that while the HKEx has in recent years put significant efforts into raising the bar on ESG disclosures in IPOs/prospectuses, there currently lacks a formal reporting

[1] "Tuna firm's bungled IPO exposes China's flouting of global fishing rules" http://www.theguardian.com/sustainable-business/2014/oct/27/toyo-reizo-shell-companies-fisheries-china-tuna-overfishing-oceans-ipo

[2] "Developed" and "Emerging" Categories Classify Risks for Investors, but So Do "Transparency" and "ESG" Performance http://www.equities.com/editors-desk/investing-strategies/trading/developed-emerging-classify-risks-for-investors-but-also-transparency-and-esg-performance?sthash.o7tZjvvj.mjjo

[3] "Corporate Investment in ESG Practices" (http://corpgov.law.harvard.edu/2015/08/05/corporate-investment-in-esg-practices/); "From the Stockholder to the Stakeholder" (http://www.arabesque.com/index.php?tt_down=51e2de00a30f88872897824d3e211b11)

structure and obligations by the companies. It is our hope that the application of this new ESG guide in conjunction with the Listing Rules and Companies' Ordinance (and other regulations) will help formalise requirements for IPO disclosure. We envision that this will bring a clearer and more consistent structure for ESG reporting, thus raising the local standards for a more cohesive reporting framework.

The importance of "strategic" ESG disclosure

- For most listed companies, their material concerns may span across various aspects of ESG, meaning that companies' reporting of their material events will need to be "strategically" managed.

    - It is therefore important that listed companies bear this in mind when managing, monitoring and reporting their ESG disclosure and/or material events, and look beyond the specific ESG KPI requirements under the current ESG Guide. Making identified environmental KPIs subject to comply-or-explain should not distract issuers from the importance of more strategic and potentially material disclosures. In reality, many local companies may face significant operational issues with "linked" ESG risks making it critical for planning and addressing these issues holistically.

    - Given the significance of such general/strategic disclosures, we believe that guidance may be required to ensure that the new ESG Guide and required KPIs are not interpreted as a safe-harbor to avoid the necessary details and disclosure.

    - In order to encourage companies to move away from a box-ticking mentality, into one where ESG considerations are embedded into business strategies we propose the Hong Kong Exchange (HKEx) to consider adding "goals and targets" to KPIs and General Disclosure requirements as a recommended disclosure. In the past we have divested from funds which have not applied this level of ESG standard in their assessment of issuers to invest in. We also believe that this level of expectation is common amongst international responsible investors. Laying out "goals and targets" for the General Disclosure and KPI sections provides further context and structure for disclosure, and more importantly, is an avenue for companies to demonstrate they have embedded ESG considerations into their strategy and reflects their aspirations and goals.

- Furthermore, we would also urge that the rule take a tougher stance on establishing a credible baseline of performance, and ensure that annual ESG disclosure is not only released in a timely manner, but can be easily comparable year on year. In addition, we would encourage issuers to produce their Corporate Governance and ESG reports in a consolidated format. From a responsible investors' point of view, in order to form a holistic view of the issuer, it is critical to have *both* ESG and financial data available for simultaneous analysis.

Beyond training – stakeholder education and talent building

- Whilst we note that the HKEx have been conducting various trainings for listed companies, we believe that it is equally important to educate all stakeholders beyond companies, such as investors, asset managers, intermediaries, general public, and advocacy groups/associations on the importance and value of ESG disclosure. In this endeavor it is important to highlight not only the need and challenges of the ESG disclosure but also the opportunities to be gained from it, in order to ensure true embrace of the spirit of ESG disclosure and reporting. An example could be Private Equity managers in the market, who could add value to their investee companies via ESG integration/reporting in preparation for their eventual listing.

- We would also like to encourage HKEx to engage small and mid-cap issuers and not to disregard their interest in ESG reporting just because they may not generally be as attractive to institutional investors as larger-cap companies. In our experience, there are leaders amongst the small- and mid-cap companies (and even further along, social enterprises and grassroots advocacy groups with less institutional backing) that have shown genuine interest and support towards ESG reporting, and believe that the ESG reporting can enhance their company's competitiveness and reputation.

- Responsible investing is a growing trend globally and increasingly attracting younger professional talent. If Hong Kong does not act quickly and offer enough relevant job opportunities, it would suffer from a "brain drain" and risk losing valuable workforce to overseas competitor markets. On the other hand, given the challenge of limited talent that are suitably qualified and capable of guiding companies through the ESG reporting process at the moment, HKEx can also consider attracting overseas service providers to increase their presence in Hong Kong and enable them to transfer their "know-how" to the local market. This is important for Hong Kong not only to retain talent but also an opportunity to attract talent and capital to support a growing trend.

Ecosystem building

- We believe that it is important to build up the ecosystem for ESG in the overall marketplace for sustainability to truly be embraced, especially by means of the "market forces" approach. Therefore we would encourage HKEx to establish a special task force consisting of representative stakeholders (e.g. investors, asset managers, intermediaries, issuers, general public, and advocacy groups/associations) to provide continuous input, feedback and dialogue on a holistic development of a sustainability platform (of products, services, talent and infrastructure).

- While increased ESG regulation might increase the reporting burden on some companies, especially smaller ones, the overall effect of the regulation on companies has been value enhancing rather than value destroying. As such, to reduce their burden and encourage smaller companies to take up ESG reporting, we suggest the HKEx look into developing partnerships with local universities, training services providers and other relevant stakeholders to develop training courses and other web-based resources that smaller companies can take advantage of in their reporting, thereby motivating them to get started.

