



Friday, 18 September 2015

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

Dear Sir or Madam,

Response to the Consultation Paper on Review of the ESG Reporting Guide

We welcome the opportunity to respond to your consultation on the proposed changes to the Environmental, Social and Governance Reporting Guide (hereafter the “ESG Guide” or “Guide”). We would like to first express our strong support for your objective to strengthen environmental, social and governance (ESG) disclosure requirements.

By way of introduction, the Climate Disclosure Standards Board (CDSB) is a consortium of businesses and environmental organisations, formed at the World Economic Forum in 2007. We are an international organisation committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We do this by offering companies a framework for reporting environmental information with the same rigour as financial information in mainstream reports, such as the annual report.

CDSB’s work is designed to deliver the transparency and accountability needed for decisions to be made and capital to be deployed in support of a low carbon economy, in keeping with traditions of accounting and financial stability standards setters.

The CDSB Framework for reporting environmental information¹ helps issuers fulfil the “environmental” section of ESG reporting by providing guidance on reporting robust, clear and comparable information to investors. We would therefore like to request that the Exchange list us as a recommended method of compliance for reporting environmental information.

Our specific and general comments on the consultation follow in the appendices below. Please do not hesitate to contact us if you have any further queries.

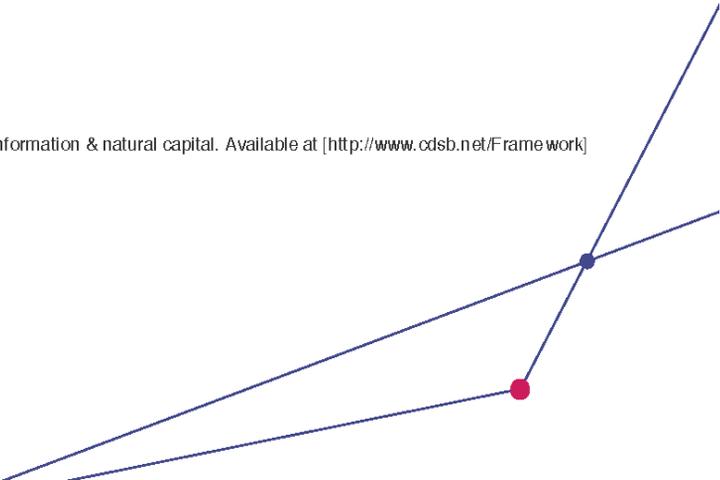
Kind regards,



Michael Zimonyi
Senior Project Officer
Climate Disclosure Standards Board

¹ CDSB (2015) CDSB Framework for reporting environmental information & natural capital. Available at [<http://www.cdsb.net/Framework>]

T: [Redacted]
www.cdsb.net



Appendix I – General comments

CDSB welcomes and congratulates the Hong Kong Stock Exchange's recognition of the importance to "align itself with international best practice"². We agree with the assertion that "It is increasingly recognised that an "informed market" calls for both non-financial and financial information."³ As CDSB's report indicates, "stock exchanges have a powerful role to play in protecting stock market actors... [and] are in a unique and influential position to initiate or develop their contributions to the protection of financial markets".⁴ Furthermore, encouraging environmental disclosures acquires reputational capital for the stock exchanges themselves.⁵

Comply or explain

The upgrade of requirement in certain areas from voluntary to "comply or explain" is a positive step. We suggest that the guide stresses the need for faithful representation⁶; that information is complete, neutral and free from error, to ensure that the provided information is useful for investor decision-making.

In a recent review⁷ with Oxford University Saïd Business School about the effectiveness of "comply or explain" using the example of the UK Companies Act, CDSB found that the majority of the companies reviewed disclosed environmental information. Only a small percentage chose to explain why they did not disclose, with an even smaller proportion doing neither. The research would suggest that, based on the UK's example, the "comply or explain" approach can be an effective tool for increasing ESG disclosure.

Consistency

The review also indicates the need for further encouragement for companies to disclose reliably and consistently over a period of several years. The efficiency with which markets are able to allocate capital to its most productive uses over the medium to long term is undermined, for as long as climate change - and ESG in general - related information lacks reliability, consistency and comparability. As such, there is a pertinent need for reporting ESG information with the same accuracy as financial information. We encourage the Exchange to support its issuers in achieving this accuracy.

Education

We particularly support the Exchange's efforts to educate its issuers⁸, and would like to offer our support to collaborate on future training.

