

Part B Consultation Questions

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

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

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

Yes

No

Please give reasons for your views.

We acknowledge HKEx's desire to strengthen ESG disclosure requirements, including elevation of certain reporting obligations to "comply or explain" for an "informed market" as articulated in the Consultation Paper, and the time and training that HKEx has provided to the market which we have assisted upon through our conferences, training programmes and publications. We also understand that the revised ESG Reporting Guide is to complement the position under the Companies Ordinance which sets forth mandatory obligations to discuss ESG policies and performances under directors' reports.

The issues for listed issuers remain that they have to commit resources for ESG reporting and where there is a need to explain, under the "comply or explain" regime, this is commonly regarded by the market as non-compliance. It is thus not surprising from the Bloomberg survey that large cap companies, especially H-shares companies which likely have the resources to comply with ESG Reporting are currently most advanced in terms of some format of ESG Reporting, while small caps especially HK listed issuers are least advanced. There are also differing materiality and relevancy considerations under ESG Reporting for different issuers in the context of their businesses and strategies, along with the impact of their operations. For example, an oil and gas company may well desire to attract more green capital and have much more material ESG concerns from that of a trading company.

In view of the survey results, and the differing ESG concerns for different listed issuers, HKEx could consider how to further support those inexperienced with ESG Reporting to do so, including potentially providing them with additional time for training, compliance and/or phasing in the compliance requirements consistent with the incremental approach discussed under the Consultation Paper, as well as to limit the "comply or explain" regime to the general disclosure obligations with the detailed or quantitative reporting remaining as recommended best practices.

The above comments are subject to the assumption that, in accordance with paragraph 7 of the proposed revised ESG Reporting Guide, there is flexibility for listed issuers to adopt alternative reporting guidance where comparable information to those required under the revised ESG Reporting Guide are disclosed. In this connection, it is further assumed that no explanation or reconciliation with the revised ESG Reporting Guide are necessary so that they are not seen to be not in compliance.

As a minor point, we query if the revised "ESG Reporting Guide" should be referred to as "ES Reporting Guide" as governance reporting is referred under Appendix 14 of the Listing Rules. This would also ensure consistency in the nomenclature with the contents of the report.

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

Yes

No

Please give reasons for your views.

This provides shareholders, investors and other stakeholders consistency in the timing of the information presented and is appropriate.

3. Do you agree with our proposal to include a Note under Rule 13.91 to clarify that:
- (i) an ESG report may be presented as information in its annual report, in a separate report, or on the issuer’s website; and
 - (ii) the issuer should publish the ESG report as close as possible to, and in any event no later than three months after, the publication of the issuer’s annual report?

Yes

No

Please give reasons for your views.

It would make sense for the information to be published at the same time as with publication of the financial and non-financial information, and this should be considered by HKEx. This is on the basis that investors and stakeholders should obtain relevant information relating to the listed issuers at more or less the same time, whether under the annual report, in a separate report, or on the issuer’s website

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

Yes

No

Please give reasons for your views.

We have no issue with the revisions to the introductory section of the Guide. We believe that it is appropriate to allow for delegations to board committees, in terms of the strategy, reporting, risk assessments or other aspects of the reporting framework chosen by the listed issuer. This could be clarified under the revisions to the Listing Rules, in line with the current flexibility for ESG Reporting which should be preserved.

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

Yes

No

Please give reasons for your views.

It may perhaps be appropriate to provide some emphasis on reliability of the information as a principle in the preparation of ESG Reporting which is a key concern area, and a purpose of indexes like Dow Jones Sustainability Index. A listed issuer should have rigorous processes and this matter deserves some attention, and maybe even be elevated as a stand-alone principle.

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

Yes

No

Please give reasons for your views.

This clarifies that the information under the revised ESG Reporting Guide and the directors’ report are complementary and is appropriate.

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

Yes

No

Please give reasons for your views.

Please see our comments to question 1. Also, as long as there is the flexibility to report on comparable information, we have no issue with the approach.

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

Yes

No

Please give reasons for your views.

Please see our comments to question 1. Also, as long as there is the flexibility to report on comparable information, we have no issue with the approach.

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

Yes

No

Please give reasons for your views.

On this matter, we have a range of members’ views from its being initially a burden upon issuers to develop or revise their ESG policies to cover all the aspects, especially as not all ESG subject areas and KPIs may be relevant to an issuer’s business, and thus the general disclosures should be no more than recommended disclosures as under the current guide; to there being no objection, as long as there is the flexibility to report on comparable information as set forth under the response to question 1. These reflect the different stages of compliance with ESG Reporting by different listed issuers. However, if there is a desire to elevate any part of the ESG Reporting Guide to “comply or explain”, the general disclosure for each aspect could be considered.

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

Yes

No

Please give reasons for your views.

The housekeeping amendments are acceptable.

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

Yes

No

Please give reasons for your views.

As with the answer to question 9.

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

Yes

No

Please give reasons for your views.

As with the answer to question 9.

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

Yes

No

Please give reasons for your views.

As with the answer to question 9.

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

Yes

No

Please give reasons for your views.

As with the answer to question 9.

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

Yes

No

Please give reasons for your views.

As with the answer to question 9.

- End -