

CONSULTATION PAPER
ENVIRONMENTAL, SOCIAL AND
GOVERNANCE REPORTING GUIDE

December 2011



Hong Kong Exchanges and Clearing Limited
香港交易及結算所有限公司

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How to Respond to this Consultation Paper

We, the Stock Exchange of Hong Kong Ltd. (the Exchange), a wholly owned subsidiary of Hong Kong Exchanges and Clearing Ltd., invite written comments on this paper no later than **9 April 2012**. Responses should, if possible, be made by completing and returning the questionnaire which is available at: <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201112q.doc> by one of the following methods:

By mail or hand delivery to: 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 ESG Reporting Guide

By fax to: (852) 2524-0149

By email to: response@hkex.com.hk
Please mark in the subject line:
Re: Consultation Paper on ESG Reporting Guide

Our submission enquiry number is (852) 2840-3844.

We invite views on the proposals, and where appropriate, reasons for the answers. Respondents are reminded that we will publish responses on a named basis in the intended consultation conclusions. If you do not wish your name to be disclosed to members of the public, please state so when responding to this paper. Our policy on handling personal data is set out in Appendix III of this paper.

Next Steps

We will carefully consider and analyse all the responses received, and as appropriate, develop the proposed “Environmental, Social and Governance Reporting Guide” to implement the final agreed upon conclusions. As usual we will work with the Securities and Futures Commission to develop the consultation conclusions and finalise the guide.

EXECUTIVE SUMMARY

1. This consultation paper seeks views and comments on the proposed Environmental, Social and Governance Reporting Guide (the “ESG Guide”) for issuers listed in Hong Kong.
2. More companies disclose environmental, social and governance (“ESG”) information in recent years. A key driver for issuers to adopt ESG reporting is that more investors are incorporating ESG criteria into their valuations and investment strategies. Many exchanges are also introducing different measures to encourage or require ESG reporting.
3. Some issuers have already adopted certain ESG international guidelines or standards, such as those of the Global Reporting Initiative, a widely used reporting framework that sets out principles and performance indicators for companies to report on ESG performance, or Carbon Disclosure Project, a reporting system through which companies disclose greenhouse gas emissions, water management and climate change strategies. Some issuers have committed to the United Nations Global Compact, a sustainability initiative for companies to align their strategies and operations in the areas of human rights, labour, environment and anti-corruption. There are also OECD Guidelines for Multinational Enterprises, which is a set of recommendations to multinational enterprises in all the major areas of business ethics.
4. We are also aware of the ISO 26000 Guidance on Social Responsibility, which addresses seven core subjects of social responsibility defined in the guidance, and proposals for integrated reporting, which links an organisation’s strategy, governance and financial performance and the social, environmental and economic context within which it operates.
5. We generally support developments in this area. We encourage those issuers who are capable of doing so to adopt ESG reporting based on international guidelines and standards.
6. However, many Hong Kong issuers are not yet ready to fully comply with these standards. We propose to introduce a simple and easy-to-use ESG Guide to raise ESG awareness and encourage issuers to report on ESG matters. The proposed ESG Guide complements international disclosure guidelines and is a first step towards Hong Kong issuers adopting best practices. We propose to periodically conduct surveys and evaluate the progress of issuers’ ESG reporting after implementation of the ESG Guide.
7. To raise awareness and help equip issuers with tools for reporting, HKEx sponsored five free half-day seminars and 10 free full-day workshops on ESG reporting for issuers between May and July 2011 based on the draft ESG Guide. The seminars and workshops were conducted by external consultants specialising in ESG reporting.
8. 823 participants from 498 issuers attended the seminars and 518 participants from 348 issuers attended the workshops. The seminars and workshops were well received by participants.

9. To facilitate issuers to start reporting, we have uploaded the draft ESG Reporting Guide, seminar and workshop materials, frequently asked questions and answers, steps for ESG reporting and a reporting toolkit on the HKEx website at <http://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/esg/material.htm>. We will provide more training if there is demand for it.
10. We do not propose that compliance with the ESG Guide be mandatory at this stage. We propose that the general disclosure and KPIs be recommended best practices. We may consider raising the level of obligation to “comply or explain”, which is similar to the Corporate Governance Code, in the future.
11. The proposed ESG Guide in Appendix I is divided into four areas: Workplace Quality, Environmental Protection, Operating Practices and Community Involvement. The proposed ESG Guide does not address corporate governance issues, as these are dealt with separately in the Corporate Governance Code.
12. Each of the above areas is divided into 3 sections:
 - (a) Aspect – ESG aspects under the area.
 - (b) General disclosure – general disclosure recommendations.
 - (c) Key Performance Indicator (“KPI”) – disclosure that an issuer could make to measure its performance under each aspect.
13. We understand that an issuer will need to put systems in place to collect data and it takes time before an issuer can meaningfully report on some KPIs. So we do not expect issuers to report on all KPIs immediately after implementation. Issuers do not need to report on all KPIs. Issuers could report on KPIs that are material and relevant to them. The proposed recommended disclosure will not reduce an issuer’s continuing obligation to disclose price sensitive information under the Listing Rules.
14. An issuer can include ESG information in the annual report regarding the same period covered in the annual report, or in a separate report. Where the information is included in a separate report, it does not need to be issued at the same time or cover the same period as the annual report. An issuer is free to report on any period but should consistently report for the same period so that the information can be comparable.

CHAPTER I: INTRODUCTION

15. Corporate social responsibility (“CSR”), which includes environmental, social and governance (“ESG”) issues, is becoming an important theme in the business community.
16. There are many drivers for this trend, as demonstrated in Chapter II. A key driver for adopting ESG practices and reporting is the growth of responsible investment¹ as more investors incorporate ESG criteria into their valuations and investment strategies.
17. Many stock exchanges have also taken steps in view of the ESG trend. Exchanges in Asia, such as Bursa Malaysia, promote ESG by requiring ESG disclosure. The Shanghai and Shenzhen Stock Exchanges promote ESG by issuing guidance. Some exchanges, such as the Australian Securities Exchange, have adopted the “comply or explain” approach. Other exchanges have introduced measures to improve information efficiency and launched specialised listing and trading platforms. See Chapter III and Appendix II.B for these various approaches.
18. CSR has always been an integral part of HKEx’s business strategy and management approach. To further its commitment to CSR, the HKEx Board considers that the Exchange should take steps to raise ESG awareness among Hong Kong issuers and encourage them to adopt ESG reporting. The Listing Committee agrees.
19. Some issuers have already adopted certain ESG international guidelines or standards, such as those of the Global Reporting Initiative (“GRI”), a widely used reporting framework that sets out principles and performance indicators for companies to report on ESG performance, or Carbon Disclosure Project, a reporting system through which companies disclose greenhouse gas emissions, water management and climate change strategies. Some issuers have committed to the United Nations Global Compact (“UNGC”), a sustainability initiative for companies to align their strategies and operations in the areas of human rights, labour, environment and anti-corruption. There are also OECD Guidelines for Multinational Enterprises, which is a set of recommendations to multinational enterprises in all the major areas of business ethics.
20. We are also aware of the ISO 26000 Guidance on Social Responsibility, which addresses seven core subjects of social responsibility defined in the guidance, and proposals for integrated reporting, which links an organisation’s strategy, governance and financial performance and the social, environmental and economic context within which it operates.
21. We generally support developments in this area. We encourage those issuers who are capable of doing so to adopt ESG reporting based on international guidelines and standards.

¹ Other terms used include “sustainable investment” or “socially responsible investment”.

22. However, many Hong Kong issuers are not yet ready to fully comply with these standards. We propose to introduce the ESG Guide, which is drafted as a simple and easy-to-use guide. It complements international disclosure guidelines and is a first step towards Hong Kong issuers adopting best practices. We propose to periodically conduct surveys and evaluate the progress of issuers' ESG reporting after implementation of the ESG Guide.
23. To raise awareness and help equip issuers with tools for reporting, HKEx sponsored five free half-day seminars and 10 free full-day workshops on ESG reporting for issuers between May and July 2011 based on the draft ESG Guide. The seminars and workshops were conducted by external consultants specialising in ESG reporting.
24. 823 participants from 498 issuers attended the seminars and 518 participants from 348 issuers attended the workshops. The seminars and workshops were well received by participants.
25. To facilitate issuers to start reporting, we have uploaded the draft ESG Reporting Guide, seminar and workshop materials, frequently asked questions and answers, steps for ESG reporting and a reporting toolkit on the HKEx website at <http://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/esg/material.htm>. We will provide more training if there is demand for it.
26. We also plan to provide a list of web links resources, such as GRI, UNGC, OECD Guidelines for Multinational Enterprises, Carbon Disclosure Project, United Nations Principles for Responsible Investment, International Integrated Reporting Committee etc., on the HKEx website. This will serve as an information centre for issuers that would like to learn more and do more.
27. We will continue to collaborate with issuers to identify ways to improve ESG disclosure.

