

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/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Consultation-Paper/cp201905.pdf>.

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

Timeframe for Publication of ESG Reports

1. Do you agree with our proposal to amend Main Board Listing Rule 13.91 and GEM Listing Rule 17.103 to shorten the time required to publish an environmental, social and governance (“**ESG**”) report from three months after the publication of the annual report to within four months for Main Board issuers or three months for GEM issuers from the financial year-end date?

Yes

No

Please give reasons for your views.

ESG information will receive due attention from investors if it is published at the same time as Financial Statements. I'd therefore prefer this to the propose requirement. That said the proposal is a significant improvement on current practice for most companies. Further reporting ESG information to a high standard at the same time as the Annual Report will require companies to set up processes. I therefore believe the best option is:

- 1) Make the initial change as proposed.
- 2) Set a timetable for a future year at which all companies report ESG data at the same time as the Annual Report.

Printed Form of ESG Reports

2. Do you agree with our proposal to amend the Listing Rules and the Guide to clarify that issuers are not required to provide printed form of the ESG report to shareholders unless responding to specific requests, but are required to notify shareholders that the ESG report has been published on the Exchange's and the issuer's websites?

Yes

No

Please give reasons for your views.

Most people read the reports online so a printed version so I agree with the recommendation.

BUT I believe the HKEX should require issuers to produce a version of a complete version of their report as a single, searchable pdf. Details and reasons for this:

1) Some companies provide their report as an interactive set of web-pages. This can be excellent but it can also be very difficult to determine the extent of the report and to search to see if it covers a point one is interested in. The HKEX has a current requirement that they provide a pdf but this pdf is often not searchable making it VERY tiresome to use. Hence my recommendation that the future requirement be for a searchable pdf.

2) Some companies have complex issues which change little from year to year. A GOOD practice in this case is to put the details of this issue in a separate 'Standing Document' on their website. Once this is done the annual ESG Report can provide the 'news' plus a link to the 'Standing Document'. Thus, those who just need the update can read it while those who need the full story can go to the 'Standing Document'. Where this is done the future searchable pdf should have annexes containing the current version of all 'Standing Documents' referred to.

Introducing Mandatory Disclosure Requirements

General

3. Do you agree with our proposal to amend the Guide to introduce Mandatory Disclosure Requirements (“MDR”)?

Yes

No

Please give reasons for your views.

Governance Structure

4. If your response to Question 3 is positive, do you agree with our proposal to introduce an MDR requiring a statement from the board containing the following elements:

(a) a disclosure of the board’s oversight of ESG issues?

(b) the process used to identify, evaluate and manage material ESG-related issues (including risks to the issuer’s businesses); and

(c) how the board reviews progress made against ESG-related goals and targets?

Yes

No

Please give reasons for your views.

See views for item 5. below.

5. Do you agree with our proposal to set out in a note that the board statement should include information on the issuer's current ESG management approach, strategy, priorities and goals/targets and an explanation of how they relate to the issuer's businesses?

Yes

No

Please give reasons for your views.

One concern, the HKEx's 2018 review noted is companies adopting 'box ticking' approach rather than explaining material items. One cure for this is to require the Board to provide a narrative discussion of the company's two or three most material ESG issues, including the process the Issuer used to identify which ESG issues are most material and action it is taking to mitigate risks arising from these ESG issues. Where a Board does not have a view as to which its two or three most material ESG Issues are, it may provide a longer list and comment on two or three of the ESG issues listed. If, the next year, it still has a more than three 'most material' ESG issues it should comment on different ones to the previous year.

Reporting Principles

6. Do you agree with our proposal to amend the Guide to introduce an MDR requiring disclosure of an explanation on how the issuer has applied the Reporting Principles in the preparation of the ESG report?

Yes

No

Please give reasons for your views.

The quality of reports will be improved, and box-ticking reduced, if the Listing Rules emphasise principles which should be followed rather than detailed rules.

Please can HKEx compare its Reporting Principles with those of GRI and eliminate unnecessary differences. I attach a separate paper with this comparison.

PLEASE SEE separate pdf emailed with this response for my comments on how to improve the INTERNATIONAL STANDING of HKEX's ESG Reporting Rules.

7. Do you agree with our proposal to amend the Reporting Principle on "materiality" to make it clear that materiality of ESG issues is to be determined by the board and that the issuer must disclose a description of significant stakeholders identified, the process and results of the issuer's stakeholder engagement (if any), and the criteria for the selection of material ESG factors?

Yes

No

Please give reasons for your views.

See my answer to Question 5.

8. Do you agree with our proposal to amend the Reporting Principle on “quantitative” to:

- (a) require disclosure of information on the standards, methodologies, assumptions and/or calculation tools used, and source of the conversion factors used for the reporting of emissions/energy consumption (where applicable); and
- (b) clarify that while key performance indicators (“KPIs”) for historical data must be measurable, targets may be expressed by way of directional statements or quantitative descriptions?

Yes

No

Please give reasons for your views.

I have ticked both 'Yes' and 'No' as I support quantification where appropriate but some issues do not lend themselves to quantification.
I worry that the 'Quantitative Principle' will lead to more 'box ticking' and thus be counter productive.

Reporting Boundary

9. Do you agree with our proposal to amend the Guide to include an MDR requiring an explanation of the ESG report’s reporting boundary, disclosing the process used to identify the specific entities or operations that are included in the ESG report?

Yes

No

Please give reasons for your views.

The disclosure should also list entities over a certain % of any one of the issuer's assets and turnover which have NOT been included in the report and should give the reasons for not including them.