² Chapter 2 para 71 p 17 of consultation paper

³ Chapter 2 para 51 p 13 of consultation paper

⁴ CDSB (2015) *Climate resilient stock markets: Climate change reporting proposals for adoption or support by stock exchanges*. Available at [http://www.cdsb.net/sites/cdsbnet/files/cdsb_climate_resilient_stock_markets_0.pdf]

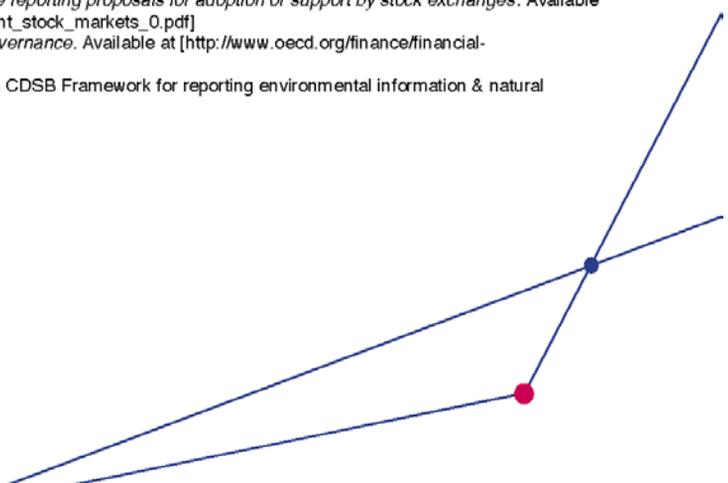
⁵ OECD (2008) *The Role of Stock Exchanges in Corporate Governance*. Available at [<http://www.oecd.org/finance/financial-markets/43169104.pdf>]

⁶ See p. 14, Principle 2 of the CDSB Framework. CDSB (2015) CDSB Framework for reporting environmental information & natural capital. Available at [<http://www.cdsb.net/Framework>]

⁷ Unpublished research at the time of writing this response.

⁸ Chapter 1 para 20 p 5 of consultation paper

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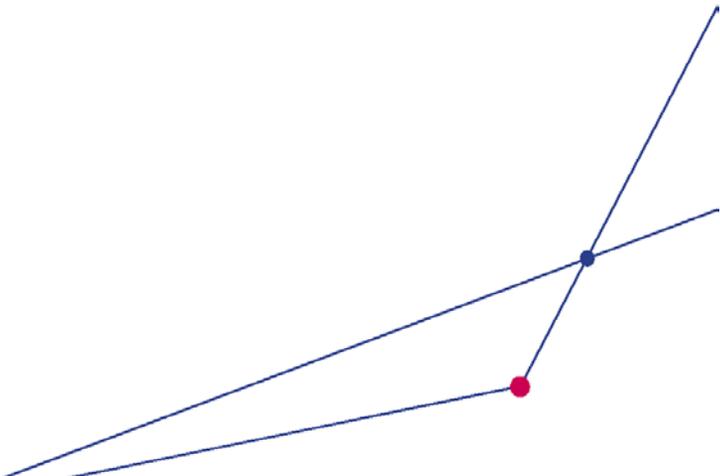
Currently, CDSB is in the process of developing a course specifically focused on the reporting of environmental information in mainstream reports and would welcome the opportunity to work with the Exchange on providing training on environmental reporting in the annual report to its issuers.

Assurance

Furthermore, we agree with the need for the development of a generally accepted approach to the assurance of ESG reports.⁹ CDSB seeks to support and encourage assurance activity through the specification of requirements and principles representing suitable criteria that may be used to support assurance activities.

⁹ Chapter 1 para 50 p 17 of consultation paper

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Signature (with Company/Entity Chop if the response represents company/entity view)

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.

CDSB welcomes the move to upgrade ESG disclosures from voluntary to a “comply or explain” basis, as our research shows this is an effective method of encouraging more companies to report on these matters. However, we strongly recommend that material information relating to environmental and other matters is integrated into the annual report rather than, or in addition to, being presented in a separate document. This encourages consistency and comparability between financial and ESG information, as well as ensuring the investor focus of this information.

It is unclear how this rule relates to the New Company Ordinance which will already request this information, therefore more explanation on the matter would be welcome.

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.

Yes, we consider this to be an essential component of providing suitable information to investors. Information is only consistent and actionable when it applies to the same period as covered in the annual report.

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.

CDSB considers that publishing such information in exclusively a separate report to be a hindrance to its usability by investors. When published separately, ESG information is made less connected to the remainder of the information regarding corporate performance that is reported to them.

We believe that, to be actionable and relevant, non-financial information should be reported with the same rigor, in the same place and at the same time as financial information as both are equally relevant to an assessment of corporate performance.

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.

CDSB has no comment on this matter.

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.

CDSB would like to commend the inclusion of the principle of materiality, which we believe to be key to good reporting. We would propose that the definition of “materiality” be taken from the International Accounting Standards Board. For reference, please consult Principle 1 of the CDSB Framework for a definition of materiality that is based upon the International Accounting Standards. In this principle, we also explain the importance of materiality and define its precepts. [Source: CDSB framework p. 11]

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.

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.

We agree to including explicitly the subject area of 'Environmental' as this is not currently included in the Guide.

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.

CDSB has no comment on this matter.

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.

CDSB considers this upgrade to be a positive measure. Our research looking at the outcomes of United Kingdom’s implementation of its greenhouse gas reporting requirements shows that an upgrade from voluntary to “comply or explain” leads to increased reporting from companies.

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.

CDSB has no comment on this matter.

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.

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.

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.

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.

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.

CDSB has no comment on this matter.

- End -