CHAPTER II: OVERVIEW

28. This chapter considers the concept of ESG and highlights key ESG issues. It also explores reasons for the growing importance of ESG reporting.

What is ESG reporting?

29. There are many names for reports that include ESG information. A company may call it “corporate social responsibility report”, “corporate responsibility report”, “corporate citizenship report” or “sustainability report”. There is no industry standard for these reports whose contents are generally similar. We use the term “ESG report”.
30. More companies are incorporating CSR into their management approach and business practices. There are various definitions of CSR. For example:
- (a) The World Business Council for Sustainable Development defines CSR as:

*“The continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large”*²

 - (b) The European Commission defines CSR as:

*“The responsibility of enterprises for their impacts on society”*³
31. In summary, a company is taken to be responsible for its impact on society and the environment. A company should operate in a sustainable⁴ manner and create long-term value for shareholders and other stakeholders by integrating sustainable practices into its operations.
32. As more companies incorporate CSR into their business practices, investors are increasingly identifying ways to integrate CSR issues into their investment strategies. The term ESG was first proposed by the UNGC in June 2004 as a way to focus investors and analysts on the importance of these issues.⁵

² World Business Council for Sustainable Development, <http://www.wbcsd.org/work-program/business-role/previous-work/corporate-social-responsibility.aspx>.

³ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions- A renewed EU strategy 2011-14 for Corporate Social Responsibility, http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr/new-csr/act_en.pdf (October 2011).

⁴ Sustainable development is defined in the Report of the Brundtland Commission, “Our Common Future” (World Commission on Environment and Development, “Our Common Future”, <http://www.worldinbalance.net/intagreements/1987-brundtland.php> (1987)), as development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

⁵ UNGC, “The UN Global Compact and Financial Markets”, http://www.unglobalcompact.org/issues/financial_markets/index.html (March 2010).

What are ESG issues?

33. There is no definitive list of ESG issues. International guidance commonly addresses issues such as corporate governance, environmental protection, labour practices, community involvement, consumer issues, anti-corruption, supply chain management, etc.
34. Findings suggest that ESG priorities shift over time. A UNGC survey in 2007 found that education was the top development concern of CEOs surveyed, while issues such as climate change and resource scarcity fell further down the list of critical issues.⁶ By contrast, the UNGC-Accenture CEO Study 2010⁷ (the “UNGC Study”) found that CEOs surveyed considered education and climate change the two most important issues for the future success of their businesses.
35. ESG issues also vary by industry. Specific industries focus on the issues most relevant to them. For example, consumer health may be of importance to pharmaceutical companies, while labour practices and environmental issues may be of concern to metals and mining companies.
36. Different regions may focus on different ESG issues. In Asia, for example, issues of particular concern include corruption and product safety.⁸ In Europe, human rights issues are becoming more prominent.⁹

Reasons for ESG reporting

37. More companies disclose ESG information in recent years. In 2011, 95% of the 250 largest companies worldwide issued ESG reports, up from about 50% in 2005.¹⁰ According to an online database of ESG reports, over 4,000 ESG reports were published in 2010¹¹, compared with 26 in 1992.
38. We set out some of the reasons for the growth of ESG performance and reporting below.

Raising standards

39. Governments increasingly recognise the importance of ESG performance and reporting. An overview of some of the requirements that address ESG issues in the UK, US, Mainland, Australia, Singapore and Hong Kong forms Appendix II.A. We highlight some recent developments below.

⁶ McKinsey&Company, “Shaping the New Rules of Competition: UN Global Compact Participant Mirror”, http://www.unglobalcompact.org/docs/news_events/8.1/McKinsey.pdf (July 2007).

⁷ UNGC and Accenture, “A New Era of Sustainability - United Nations Global Compact-Accenture CEO Study 2010”, http://www.unglobalcompact.org/docs/news_events/8.1/UNGC_Accenture_CEO_Study_2010.pdf (June 2010).

⁸ CSR Asia and LRQA, “CSR in Asia – The Real Picture”, http://www.lrqa.com.sg/Images/LR-CSR_2010_tcm109-197937.pdf (June 2010).

⁹ See footnote 3.

¹⁰ KPMG International, “KPMG International Survey of Corporate Responsibility Reporting 2011”, <http://www.kpmg.com/GR/en/IssuesAndInsights/ArticlesPublications/Sustainability/Documents/ss-KPMG-International-Survey-of-CR-Reporting-2011-Nov-2011-web.pdf> (November 2011).

¹¹ CorporateRegister.com, “CRRA Awards 2011-- Global Winners & Reporting Trends”, <http://www.corporateregister.com/a10723/36941-11th-8607253C8215604518E-GI.pdf> (March 2011)

40. In the UK, the Companies Act 2006 requires directors' reports to include information about environmental matters, employees, and social and community issues. In the US, the U.S. Securities and Exchange Commission released an interpretive guidance on 2 February 2010 that requires issuers to disclose climate change risks to investors.
41. In the Mainland, Article 5 of the Company Law states that a company must bear social responsibility. A series of "green regulations" have come into effect since 2008. For example, in February 2008, the China Securities Regulatory Commission issued a notice requiring companies involved in heavily polluting industries to undergo environmental assessments by the Ministry of Environmental Protection ("MEP") when applying for IPOs. In July 2010, the MEP released a circular requiring various environmental departments to conduct environmental reviews and ensure disclosure of environmental information by listed companies.
42. In Hong Kong, the Companies Bill gazetted in January 2011 proposes that the directors' report include a discussion of the company's environmental policies and performance, and an account of the company's key relationships with its employees, customers, suppliers and others that have a significant impact on the company.
43. Rule 18.05(6) of the Main Board Listing Rules that came into effect in June 2010 requires the listing documents for mineral companies to disclose social and environmental matters such as risks arising from environmental, social and health and safety issues.

Benefits to business

44. There are business-driven factors that promote ESG reporting. Some reported factors include:
 - (a) **Trust and reputation.** 72% of CEOs surveyed in the UNGC Study considered stronger brand, trust and reputation to be the principal factors motivating them to take action on sustainability issues.
 - (b) **Growth of responsible investment.** An indication of the growing importance of responsible investment is the widespread commitment to the United Nations Principles for Responsible Investment ("PRI").¹² 900 signatories in 47 countries managing assets of US\$30 trillion¹³ have committed to adopting and implementing the PRI.

¹³The PRI is an initiative that aims to help investors achieve better long-term investment returns by incorporating ESG analysis into their investment processes. See United Nations Global Compact and UNEP Finance Initiative, "Principles for Responsible Investment", <http://www.unpri.org/files/pri.pdf>.

¹³ Press release, "Commitment of investors to responsible investing continues to grow", <http://www.unpri.org/press/2011%20RoP%20press%20release.pdf> (7 September 2011).

- (c) **Employee motivation.** A study of the global workforce¹⁴ found that an organisation’s reputation for social responsibility is the third most important factor for employee engagement. Almost half of the companies surveyed in another study listed employee motivation as a reason for practicing corporate responsibility.¹⁵
- (d) **Risk management.** A survey¹⁶ found that a large majority of the participants that report on ESG considered “improving internal process” the primary reason to report. About a third of the companies surveyed in another survey¹⁷ considered risk management a driver for corporate responsibility.
- (e) **Management efficiency.** The reporting process may help a company assess its ESG performance and identify gaps for improvement. For example, good environmental management may save a company’s costs through increasing energy efficiency.

International efforts

- 45. Organisations such as the UNGC¹⁸ and the OECD¹⁹ bring together businesses from around the world to promote ESG practices. The European Commission published a renewed EU strategy for CSR in October 2011 that sets out ways to promote CSR. Standard setting organisations such as the International Organization for Standardization and GRI have contributed to the growth of ESG as well.
- 46. The International Integrated Reporting Committee (“IIRC”) was established on 2 August 2010 to oversee the development of a connected and integrated approach to corporate reporting. The IIRC has been created to respond to the need for a concise, clear, comprehensive and comparable integrated reporting framework integrating both material financial and non-financial information. The IIRC is developing a framework that gives high-level guidance on integrated reporting. It also launched the Integrated Reporting Pilot Programme that works towards integrated reporting. The Hong Kong Institute of Certified Public Accountants (“HKICPA”) formed the Sustainability and Integrated Reporting Advisory Group to begin work on this area.

NGOs, governmental and business associations’ initiatives

- 47. Non-governmental organisations (“NGOs”) and business associations’ initiatives also promote the development of ESG. A number of organisations have conducted surveys and/or given awards to rank companies according to their ESG performance and disclosure practices. These surveys and awards attract publicity and may motivate companies to reach international standards. NGOs and business associations may also lobby governments for legislative change.

¹⁴ Towers Perrin, “Closing the Engagement Gap: A Road Map for Driving Superior Business Performance. Global Workforce Study 2007 -2008”,

http://www.towersperrin.com/tp/getwebcachedoc?webc=HRS/USA/2008/200803/GWS_Global_Report20072008_31208.pdf (2008).