- Finally, at the same time as HKEx is demanding listed companies to increase their commitment to sustainability, it is important for HKEx itself to also demonstrate its commitment to sustainability. Therefore, we would encourage HKEx to consider signing on to become a partner exchange of the Sustainable Stock Exchange Initiative, joining the likes of NYSE, LSE, and NASDAQ in making a public commitment to improved ESG disclosure and performance among listed companies and aspiring to work closely with other key stakeholders in the ecosystem on a local and international basis.

Raising the bar

- As a responsible investor, RS Group would be keen to see Hong Kong adopt bolder initiatives and further raise the bar in terms of the ESG disclosure. Whilst we note the incremental approach adopted, we also believe that Hong Kong needs to act faster to catch up with its international peers and take the lead to become the sustainable financial centre for Asia. Therefore, we suggest that the following enhancements be considered to further strengthen the disclosure policy and requirements:

- Include KPIs under Subject Area B (Social) of the revised Guide as "comply or explain" instead of "Recommended Disclosure" for cohesive and holistic ESG assessment. As mentioned above, we believe that many operational issues that companies face span across the environment, social and governance areas, making it inaccurate to disclose one without the other. Furthermore, based on the experience of international markets, ESG disclosure is generally introduced in tandem rather than on a segregated basis to ensure market transparency.
- Using the Singapore Stock Exchange ESG consultation[4] as reference, highlight specific industries that are more susceptible to ESG risks, and strongly encourage their proactive participation in ESG reporting
- Using the EU Council's Directive as reference, consider encouraging "very large market cap" issuers who are already adopting voluntary reporting to become "leaders" in ESG reporting, and aspire to even higher standards in their disclosure (by adhering to say GRI or ISO reporting standards).

As a conclusion of our analysis and opinions above, RS Group would like to highlight the need for Hong Kong to <u>act faster and take bolder steps</u> going forward in order to maintain international competitiveness and achieve true market transparency and efficiency.

- As the consultation paper pointed out, Hong Kong lags behind other leading international markets in terms of ESG reporting requirements. UK adopted voluntary reporting as early as 2006 compared to Hong Kong in 2012, and South Africa as the most progressive jurisdiction is already requiring integrated reporting and third party assurance. In the region, Singapore Exchange specifies in their sustainability reporting guide high-impact sectors such as agriculture, construction and chemicals, and strongly urges listed companies in those sectors to undertake the sustainability reporting. Lastly, China is likely to include strategic development of its green finance system in its 13th Five Year Plan (2016-2020), with a focus on sustainable development as the next stage of the nation's growth.

- However as the consultation paper also pointed out, since the launch of the first ESG Guide in 2012, overall reporting rate on ESG issues is 46.4% among listed companies, with approximately 80% of them being very large market cap companies each at market capitalization of HK$10+ billion. With such healthy voluntary reporting rate in place, we believe that the market is ready to move forward with bolder steps in ESG reporting.

- As respondents to this consultation, we would in the short term like to see that the results of this consultation made public. In the long term, to ensure continuous progress in the quality of Hong Kong's ESG reporting and also align expectations among stakeholders, we would also suggest that HKEx devise a timeline delineating the next steps it intends to take on developing the ESG guide. This may include, for example, a review process to assess the progress on the implementation of the current revised Guide and a public report in such regard, feedback collection, future revision of the Guide, as well as potential new indicators that HKEx may want to include as "comply-or-explain" KPIs in the future.

- Finally, we believe that in addition to reporting, the verification of the ESG considerations reported, and to look beyond only the "process" of reporting but also the "quality" of the disclosure, is just as important. It is our opinion that the sector will benefit from having more or better qualified third party reviewers for this purpose. Therefore, we would encourage HKEx to also look at fostering the development of 3rd party/independent verification of ESG disclosure,

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[4] http://www.sgx.com/wps/wcm/connect/sgx_en/home/regulation_v2/consultations_and_publications/PC/Consultation-Exercise-on-Sustainability-Reporting

and incorporate this aspect into the drive to push more companies to pro-actively report their material ESG data.

Considering Hong Kong's competitive advantages such as its longstanding status as Asia's financial hub and the strategic location near China, Hong Kong is uniquely positioned to take the lead on mainstreaming the ESG reporting. If Hong Kong is able to complement China's ESG reporting development, it would be an exceptional opportunity for Hong Kong to secure the retention and attraction of impact capital. This will provide an opportunity for Hong Kong to become the leading international sustainable financial centre of Asia.

In closing, we would also like to express support for the submission on this consultation provided by the Asian Corporate Governance Association (ACGA). While we have not commented in detail on some of the more technical issues raised in the consultation paper, we believe that ACGA's members are well-placed to provide an informed perspective on the most suitable, efficient and effective approach to achieve investor engagement and further disclosure of ESG considerations in Hong Kong's capital market.

Yours Sincerely,

Annie Chen
Chair, RS Group

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We, the following family offices, asset managers and private investors endorse and support the views presented by RS Group in this submission, and also take this opportunity to express our support for the review of environmental, social and governance reporting guide in the consultation paper released on 17 July 2015.

Signed (in last-name alphabetical order):

Arisaig Partners
Peter Bennett, Chairman, Peter Bennett Foundation
Christopher Botsford, Partner and Co-founder, ADM Capital
Marc Castagnet, Director, Hill Tribe Organics
James Chen, Managing Director, Legacy Advisors Limited
Roy Chen, Director, CIO and CEO, Grace Financial Limited
Yuk Lynn Chen Woo, Impact Investor
Water Cheung, Senior Partner, CEO Asia Pacific, StormHarbour Securities (Hong Kong) Ltd
Emily Ip, CEO, WYNG Foundation
Josephine Shaw, Impact Investor
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