

## 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 think the “comply or explain” approach is helpful since it allows listed companies a degree of flexibility when developing their ESG practice and reporting scope. This is still a relatively new concept for many companies so there is bound to be a wide range in the level of programme development and reporting capability. Offering a degree of flexibility in the near term is likely to generate a higher level of compliance in the long-term.

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.

The concurrent timing will ensure investors and other stakeholders receive relevant, comprehensive data on issuer performance, both in terms of financial and non-financial information.

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.

The imposition of time limits ensures the relevance of ESG reporting when read and interpreted in conjunction with the annual report.

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.

The proposed changes are in line with international standards and the new Companies Ordinance, reducing the burden on issuers who have to comply with multiple reporting guidelines. The subsequent reports will also better serve the needs of globally diversified investors.

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.

The new wording will provide greater clarity and align the Reporting Principles with international guidelines.

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 will bring the ESG reporting requirements in line with, and complement, the requirements set out in the new Companies Ordinance.

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.

Adopting a more consistent approach and similar terminology to that used in international guidelines will simplify the reporting process, thereby encouraging compliance.

We also hope HKEx will review the case for including a requirement on issuers to report on the extent to which they are pursuing supplier diversity in their supply chains. The Guide currently encourages issuers to disclose policies on managing environmental and social risks of the supply chain, to give number of suppliers by geographical region and to provide a description of practices relating to engaging suppliers including the number of suppliers where the practices are being implemented, how they are implemented and monitored. However, there is no specific mention of disclosure regarding minority-owned, small or disadvantaged businesses. The Global Reporting Initiative, the benchmark for voluntary sustainability reporting, has guidelines for Standard Disclosures and Guidance on Procurement Practices which propose a description of policies and practices used to promote economic inclusion when selecting suppliers. Forms of economic inclusion may include ‘suppliers owned by women, suppliers owned or staffed by members of vulnerable, marginalised or under-represented groups, small and medium sized suppliers’. This type of reporting would give a clearer picture of whether and how companies in Hong Kong are embracing supplier diversity.

This is important because research shows that supplier diversity offers growth opportunities for minority-owned businesses and drives sustainable social and economic benefits for targeted communities. Supplier diversity programmes can also help issuers to connect with a major component of their customer base, access new business opportunities, create a more agile supply chain and contribute to the sustainability of the communities in which they operate. Increasingly, global companies are recognising that effective supply chain management is a viable source of growth and provides competitive advantages in terms of cutting costs and increasing customer value.

There are many examples of US companies like Walmart, IBM and Cisco that are embracing supply chain diversity with global policies in place which are intended to expand opportunities for businesses owned and operated by minorities, women, lesbian and gay, veterans and service disabled veterans, and disabled persons. As well as having a positive social and economic impact, there are business advantages of embracing supply chain diversity. According to IBM, building and maintaining a community of diverse suppliers increases IBM’s opportunity to hear new ideas, apply different approaches, and gain access to additional solutions that respond to customer needs. which helps IBM deliver innovation, quality products, and world-class service to a growing global marketplace. Cisco has an internal ‘Global Supplier Diversity Spend Commitment’ of awarding 10 per cent of its supplier expenditure to businesses owned by minorities. According to Cisco, a diverse, multicultural supply chain is a source of innovation, enhances competitive advantage and positions the company effectively to meet the needs of customers.

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.

The proposed changes are in line with leading international guidelines and the new Companies Ordinance.

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.

Upgrading the General Disclosures to “comply and explain” is consistent with international practice and should not impose any undue burden or cost on issuers. The disclosures are narrative in nature and, therefore, do not require the collection or analysis of data.

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.

This will bring ESG reporting requirement in line with the requirements set out in the new Companies Ordinance.

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

Yes

No

Please give reasons for your views.

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

Yes

No

Please give reasons for your views.

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

Yes

No

Please give reasons for your views.

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

Yes

No

Please give reasons for your views.

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

Yes

No

Please give reasons for your views.

TWF commends HKEx for proposing to incorporate gender disclosure in proposed Subject Area B. Social, under the sub-heading “Employment and Labour Standards.”

TWF firmly believes that gender diversity in all aspects of the work place should be a principal goal for every organisation. Although, Hong Kong is a developed and sophisticated global financial and business centre, women remain significantly under-represented in leadership, senior executive and non-executive roles across industry sectors and professions.

Women continue to earn 20% less than their male counterparts. 39% of Hong Kong companies have no women on their boards and women make up only 11.4% of directors in Hong Kong. Women are over represented among casual, part time or low status full-time workers and under-represented in decision-making positions, top status jobs and high earning fields.

Our research suggests that fostering gender equality puts organisations in a better position to:

- Attract the best employees which is critical to success in the competitive global market place.

- Reduce the cost of staff turnover, as both women and men are more likely to remain employed by an organisation that celebrates diversity and has a culture of inclusion

- Enhance organisational performance. There are links between board diversity and improved company performance. This performance advantage extends to companies with a higher proportion of women on their top executive team.

By incorporating gender disclosure in this area, HKEx is setting an important precedent for Hong Kong issuers and bringing ESG reporting in line with international standards. Gender Disclosure has been a requirement in the UK since 2006. Disclosing gender data at every level of employment will further benefit the advancement of women by placing a spotlight on the numbers, encouraging organisations to formalise a development plan to build the pipeline of women for senior management positions.

Given data showing that women are paid on average 20% less than men in Hong Kong, we hope HKEx will review the case for including a requirement on issuers to report on any initiatives to review and address gender pay gaps that exist within the organisation.

Given the benefits of gender disclosure are so important, we also hope HKEx will consider in future upgrading disclosure to higher level of compliance versus the current approach of recommended disclosure.

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