¹⁵ See footnote 10.

¹⁶ GRI, Futerra, KPMG and SustainAbility, “GRI Readers’ Choice Awards - The Readers’ and the Reporters’ Survey”, http://awards.globalreporting.org/RCA_Factsheet_2010.pdf (May 2010).

¹⁷ See footnote 10.

¹⁸ For more information, see <http://www.unglobalcompact.org>.

¹⁹ For more information, see http://www.oecd.org/pages/0,3417,en_36734052_36734103_1_1_1_1_1,00.html.

48. Business associations such as the Hong Kong General Chamber of Commerce promotes ESG by forming the Environmental and Sustainability Committee to study and advise the Chamber on issues relating to sustainability and its integration with the ESG developments in Hong Kong. The HKICPA's Sustainability and Integrated Reporting Advisory Group takes forward the integrated reporting concept.
49. There are numerous local non-governmental and governmental initiatives devoted to promoting ESG practices. In Hong Kong, for example, there is the Hong Kong CSR Charter established by Community Business, the Caring Company Scheme established by the Hong Kong Council of Social Service, the Corporate Citizenship Programme launched by the Hong Kong Productivity Council and the Carbon Reduction Charter by the Hong Kong Environmental Protection Department. Independent policy think tank such as Civic Exchange also promotes ESG by publishing research papers, engaging stakeholders and educating the public. The Association for Sustainable and Responsible Investment in Asia promotes corporate responsibility and sustainable investment practice in Asia.

CHAPTER III: CURRENT STATUS AND ROLE OF THE EXCHANGE

50. This Chapter examines the current ESG status of Hong Kong issuers. It outlines several approaches that other stock exchanges have taken and discusses the role of the Exchange in promoting ESG.

How are Hong Kong issuers performing?

51. Based on a study by Hong Kong's Environmental Protection Department in 2010, about 190 Main Board issuers disclose some level of environmental and/or sustainability information.²⁰
52. Several other organisations have conducted surveys or studies to assess Hong Kong issuers' ESG performance and/or level of disclosure. They have followed different processes in their surveys. Some sent surveys to all companies listed in Hong Kong while others focused only on the largest. A few surveys focused on specific areas such as business ethics and environmental reporting.
53. There is also an ESG benchmarking tool, Asian Sustainability Rating (ASR™), which ranks issuers in Asia, including those listed in Hong Kong. ASR™ 2011 covered the top 750 issuers by free float market capitalisation in 10 Asian markets. ASR™ 2011 indicates that Hong Kong issuers are ninth in the overall rankings.²¹
54. In summary, we note that among Hong Kong issuers, those with large market capitalisation demonstrate higher engagement with and greater transparency on ESG issues. However, most issuers are not actively engaging in ESG performance and reporting.

Approaches of other exchanges

55. We have reviewed the approaches taken by other stock exchanges. We summarise the approaches below. Please refer to Appendix II.B for more details.
56. Bursa Malaysia has made ESG disclosure mandatory for issuers. It has also issued guidance on ESG performance and disclosure.
57. The Mainland stock exchanges have issued guidelines that are within the broader government's green policy framework. According to the guidelines, issuers should fulfil social responsibilities, address interests of stakeholders and commit to promoting sustainable economic, social and environmental development. Companies listed in the Mainland are encouraged to publish CSR reports. The Shanghai Stock Exchange requires CSR reports for three types of companies: (a) model companies listed in the Shanghai Corporate Governance Sector (“上證公司治理板塊”樣本公司), (b) companies that have issued overseas listed shares, and (c) financial companies. The Taiwan Stock Exchange also issued a practical guide for listed companies (上市上櫃公司企業社會責任實務守則) and encourages issuers to observe it.

²⁰ Environmental Protection Department, “A Collection of Environmental Information from Listed Companies (Main Board) in Hong Kong (as of April 2011)”, http://www.epd.gov.hk/epd/english/how_help/tools_epr/collect_3_lc.html (May 2010).

²¹ 2011 Asian Sustainability Rating™.

58. The Australian Securities Exchange (“ASX”) adopts a “comply or explain” approach. The ASX Listing Rules state that a listed company must disclose in its annual report if it has followed the best practice recommendations in the Corporate Governance Principles and Recommendations (“Australian CG Code”) and if not, why not. Principle 7 of the Australian CG Code states that companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. The commentary to the principle states that risks include environmental, sustainability, ethical conduct, reputation or brand, human capital, etc.
59. The London Stock Exchange (“LSE”) and New York Stock Exchange (“NYSE”) encourage issuers to improve their ESG performance and reporting by providing them with tools to support their efforts. For example, the LSE provides an online mechanism for issuers to disclose non-financial information, while the NYSE offers issuers access to a web-based solution that enables them to benchmark their own ESG performance against other companies’.
60. Some exchanges have launched listing and trading platforms for ESG-related products. For example, BlueNext, in which NYSE has a 60% interest, was launched in 2007 as an exchange for carbon and other environment-related products. The ASX launched the Renewable Energy Certificate Futures and Options programme in November 2009.

Ways for the Exchange to address ESG issues

61. Under the Securities and Futures Ordinance, the role of the Exchange is to ensure an orderly, fair and informed market.²² So, there must be sufficient and relevant information disclosed by issuers for investors to make informed decisions. Our approach therefore focuses on issuers’ reporting obligations.
62. Currently, the Listing Rules recommend issuers to disclose in the management discussion and analysis section of their annual reports information regarding business risks, environmental policies, policies and performance related to community, social, ethical and reputation issues, key relationships with employees, customers, suppliers and others (paragraph 52 of Appendix 16 to Main Board Listing Rules and Rule 18.83 of GEM Listing Rules).
63. Rule 18.05(6) of the Main Board Listing Rules requires the listing documents relating to mineral companies to disclose social and environmental matters such as risks arising from environmental, social and health and safety issues.

Introducing the ESG Guide

64. We propose to introduce the ESG Guide to give more guidance as to what should be disclosed under each ESG subject area. The proposed ESG Guide does not address corporate governance issues, as these are dealt with separately in the Corporate Governance Code in Appendix 14 of the Main Board Listing Rules/Appendix 15 of the GEM Listing Rules. We set out the proposals and the consultation questions in Chapter IV.

²² Section 21, “Duties of recognized exchange company”, Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

65. We have sought the views and opinions of various interested parties on the draft ESG Guide and we thank them for their suggestions.
66. 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.

Increasing ESG awareness among issuers

67. Please see paragraphs 23 to 26 for our efforts in increasing ESG awareness among issuers.
68. There are various international standards and guidelines, such the UNGC, GRI, Key Performance Indicators for Environmental, Social and Governance Issues prepared by the Society of Investment Professionals in Germany, ISO 26000 Guidance on Social Responsibility, OECD Guidelines for Multinational Enterprises, etc. We encourage issuers to refer to them for more information.

Continuous monitoring and evaluation

69. After implementation of the ESG Guide, we will conduct periodic surveys to assess the extent to which issuers are reporting on ESG.

CHAPTER IV: PROPOSALS AND CONSULTATION QUESTIONS

70. This chapter sets out the objectives of the ESG Guide, the proposals and consultation questions.

Objectives of the proposed ESG Guide

71. The proposed ESG Guide serves as an introduction to ESG issues for Hong Kong issuers. The main objectives of the ESG Guide are to raise ESG awareness and to encourage issuers to start ESG reporting.
72. Issuers who are not reporting may need manpower and time to implement the necessary systems to report on some of the KPIs in the ESG Guide. We do not expect issuers to report on all KPIs immediately after implementation. We understand that an issuer will need to put systems in place to collect data so it may take up to three years before an issuer can meaningfully report on some KPIs.
73. Some issuers may be concerned about the costs and administrative burden of reporting. We do not expect issuers to report on all KPIs in the ESG Guide. Issuers could report on material and relevant KPIs. Issuers may consider reporting on at least one KPI from each of the four ESG areas as a start. The proposed recommended disclosure will not reduce an issuer's continuing obligation to disclose price sensitive information under the Listing Rules.

Proposals*Level of issuers' obligations*

74. Some organisations have asked the Exchange to require ESG disclosure by all Hong Kong issuers. We understand that many issuers may not consider ESG performance and reporting a priority. We believe that it is premature to make ESG reporting mandatory now.
75. There are comments that the ESG Guide should be a voluntary guide separate from the Listing Rules. However, issuers may easily ignore the ESG Guide and render it ineffective. So we do not recommend this approach.
76. We propose that the general disclosure and KPIs be recommended best practices and the ESG Guide appended to the Listing Rules. We may consider raising the level of obligation to "comply or explain", which is similar to the Corporate Governance Code, in the future.
77. We also propose that ESG information can be included in the annual report regarding the same period covered in the annual report, or in a separate report. Where the information is included in a separate report, it does not need to be issued at the same time or cover the same period as the annual report. An issuer is free to report on any period but should consistently report on the same period so that the information can be comparable.

Consultation questions

- Q1: Should the ESG Guide be a recommended best practice appended to the Listing Rules? If your answer is “No”, please give reasons and alternative views.
- Q2: Do you agree with the proposed Main Board Listing Rule 13.91 and paragraph 53 of Appendix 16/ GEM Listing Rules 17.103 and 18.84 in Appendix I? If your answer is “No”, please give reasons and alternative views.

Headline Categories

78. An issuer may upload its ESG Report or indicate that its annual report includes ESG information on the HKEx website through our Electronic Publication System. We will amend Schedule 4 in Appendix 24 of the Main Board Listing Rules/Appendix 17 of GEM Listing Rules to state “Headline Categories for Financial Statements/ESG Information” and add “ESG Information/Report” under the schedule.

Content of the proposed ESG Guide

79. The proposed ESG Guide is in Appendix I.

Introduction

80. The ESG Guide is not comprehensive. An issuer may disclose additional ESG issues and KPIs that are material and relevant to its business.
81. We recognise that some issuers have already adopted certain ESG international guidelines or standards, such as those of the GRI, UNGC, ISO 26000 Guidance on Social Responsibility, OECD Guidelines for Multinational Enterprises or Carbon Disclosure Project. Issuers may choose to adopt a higher standard than the ESG Guide.
82. An issuer may disclose the ESG information in its annual report regarding the same period covered in the annual report, or in a separate report covering a period that the issuer chooses to report on, in print or on its web-site.
83. It is important to involve the board of directors in preparing the ESG report. The board of directors is responsible for ESG reporting but it may delegate the task of compiling the ESG report to its employees or a committee that reports to the board.

Consultation question

- Q3: Do you agree with the Introduction section? If your answer is “No”, please give reasons and alternative views.

The proposed Introduction section states:

1. This guide sets out Environmental, Social and Governance (“ESG”) subject areas, aspects, general disclosure and key performance indicators (“KPIs”).

2. This guide is not comprehensive. We encourage an issuer to identify and disclose additional ESG issues and KPIs that are relevant to its business. It may also refer to existing international ESG reporting guidance for its relevant industry or sector.
3. An issuer may adopt a higher level of ESG reporting based on international guidance and standards.
4. An issuer may disclose the ESG information in its annual report regarding the same period covered in the annual report, or in a separate report, in print or on its website. Where the information is included in a separate report, an issuer is free to report on any period.
5. It is important to involve the board of directors in preparing the ESG report. The board of directors is responsible for ESG reporting but it may delegate the task of compiling the ESG report to its employees or a committee that reports to the board.

General Approach

84. The ESG Guide is not “one size fits all”. There are comments that some aspects are not relevant to certain sectors and we should provide sector specific reporting guides. Since the objective of the ESG Guide is to raise awareness and encourage reporting, we have instead included areas that we consider would be applicable to most companies.
85. We are mindful of the gap that exists between those issuers that are already sophisticated ESG reporters and those that may not have considered ESG issues. Some participants of the seminars and workshops raised the concern that it would be costly to implement the necessary systems and would need manpower to report on some of the KPIs. Some consider that the costs may outweigh the benefits of reporting.
86. Issuers do not need to report on all KPIs. Issuers could report on KPIs that are material and relevant to them.
87. Stakeholder engagement is fundamental in determining what to report. An ESG report could therefore disclose the stakeholders, the activities that an issuer has engaged with them and provide a feedback mechanism for them.

Consultation question

Q4: Do you agree with the guidance under the General Approach section? If your answer is “No”, please give reasons and alternative views.

The proposed General Approach section states:

Identify subject areas, aspects and indicators that are relevant

8. Not all ESG subject areas, aspects and KPIs in this Guide may be relevant to an issuer’s business. Also, some may be more important

to an issuer's business than others. For example, product responsibility, an ESG aspect, may be important to a retailer.

9. The ESG report could prioritise ESG subject areas, aspects and KPIs that are material in the context of its corporate strategy, which could be given prominence in the report.
10. It is unnecessary to report on all subject areas, aspects and KPIs. An issuer could identify and report on relevant ESG subject areas, aspects and KPIs that have material environmental and social impacts. Materiality can be addressed in strategic, operational and financial terms.

Engage stakeholders

11. It is important to engage stakeholders to identify material aspects and KPIs and understand their views. Stakeholders are parties that have interests in or are affected by the decisions and activities of an issuer. They may include shareholders (including independent shareholders), business partners, employees, suppliers, sub-contractors, consumers, regulators and the public.
12. The ESG report could disclose the issuer's stakeholders and the basis for their identification. It may also disclose the activities the issuer has arranged to engage stakeholders, the objectives and how it has responded to stakeholders' views. Stakeholder engagement may be conducted through meetings (e.g. personal or annual general meetings), conferences, workshops, advisory committees, round-table discussions, focus groups, questionnaires, web-based forums and written consultations.
13. The ESG report may also disclose a mechanism for stakeholders to provide feedback.

Reporting guidance

88. An issuer that begins ESG reporting may not include all entities that it has control of or has significant influence over. For transparency, the ESG report could disclose which entities have been included.
89. An issuer may consider certain ESG aspects and KPIs are irrelevant. We encourage an issuer to disclose the reasons for not disclosing certain aspects and KPIs to show that it has considered them.
90. It is important for an ESG report to outline an issuer's ESG strategies and how they relate to its business. In addition to opportunities, an issuer could enhance transparency on the potential risks of its business.

91. An issuer could also explain how the KPIs are calculated for readers to interpret them. To be meaningful, the issuer may present a time series of data for comparison over a period already reported.

Consultation question

Q5: Do you agree with the guidance under the Reporting Guidance section? If your answer is “No”, please give reasons and alternative views.

The proposed Reporting Guidance section states:

Scope of reporting

14. The ESG report could state which entities in the group and/or which operations have been included for the report. If there is change in the scope, the issuer could explain the difference and reason for change.

Approaches to reporting

15. Once an issuer starts reporting, it could continue to do so regularly. The aspects and KPIs reported could be consistent for each period or there could be an explanation of the changes. An issuer may also explain why some aspects and KPIs are not reported.
16. An ESG report could state the issuer’s ESG management approach, strategies, priorities, objectives and explain how they relate to its business. It could discuss the issuer’s management, measurement and monitoring system to implement its ESG strategies.
17. An ESG report could also discuss ESG opportunities, risks, challenges and how they are addressed. For example, a telecommunication company may see an opportunity to promote teleconferencing as an alternative to travel due to climate change concerns. An information and technology company may see the damage to its reputation from a breach in consumer privacy as an ESG risk.

Reporting on line items

18. The Guide does not provide a definition for each KPI. An issuer could explain how the KPIs are calculated and include information that is necessary for interpreting the KPIs. It may use the same definition and calculation method each period for comparison over time. If there is a change to the definition or calculation method, the issuer could explain the difference and reason for the change.
19. Over time, an issuer may present time series of data for comparison over a period already reported on. The time period used may be consistent for every report.
20. An issuer may report line items with objective and representative industry benchmarks.
21. Quantitative information could be presented in a table format.

Key ESG Subject Areas

92. We propose four key ESG subject areas: Workplace Quality, Environmental Protection, Operating Practices and Community Involvement. Corporate Governance is dealt with separately in Appendix 14 of the Main Board Listing Rules/Appendix 15 of the GEM Listing Rules.
93. There are comments that the ESG Guide should not refer to “Governance” as it does not cover corporate governance issues. However, the ESG Guide also covers compliance with regulations and standards of various ESG aspects, which are governance issues. So we propose the current title of the ESG Guide.

Consultation question

Q6: Do you agree with the proposed ESG areas, namely: Workplace Quality, Environmental Protection, Operating Practices and Community Involvement? If your answer is “No”, please give reasons and alternative views.

Aspects for each ESG Area

Consultation question

Q7: Do you agree with the following proposed aspects? If your answer is “No”, please give reasons and alternative views.

Areas and aspects
A. Workplace quality Aspect A1 Working Conditions Aspect A2 Health and safety Aspect A3 Development and training Aspect A4 Labour standards
B. Environmental protection Aspect B1 Emissions Aspect B2 Use of resources Aspect B3 The environment and natural resources
C. Operating practices Aspect C1 Supply chain management Aspect C2 Product responsibility Aspect C3 Anti-corruption
D. Community involvement Aspect D1 Community investment

Aspect A1 Working conditions

Consultation questions

Q8: Do you agree with the following general disclosure for Aspect A1: Working conditions? If your answer is “No”, please give reasons and alternative views.

Information on:

- (a) the policies; and
- (b) compliance and material non-compliance with relevant standards, rules and regulations

on compensation and dismissal, recruitment and promotion, working hours, rest periods, diversity and other benefits and welfare.

Q9: Do you agree to include KPI A1.1: “Total workforce by employment type, age group and geographical region”? If your answer is “No”, please give reasons and alternative views.

Q10: Do you agree to include KPI A1.2: “Employee turnover rate by age group and geographical region”? If your answer is “No”, please give reasons and alternative views.

Q11: Do you have any additional KPIs for Aspect A1? Please give reasons for your proposals.

Aspect A2 Health and safety

Consultation questions

Q12: Do you agree with the following general disclosure for Aspect A2: Health and safety? If your answer is “No”, please give reasons and alternative views.

Information on:

- (a) the policies; and
- (b) compliance and material non-compliance with relevant standards, rules and regulations

on providing a safe working environment and protecting employees from occupational hazards.

Q13: Do you agree to include KPI A2.1: “Fatality number and rate”? If your answer is “No”, please give reasons and alternative views.

Q14: Do you agree to include KPI A2.2: “Lost days due to work injury”? If your answer is “No”, please give reasons and alternative views.

Q15: Do you agree to include KPI A2.3: “Description of occupational health and safety measures adopted, how they are implemented and monitored”? If your answer is “No”, please give reasons and alternative views.

Q16: Do you have any additional KPIs for Aspect A2? Please give reasons for your proposals.

Aspect A3 Development and training

Consultation questions

Q17: Do you agree with the following general disclosure for Aspect A3: Development and training? If your answer is “No”, please give reasons and alternative views.

Policies on improving employees’ knowledge and skills for discharging duties at work.

Training refers to vocational training. It may include internal and external courses paid by the employer.

Q18: Do you agree to include KPI A3.1: “Description of training activities provided and if relevant, the percentage of employees trained by employee category (e.g. senior management, middle management, etc.)”? If your answer is “No”, please give reasons and alternative views.

Q19: Do you agree to include KPI A3.2: “The average training hours completed per employee by employee category”? If your answer is “No”, please give reasons and alternative views.

Q20: Do you have any additional KPIs for Aspect A3? Please give reasons for your proposals.

Aspect A4 Labour standards

Consultation questions

Q21: Do you agree with the following general disclosure for Aspect A4: Labour standards? If your answer is “No”, please give reasons and alternative views.

Information on:

- (a) the policies; and
- (b) compliance and material non-compliance with relevant standards, rules and regulations

on preventing child or forced labour.

Q22: Do you agree to include KPI A4.1: “Description of measures to review employment practices to avoid child and forced labour”? If your answer is “No”, please give reasons and alternative views.

Q23: Do you agree to include KPI A4.2: “Description of steps taken to eliminate such practices when discovered”? If your answer is “No”, please give reasons and alternative views.

Q24: Do you have any additional KPIs for Aspect A4? Please give reasons for your proposals.

Aspect B1 Emissions

Consultation questions

Q25: Do you agree with the following general disclosure for Aspect B1: Emissions? If your answer is “No”, please give reasons and alternative views.

Information on:

- (a) the policies; and
- (b) compliance and material non-compliance with relevant standards, rules and regulations

on air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.

Air emissions include NO_x, SO_x, and other pollutants regulated under national laws and regulations.

Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

Hazardous wastes are those defined by national regulations.

Q26: Do you agree to include KPI B1.1: “The types of emissions and respective emissions data”? If your answer is “No”, please give reasons and alternative views.

Q27: Do you agree to include KPI B1.2: “Greenhouse gas emissions in total (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility)? If your answer is “No”, please give reasons and alternative views.

Q28: Do you agree to include KPI B1.3: “Total hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility)?” If your answer is “No”, please give reasons and alternative views.

Q29: Do you agree to include KPI B1.4: “Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility)?” If your answer is “No”, please give reasons and alternative views.

Q30: Do you agree to include KPI B1.5: “Description of measures to mitigate emissions and results achieved”? If your answer is “No”, please give reasons and alternative views.

Q31: Do you agree to include KPI B1.6: “Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved”? If your answer is “No”, please give reasons and alternative views.

Q32: Do you have any additional KPIs for Aspect B1? Please give reasons for your proposals.

Aspect B2 Use of resources

Consultation questions

Q33: Do you agree with the following general disclosure for Aspect B2: Use of resources? If your answer is “No”, please give reasons and alternative views.

Policies on efficient use of resources including energy, water and other raw materials.

Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.

Q34: Do you agree to include KPI B2.1: “Energy consumption by type (e.g. electricity, gas or oil) in total (kwh in ‘000s) and intensity (e.g. per unit of production volume, per facility)?” If your answer is “No”, please give reasons and alternative views.

Q35: Do you agree to include KPI B2.2: “Water consumption in total and intensity (e.g. per unit of production volume, per facility)?” If your answer is “No”, please give reasons and alternative views.

Q36: Do you agree to include KPI B2.3: “Description of energy use efficiency initiatives and results achieved”? If your answer is “No”, please give reasons and alternative views.

Q37: Do you agree to include KPI B2.4: “Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved”? If your answer is “No”, please give reasons and alternative views.

Q38: Do you agree to include KPI B2.5: “Total packaging material used (in tonnes), and if applicable, with reference to per unit produced”? If your answer is “No”, please give reasons and alternative views.

Q39: Do you have any additional KPIs for Aspect B2? Please give reasons for your proposals.

Aspect B3 The environment and natural resources

Consultation questions

Q40: Do you agree with the following general disclosure for Aspect B3: The environment and natural resources? If your answer is “No”, please give reasons and alternative views.

Policies on minimizing the operation’s significant impact on the environment and natural resources.

Q41: Do you agree to include KPI B3.1: “Total paper used”? If your answer is “No”, please give reasons and alternative views.

Q42: Do you agree to include KPI B3.2: “Paper use efficiency initiatives and results achieved”? If your answer is “No”, please give reasons and alternative views.

Q43: Do you agree to include KPI B3.3: “Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them”? If your answer is “No”, please give reasons and alternative views.

Q44: Do you have any additional KPIs for Aspect B3? Please give reasons for your proposals.

Aspect C1 Supply chain management

Consultation questions

Q45: Do you agree with the following general disclosure for Aspect C1: Supply chain management? If your answer is “No”, please give reasons and alternative views.

Policies on risk management of supply chain.

Q46: Do you agree to include KPI C1.1: “Number of suppliers by geographical region”? If your answer is “No”, please give reasons and alternative views.

Q47: Do you agree to include KPI C1.2: “Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored”? If your answer is “No”, please give reasons and alternative views.

Q48: Do you have any additional KPIs for Aspect C1? Please give reasons for your proposals.

Aspect C2 Product responsibility

Consultation questions

Q49: Do you agree with the following general disclosure for Aspect C2: Product responsibility? If your answer is “No”, please give reasons and alternative views.

Information on:

- (a) the policies; and
- (b) compliance and material non-compliance with relevant standards, rules and regulations

on health and safety, advertising, labelling, privacy and methods of redress.

Q50: Do you agree to include KPI C2.1: “Percentage of total products sold or shipped subject to recalls for safety and health reasons”? If your answer is “No”, please give reasons and alternative views.

Q51: Do you agree to include KPI C2.2: “Number of products and service related complaints received and how they are dealt with”? If your answer is “No”, please give reasons and alternative views.

Q52: Do you agree to include KPI C2.3: “Description of practices relating to observing and protecting intellectual property rights”? If your answer is “No”, please give reasons and alternative views.

Q53: Do you agree to include KPI C2.4: “Description of quality assurance process and recall procedures”? If your answer is “No”, please give reasons and alternative views.

Q54: Do you agree to include KPI C2.5: “Description of consumer data protection and privacy policies, how they are implemented and monitored”? If your answer is “No”, please give reasons and alternative views.

Q55: Do you have additional KPIs for Aspect C2? Please give reasons for your proposals.

Aspect C3 Anti-corruption

Consultation questions

Q56: Do you agree with the following general disclosure for Aspect C3: Anti-corruption? If your answer is “No”, please give reasons and alternative views.

Information on:

- (a) the policies; and
- (b) compliance and material non-compliance with relevant standards, rules and regulations

on bribery, extortion, fraud and money laundering.

Q57: Do you agree to include KPI C3.1: “Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases”? If your answer is “No”, please give reasons and alternative views.

Q58: Do you agree to include KPI C3.2: “Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored”? If your answer is “No”, please give reasons and alternative views.

Q59: Do you have any additional KPIs for Aspect C3? Please give reasons for your proposals.

Aspect D1 Community investment

Consultation questions

Q60: Do you agree with the following general disclosure for Aspect D1: Community investment? If your answer is “No”, please give reasons and alternative views.

Policies on understanding the community’s needs in where it operates and ensuring its activities takes into consideration of communities’ interests.

Q61: Do you agree to include KPI D1.1: “Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)”? If your answer is “No”, please give reasons and alternative views.

Q62: Do you agree to include KPI D1.2: “Resources contributed (e.g. money or time) to the focus area”? If your answer is “No”, please give reasons and alternative views.

Q63: Do you have any additional KPIs for Aspect D1? Please give reasons for your proposals.

Assurance

94. External assurance can enhance the credibility of an ESG report by assessing whether it provides a reasonable and balanced view of performance. Assurance also serves to evaluate the quality of the information the ESG report presents. The advantage of assurance is that companies may be able to compare their own data over time. It also allows for comparisons of companies in the same industry. There are different approaches to assurance. While some companies use professional providers, others opt for commentary from stakeholders or expert panels. Regardless of the approach, assurance should be performed by external parties who are competent and knowledgeable about ESG issues and practices.
95. None of the exchanges we have reviewed that either encourage or require ESG reporting, i.e. Shenzhen, Shanghai, Bursa Malaysia and Taiwan, require external assurance. GRI recommends that companies arrange for external assurance to be performed on their ESG reports. Companies that adopt the GRI Guidelines are also encouraged to disclose information about their approach to external assurance.²³
96. Requiring external assurance may impose additional costs on issuers. Therefore we do not propose to recommend that issuers seek external assurance.

Consultation question

Q64: Do you agree that we should not recommend that issuers to seek external assurance for issuers that report on ESG performance? If your answer is “No”, please give reasons and alternative views.

²³ GRI, “Sustainability Reporting Guidelines”, <http://www.globalreporting.org/NR/rdonlyres/53984807-9E9B-4B9F-B5E8-77667F35CC83/0/G31GuidelinesinclTechnicalProtocolFinal.pdf>.

Main Board Listing Rules

Chapter 13

EQUITY SECURITIES

CONTINUING OBLIGATIONS

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Environmental and Social Matters

13.91 Issuers are encouraged to include information set out in Appendix 27 in the annual report regarding the same period covered in the annual report, or as a separate report.

Note: Where the information is included in a separate report, it does not need to be issued at the same time or cover the same period as the annual report. An issuer is free to report on any period but should consistently report on the same period so that the information can be comparable.

Appendix 16

DISCLOSURE OF FINANCIAL INFORMATION

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Information in annual reports

Recommended additional disclosure

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53. Issuers are encouraged to include information set out in Appendix 27 in the annual report regarding the same period covered in the annual report, or as a separate report.

Note: Where the information is included in a separate report, it does not need to be issued at the same time or cover the same period as the annual report. An issuer is free to report on any period but should consistently report on the same period so that the information can be comparable.

Appendix 24

Headline Categories

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Schedule 4

Headline Categories for Financial Statements/ESG Information

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Environmental, Social and Governance Information/Report

Appendix 27

Environmental, Social and Governance Reporting Guide

Introduction

1. This guide sets out Environmental, Social and Governance (“ESG”) subject areas, aspects, general disclosure and key performance indicators (“KPIs”).
2. This guide is not comprehensive. We encourage an issuer to identify and disclose additional ESG issues and KPIs that are relevant to its business. It may also refer to existing international ESG reporting guidance for its relevant industry or sector.
3. An issuer may adopt a higher level of ESG reporting based on international guidance and standards.
4. An issuer may disclose the ESG information in its annual report regarding the same period covered in the annual report, or in a separate report, in print or on its website. Where the information is included in a separate report, an issuer is free to report on any period.
5. It is important to involve the board of directors in preparing the ESG report. The board of directors is responsible for ESG reporting but it may delegate the task of compiling the ESG report to its employees or a committee that reports to the board.

How this guide is organised

6. There are four ESG subject areas: Workplace Quality, Environmental Protection, Operating Practices and Community Involvement. Corporate Governance is not included as it is dealt with separately in Appendix 14 of the Main Board Listing Rules.
7. Each subject area has various aspects. For each relevant aspect, an issuer could report on the general disclosure and KPIs that indicate its performance.

General Approach

Identify subject areas, aspects and indicators that are relevant

8. Not all ESG subject areas, aspects and KPIs in this Guide may be relevant to an issuer's business. Also, some may be more important to an issuer's business than others. For example, product responsibility, an ESG aspect, may be important to a retailer.
9. The ESG report could prioritise ESG subject areas, aspects and KPIs that are material in the context of its corporate strategy, which could be given prominence in the report.
10. It is unnecessary to report on all subject areas, aspects and KPIs. An issuer could identify and report on relevant ESG subject areas, aspects and KPIs that have material environmental and social impacts. Materiality can be addressed in strategic, operational and financial terms.

Engage stakeholders

11. It is important to engage stakeholders to identify material aspects and KPIs and understand their views. Stakeholders are parties that have interests in or are affected by the decisions and activities of an issuer. They may include shareholders (including independent shareholders), business partners, employees, suppliers, sub-contractors, consumers, regulators and the public.
12. The ESG report could disclose the issuer's stakeholders and the basis for their identification. It may also disclose the activities the issuer has arranged to engage stakeholders, the objectives and how it has responded to stakeholders' views. Stakeholder engagement may be conducted through meetings (e.g. personal or annual general meetings), conferences, workshops, advisory committees, round-table discussions, focus groups, questionnaires, web-based forums and written consultations.
13. The ESG report may also disclose a mechanism for stakeholders to provide feedback.

Reporting guidance

Scope of reporting

14. The ESG report could state which entities in the group and/or which operations have been included for the report. If there is change in the scope, the issuer could explain the difference and reason for change.

Approaches to reporting

15. Once an issuer starts reporting, it could continue to do so regularly. The aspects and KPIs reported could be consistent for each period or there could be an explanation of the changes. An issuer may also explain why some aspects and KPIs are not reported.
16. An ESG report could state the issuer's ESG management approach, strategies, priorities, objectives and explain how they relate to its business. It could discuss the issuer's management, measurement and monitoring system to implement its ESG strategies.

17. An ESG report could also discuss ESG opportunities, risks, challenges and how they are addressed. For example, a telecommunication company may see an opportunity to promote teleconferencing as an alternative to travel due to climate change concerns. An information and technology company may see the damage to its reputation from a breach in consumer privacy as an ESG risk.

Reporting on line items

18. The Guide does not provide a definition for each KPI. An issuer could explain how the KPIs are calculated and include information that is necessary for interpreting the KPIs. It may use the same definition and calculation method each period for comparison over time. If there is a change to the definition or calculation method, the issuer could explain the difference and reason for the change.
19. Over time, an issuer may present time series of data for comparison over a period already reported on. The time period used may be consistent for every report.
20. An issuer may report line items with objective and representative industry benchmarks.
21. Quantitative information could be presented in a table format.

Subject areas, aspects, general disclosure and KPIs

A. *Workplace quality*

Aspect A1	Working conditions
General disclosure	Information on: <ol style="list-style-type: none"> (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations <p>on compensation and dismissal, recruitment and promotion, working hours, rest periods, diversity and other benefits and welfare.</p>
KPI A1.1	Total workforce by employment type, age group and geographical region.
KPI A1.2	Employee turnover rate by age group and geographical region.
Aspect A2	Health and safety
General disclosure	Information on: <ol style="list-style-type: none"> (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations

on providing a safe working environment and protecting employees from occupational hazards.

- KPI A2.1 Fatality number and rate.
- KPI A2.2 Lost days due to work injury.
- KPI A2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored.

Aspect A3 Development and training

General disclosure Policies on improving employees’ knowledge and skills for discharging duties at work. Training refers to vocational training. It may include internal and external courses paid by the employer.

- KPI A3.1 Description of training activities provided and if relevant, the percentage of employees trained by employee category (e.g. senior management, middle management, etc.).
- KPI A3.2 The average training hours completed per employee by employee category.

Aspect A4 Labour standards

General disclosure Information on:
 (a) the policies; and
 (b) compliance and material non-compliance with relevant standards, rules and regulations
 on preventing child or forced labour.

- KPI A4.1 Description of measures to review employment practices to avoid child and forced labour.
- KPI A4.2 Description of steps taken to eliminate such practices when discovered.

B. Environmental protection

Aspect B1 Emissions

General disclosure Information on:
 (a) the policies; and
 (b) compliance and material non-compliance with relevant standards, rules and regulations

on air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.

Air emissions include NO_x, SO_x, and other pollutants regulated under national laws and regulations.

Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

Hazardous wastes are those defined by national regulations.

KPI B1.1	The types of emissions and respective emissions data.
KPI B1.2	Greenhouse gas emissions in total (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).
KPI B1.3	Total hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).
KPI B1.4	Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).
KPI B1.5	Description of measures to mitigate emissions and results achieved.
KPI B1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.

Aspect B2	Use of resources
General disclosure	<p>Policies on efficient use of resources including energy, water and other raw materials.</p> <p>Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.</p>
KPI B2.1	Energy consumption by type (e.g. electricity, gas or oil) in total (kwh in '000s) and intensity (e.g. per unit of production volume, per facility).
KPI B2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).
KPI B2.3	Description of energy use efficiency initiatives and results achieved.
KPI B2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.

KPI B2.5 Total packaging material used (in tonnes), and if applicable, with reference to per unit produced.

Aspect B3 The environment and natural resources

General disclosure Policies on minimizing the operation’s significant impact on the environment and natural resources.

KPI B3.1 Total paper used.

KPI B3.2 Paper use efficiency initiatives and results achieved.

KPI B3.3 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.

C. *Operating practices*

Aspect C1 Supply chain management

General disclosure Policies on risk management of supply chain.

KPI C1.1 Number of suppliers by geographical region.

KPI C1.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.

Aspect C2 Product responsibility

General disclosure Information on:
 (a) the policies; and
 (b) compliance and material non-compliance with relevant standards, rules and regulations
 on health and safety, advertising, labelling, privacy and methods of redress.

KPI C2.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons.

KPI C2.2 Number of products and service related complaints received and how they are dealt with.

KPI C2.3 Description of practices relating to observing and protecting intellectual property rights.

KPI C2.4	Description of quality assurance process and recall procedures.
KPI C2.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.

Aspect C3	Anti-corruption
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General disclosure	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on bribery, extortion, fraud and money laundering.
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KPI C3.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.
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KPI C3.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.
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D. Community involvement

Aspect D1	Community investment
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General disclosure	Policies on understanding the community's needs in where it operates and ensuring its activities takes into consideration of communities' interests.
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KPI D1.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).
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KPI D1.2	Resources contributed (e.g. money or time) to the focus area.
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Chapter 17

EQUITY SECURITIES

CONTINUING OBLIGATIONS

17.103 Issuers are encouraged to include information set out in Appendix 20 in the annual report regarding the same period covered in the annual report, or as a separate report.

Note: Where the information is included in a separate report, it does not need to be issued at the same time or cover the same period as the annual report. An issuer is free to report on any period but should consistently report on the same period so that the information can be comparable.

Chapter 18

EQUITY SECURITIES

FINANCIAL INFORMATION

Recommended additional disclosure

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18.84 Issuers are encouraged to include information set out in Appendix 20 in the annual report regarding the same period covered in the annual report, or as a separate report.

Note: Where the information is included in a separate report, it does not need to be issued at the same time or cover the same period as the annual report. An issuer is free to report on any period but should consistently report on the same period so that the information can be comparable.

Appendix 17

Headline Categories

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Schedule 4

Headline Categories for Financial Statements/ESG Information

...

Environmental, Social and Governance Information/Report

Appendix 20

Drafter's note: please refer to the proposed Appendix 27 of the Main Board Listing Rules for content.

APPENDIX II.A: COMPARISON OF ESG REGULATIONS

	UK	US	Australia	Mainland China	Singapore	Hong Kong
Legislative efforts	<ul style="list-style-type: none"> • <u>Companies Act 2006</u> - A company incorporated in the UK, listed in the UK, EU or admitted to dealing on NYSE or Nasdaq must provide in its directors' report information about environmental matters, employees, social and community issues (s. 417(5)) - The purpose of the business review is to inform shareholders and help them assess how the directors have performed under section 172 (which requires the directors to consider factors such as employees' interests, relationships with suppliers and customers, operations impact on community and the environment) (s. 417(2)) • <u>The Occupational Pension Schemes (Investment)</u> 	<ul style="list-style-type: none"> • <u>SEC Regulation S-K</u> - Issuers must disclose material impact of environmental laws on capital expenditure, cost and effects of compliance with environmental laws (Item 101), and information on environmental litigation (Item 103) - The requirement to disclose known trends and uncertainties can be interpreted as a requirement for environmental disclosure* (Item 303(3)(ii)) • <u>Sarbanes-Oxley Act of 2002</u> - Issuers must disclose whether or not, and if not, the reason, it has adopted a code of ethics for senior financial officers, applicable to its principal financial officer and comptroller or principal accounting officer (§ 406) <p>* In September 2007, New York Attorney General Andrew Cuomo subpoenaed</p>	<ul style="list-style-type: none"> • <u>Corporations Act 2001</u> - Issuers of investment products are required to include in a product disclosure statement if labor standards or environmental, social or ethical considerations are taken into account in the selection, retention or realisation of the investment (s. 1013D) - If an entity's operations are subject to any particular and significant environmental regulation, it must give details of the entity's performance in relation to the environmental regulation in the annual directors' report (s. 299) - Directors' report of a listed company must contain information 	<ul style="list-style-type: none"> • Article 5 of the Companies Law states that companies must bear social responsibility • A series of "Green Regulations" came into force in 2008. For example, the "Green Securities" policy (February 2008) regulates China's capital markets. The "Green Securities" policy was launched by the Ministry of Environmental Protection ("MEP") with the CSRC. The policy requires companies listed on the stock exchange to disclose more information about their environmental records • In January 2008, the State-owned Assets Supervision and Administration Commission ("SASAC") of the State Council issued CSR guidelines for state owned and managed enterprises (关于中央企业履行社会责任的指导意见). SASAC also requires all state owned enterprises to 	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • <u>CO Rewrite</u> - In the Consultation Paper on Accounting and Auditing (March 2007), the working group proposed that as part of the directors' report, the business review should include more analytical and forward-looking information. The information, among other things, should include information relating to environmental and employee matters - A slight majority of the respondents to this consultation question supported the principle. Those who objected argued that the costs may outweigh the benefits to be gained from the disclosure - The second phase of the CO Rewrite Draft

	UK	US	Australia	Mainland China	Singapore	Hong Kong
	<p><u>Regulations 2005</u></p> <ul style="list-style-type: none"> - The trustees of a trust scheme must prepare a statement of investment principles that covers their policies in relation to the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments (s.2(3)(b)) • <u>Climate Change Act 2008</u> - It is the duty of the Secretary of State to ensure that the net UK carbon account for the year 2050 is at least 80% lower than the 1990 baseline (s. 1 of Part 1) <p>Note: The Corporate Responsibility Coalition issued “The Companies Act 2006: Directors’ Duties Guidance” (October 2007), which assists directors in understanding their duty to promote success of a company under the Companies Act 2006</p>	<p>five power companies under NY’s Blue Sky Law to investigate whether they had adequately disclosed risks from climate change in SEC filings. In August 08 and October 08, Cuomo announced a settlement with Xcel Energy Inc. and Dynergy Inc., respectively; in November 09 he announced a settlement with AES Corporation. The settlements broadly require companies to disclose climate change risks in 10-K filings</p> <ul style="list-style-type: none"> • On 2 February 2010, the SEC issued an interpretive guidance on climate change disclosure that requires issuers to disclose information regarding business risks and opportunities related to climate change 	<p>that shareholders would reasonably require to make an informed assessment of the company’s operations, financial position, business strategies and future prospects (s. 299A) (Note: The Corporations and Markets Advisory Committee concludes in the Social Responsibility of Corporations Report published in December 2006 that s. 299A is an appropriate platform for further development of CSR reporting)</p>	<p>issue social responsibility reports by 2012.</p> <ul style="list-style-type: none"> • In February 2008, CSRC issued a Notice on IPO Application of Heavy Pollution Industries (关于重污染行业生产经营公司IPO 申请报文件的通知), which requires production and trading companies involved in heavy pollution industries to provide environmental review opinions by the MEP in their IPO application documents. • In July 2010, the MEP released a circular requiring environmental departments to conduct environmental review and disclosure of environmental reports by issuers (关于进一步严格上市环保核查管理制度加强上市公司环保核查督查工作的通知) 		<p>Consultation Bill proposes that the directors’ report should include, among other things, a discussion of the company’s environmental policies and performance and compliance with regulations that have a significant impact on the company</p>

APPENDIX II.B: COMPARISON OF STOCK EXCHANGES' INITIATIVES

	UK	US	Australia	Mainland China	Others	Hong Kong
Stock Exchange initiatives	<ul style="list-style-type: none"> • The LSE launched the Corporate Responsibility Exchange in October 2004, which was transferred to ICSA Software, the software company of the Institute of Chartered Secretaries and Administrators, in 2006 - It is an online tool for companies to disclose non-financial company information, such as environmental and social performance • The LSE published "Corporate 	<ul style="list-style-type: none"> • NYSE Euronext (in partnership with ASSET4) offers issuers access to a database of objective and transparent environmental, social and corporate governance information that helps companies benchmark their extra-financial policies and practices (May 2009) - The database enables NYSE issuers to analyse a set of parameters that include their level of carbon risk, board independence and employee satisfaction • NYSE Listed Company Manual - Issuers must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers 	<ul style="list-style-type: none"> • ASX Listing Rules - A listed company is required to review its operations and activities during the financial period (Rule 4.10.17). The Note to the Rule states that ASX supports the Group of 100 Incorporated publication, "Guide to the Review of Operations and Financial Conditions", which makes references to sustainability reporting, including social and environmental performance (pg. 12 of the Guide) • A listed company must include in its annual report a statement as to whether it has followed the best practice recommendations of the ASX Corporate Governance Council, and if not, why not (Rule 4.10.3) • The Revised Corporate Governance Principles and Recommendations (published by the ASX Corporate Governance Council in August 2007, with amendments in 2010) provides that: 	<ul style="list-style-type: none"> • The Shanghai Stock Exchange ("SSE") issued a "Notice on Strengthening Listed Companies' Assumption of Social Responsibility" and the "Guidelines on Listed Companies' Environmental Information Disclosure" (关于加强上市公司社会责任承担工作暨发布《上海证券交易所上市公司环境信息披露指引》的通知) (May 2008) - The Notice urges issuers to enhance awareness of social responsibility and to develop CSR strategies according to the characteristics of their operations and industries. The strategy should at least include protection of employees, reasonable use of resources, environmental protection, community investment, and information about implementation and monitoring of CSR strategies. - The Notice encourages companies to disclose social responsibility measures and performance. Disclosure should include efforts in social, 	<ul style="list-style-type: none"> • The Singapore Stock Exchange published a Policy Statement on Sustainability Reporting and Guide to Sustainability Reporting for Listed Companies to encourage sustainability reporting. • On 5 September 2006, Bursa Malaysia launched a CSR Framework as a guide for CSR implementation and reporting. The Framework looks at four main focal points of CSR practice: the environment, the workplace, the community and the 	<ul style="list-style-type: none"> • Listing Rules - Issuers are encouraged to disclose in the management discussion and analysis section of their interim/annual reports information related to business risks, environmental policies, community, social, ethical and reputational issues, key relationships with employees, customers, suppliers and others (paragraph 52 of Appendix 16) - Rule 18.05(6) of the Main Board Listing Rules requires a listing document

	<p>Governance – A Practical Guide” in 2004</p> <ul style="list-style-type: none"> - It includes a chapter on “Taking Social Responsibility On Board” which provides guidance to directors on how to approach and monitor social and environmental performance (pg. 56- 61) 	<p>(303A.10 Code of Business Conduct and Ethics)</p> <ul style="list-style-type: none"> • NYSE Euronext CEO Report 2011 (September 2011) - The Report revealed that while more than half of MBA students think CSR initiatives will be a mandate for business of the future, CEOs are not so sure although almost one-half of listed CEOs say CSR is a mandate • NYSE Euronext launched BlueNext in December 2007. It is a leading spot market in carbon credits. BlueNext’s current products include both spot and futures market for Certified Emission Reduction (CER) credits under the Kyoto Protocol’s Clean Development Mechanism and European Union Allowances (EUAs) under the European Emissions Trading Scheme (ETS) • NYSE Euronext launched the Low Carbon 100 	<ul style="list-style-type: none"> - Companies should promote ethical and responsible decision-making. Suggested disclosure includes policy regarding diversity, the proportion of women employees in the whole organization, women in senior executive positions and women on the board (Principle 3) - Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. The commentary adds that risks include environmental, sustainability, ethical conduct, reputation or brand, human capital, etc. (Recommendation 7.1) • ASX Analysis of Corporate Governance Disclosures in Annual Reports for year ended June 2010 revealed that 94% of the issuers reported on Recommendation 7.1. • ASX launched the Renewable Energy Certificate (REC) Futures and Options in November 2009. The REC Futures support the Australian government’s Large-Scale Renewable 	<p>environmental and economic sustainability developments</p> <ul style="list-style-type: none"> - The Guidelines provide for the disclosure of specific environmental information • The SSE also developed the concept of social contribution value per share (SCVPS). SCVPS is calculated by adding tax revenues paid, salaries paid, loan interest paid and donations, minus social costs that arise from environmental pollution and other negative factors. Companies may choose to disclose their SCVPS calculation in their annual CSR Reports • The SSE requires CSR reports for three types of companies: (a) model companies listed in the Shanghai Corporate Governance Sector (“上证公司治理板块”样本公司), (b) companies that have issued overseas listed shares, and (c) financial companies • The Shenzhen Stock Exchange (“SZSE”) issued the “Social Responsibility Instructions for Listed Companies” (深圳证券交易所上市公司社会责任指引) in 2006 - The Instructions encourage companies to assume social responsibility in the following 	<p>marketplace.</p> <p>As of 31 December 2007, all public companies listed on Bursa Malaysia are required to disclose their CSR activities and/or practices (and those of their subsidiaries), and if there are none, a statement to that effect (Listing Requirements Appendix 9c, Part A (29))</p> <ul style="list-style-type: none"> • In February 2010, the Taiwan Stock Exchange and GreTai Securities Market released CSR Guidelines 上市上櫃公司企業社會責任實務守則 for issuers and encourage them to 	<p>relating to the listing of mineral companies to disclose social and environmental matters including risks arising from environmental, social and health and safety issues</p>
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		<p>Europe Index in 2008 which is designed to measure the performance of the 100 largest European blue chip companies with the lowest CO2 emissions in their respective sectors and sub-sectors</p> <ul style="list-style-type: none"> • NYSE created NYSE BlueSM in 2011, a company with an exclusive focus on environmental and sustainable energy markets 	<p>Energy Target scheme, which is designed to ensure that 20% of Australia's electricity comes from renewable sources by 2020</p> <ul style="list-style-type: none"> • ASX has announced its intention to support and service the Carbon Scheme (the Australian Government proposed an Emissions Trading Scheme starting 1 July 2012) at the earliest opportunity through the provision of its existing trading, clearing, and settlement infrastructure 	<p>areas: interests of shareholders and creditors, protection of interests of employees, suppliers, customers and consumers, environmental protection and sustainable development, public relations and community involvement</p> <ul style="list-style-type: none"> - Issuers are encouraged to establish a CSR system, regularly evaluate the system, and publish a CSR report together with their annual report. The report must include, but not limited to: (i) implementation of social responsibility relating to employee protection, impact on environment, product quality and community relationship; (ii) assessment of implementation of the Instructions; and (iii) measures for improvements and timetable - In June 2011, the SSE and the International Finance Corporation published the "Sustainability Reporting Guidelines- Mapping & Gap Analyses for Shanghai Stock Exchange" 	observe it.	
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APPENDIX III: PERSONAL INFORMATION COLLECTION AND PRIVACY POLICY STATEMENT

Provision of Personal Data

1. Your supply of Personal Data to HKEx is on a voluntary basis. “Personal Data” in these statements has the same meaning as “personal data” in the Personal Data (Privacy) Ordinance, Cap 486, which may include your name, identity card number, mailing address, telephone number, email address, login name and/or your opinion.

Personal Information Collection Statement

2. This Personal Information Collection Statement is made in accordance with the guidelines issued by the Privacy Commissioner for Personal Data. It sets out the purposes for which your Personal Data will be used after collection, what you are agreeing to in respect of HKEx’s use, transfer and retention of your Personal Data, and your rights to request access to and correction of your Personal Data.

Purpose of Collection

3. HKEx may use your Personal Data provided in connection with this consultation paper for purposes relating to this consultation and for one or more of the following purposes:
 - administration, processing and publication of the consultation paper and any responses received;
 - performing or discharging HKEx’s functions and those of its subsidiaries under the relevant laws, rules and regulations;
 - research and statistical analysis; and
 - any other purposes permitted or required by law or regulation.

Transfer of Personal Data

4. Your Personal Data may be disclosed or transferred by HKEx to its subsidiaries and/or regulator(s) for any of the above stated purposes.
5. To ensure that the consultation is conducted in a fair, open and transparent manner, any response together with your name may be published on an “as is” basis, in whole or in part, in document form, on the HKEx website or by other means. In general, HKEx will publish your name only and will not publish your other Personal Data unless specifically required to do so under any applicable law or regulation. If you do not wish your name to be published or your opinion to be published, please state so when responding to this paper.

Access to and Correction of Data

6. You have the right to request access to and/or correction of your Personal Data in accordance with the provisions of the Personal Data (Privacy) Ordinance. HKEx has the right to charge a reasonable fee for processing any data access request. Any such request for access to and/or correction of your Personal Data should be addressed to the Personal Data Privacy Officer of HKEx in writing by either of the following means:

By mail to: Personal Data Privacy Officer
 Hong Kong Exchanges and Clearing Limited
 12th Floor, One International Finance Centre
 1 Harbour View Street
 Central
 Hong Kong

Re: Consultation Paper on ESG Reporting Guide

By email to: pdpo@hkex.com.hk

Retention of Personal Data

7. Your Personal Data will be retained for such period as may be necessary for the carrying out of the above-stated purposes.

Privacy Policy Statement

8. HKEx is firmly committed to preserving your privacy in relation to the Personal Data supplied to HKEx on a voluntary basis. Personal Data may include names, identity card numbers, telephone numbers, mailing addresses, e-mail addresses, login names, opinion, etc., which may be used for the stated purposes when your Personal Data are collected. The Personal Data will not be used for any other purposes without your consent unless such use is permitted or required by law or regulation.
9. HKEx has security measures in place to protect against the loss, misuse and alteration of Personal Data supplied to HKEx. HKEx will strive to maintain Personal Data as accurately as reasonably possible and Personal Data will be retained for such period as may be necessary for the stated purposes and for the proper discharge of the functions of HKEx and those of its subsidiaries.