Introducing Aspect on Climate Change and Revising the Environmental KPIs

Climate Change

10. Do you agree with our proposal to introduce a new Aspect A4 requiring:
- (a) disclosure of policies on measures to identify and mitigate the significant climate-related issues which have impacted, and those which may impact the issuer; and
 - (b) a KPI requiring a description of the significant climate-related issues which have impacted, and those which may impact the issuer, and the actions taken to manage them?

Yes

No

Please give reasons for your views.

1) I agree to the extra disclosure as Climate change impacts are already significant for some companies and likely to become more significant.

2) I recommend para (a) of the A4 requirement listed above be amended by substituting 'physical risk and/or transition risk issues' for 'issues'. Without this change some companies may choose to only report on 'physical risks' even though 'transition risks' may be of greater significance to them.

Targets

11. Do you agree with our proposal to amend the Environmental KPIs to require disclosure of a description of targets set regarding emissions, energy use and water efficiency, waste reduction, etc. and steps taken to achieve them?

Yes

No

Please give reasons for your views.

I believe asking for targets for all Environmental KPIs is likely to be counter-productive. Rather, it should be for the two or three Aspects which the Board considers most material - as recommended in my answer to Question 5.

GHG Emissions

12. Do you agree with our proposal to revise an Environmental KPI to require disclosure of Scope 1 and Scope 2 greenhouse gas (“**GHG**”) emissions?

Yes

No

Please give reasons for your views.

Upgrading the Disclosure Obligation of the Social KPIs

13. Do you agree with our proposal to upgrade the disclosure obligation of all Social KPIs to “comply or explain”?

Yes

No

Please give reasons for your views.

Revising the Social KPIs

Employment Types

14. Do you agree with our proposal to revise a KPI to clarify “employment types” should include “full- and part-time” staff?

Yes

No

Please give reasons for your views.

Rate of Fatalities

15. Do you agree with our proposal to amend the KPI on fatalities to require disclosure of the number and rate of work-related fatalities occurred in each of the past three years including the reporting year?

Yes

No

Please give reasons for your views.

Should also require lost time injury rate.

Supply Chain Management

16. Do you agree with our proposal to introduce the following new KPIs in respect of supply chain management?

(a) Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.

(b) Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.

Yes

No

Please give reasons for your views.

Anti-corruption

17. Do you agree with our proposal to introduce a new KPI requiring disclosure of anti-corruption training provided to directors and staff?

Yes

No

Please give reasons for your views.

Encouraging Independent Assurance

18. Do you agree with the proposal to revise the Guide's wording on independence assurance to state that the issuer may seek independent assurance to strengthen the credibility of ESG information disclosed; and where independent assurance is obtained, the issuer should describe the level, scope and processes adopted for assurance clearly in the ESG report?

Yes

No

Please give reasons for your views.

- End -

HONG KONG EXCHANGE REVIEW OF THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE AND RELATED LISTING RULES – Due 19th July 2019

Additional submission regarding the relationship between the HKEx ESG Guidelines and GRI Standards

Relationship between the HKEx ESG Guidelines and GRI Standards

Paragraph 8 of the proposed guidelines in the consultation document states: *‘The issuer may adopt international ESG reporting guidance so long as it includes comparable disclosure provisions to the “comply or explain” provisions set out in this Guide.’*

This follows the HKEx past policy of facilitating companies reporting to a higher standard if they wish while keeping its requirement in Hong Kong at a level which Small-Cap companies can cope with.

GRI Standards remain widely used by leading companies around the world¹ and thus remain the de-facto global standard. Many Hong Kong companies continue to comply with both the HKEx ESG Guidelines and GRI Standards. Their reasons for doing so include:

1. The HKEx ESG Guidelines form a minimum reporting standard while the GRI Standards provide the flexibility for companies to report at whatever higher level is appropriate and be internationally recognized for following this higher standard.
2. Many Hong Kong companies have businesses around the world and investors from many countries. Reporting to an internationally recognized standard is therefore important to them.

Key to a company being able to comply with both HKEx ESG Guidelines and GRI Standards is avoiding conflicts between them. The current version of the HKEx Guidelines is sufficiently compatible viz: the ‘Linkage Document’² which compares them.

When issuing these updated guidelines it would be very beneficial if the HKEx liaised with GRI to get an updated version of the Linkage Document published at the same time. Further if it reviews the differences which the Linkage Document shows and takes steps to avoid unnecessary differences. In particular:

1. It considers whether it can bring the terminology it uses for **reporting principles** closer to that used by GRI. As the comparison in the attachment shows there is close alignment on some items already. Further improvement could be made by the HKEx:
 - a. Adding ‘Sustainability Context’ to its ‘Materiality’ definition.
 - b. Making ‘Boundaries’ part of ‘Completeness’.
 - c. Rewording ‘Consistency’ as ‘Comparability’.

¹ KMPG Survey on ESG reporting: <https://assets.kpmg/content/dam/kpmg/xx/pdf/2017/10/executive-summary-the-kpmg-survey-of-corporate-responsibility-reporting-2017.pdf>

² Linkage Document between the HKEX ESG Guidelines and GRI www2.globalreporting.org/resource/library/GRI-HKEXLinkageDocument.pdf (NB This document needs to be undated from GRI’s G4 to GRI Standards.)

- d. Further, I believe it would be both beneficial and simple to add the principles of 'Clarity' and 'Reliability' as worded by GRI.
2. It compares the terminology it proposes to use with the GRI Glossary³ and adjusts where appropriate. One example of differences which it would be easy, and beneficial, to fix is the HKEx continuing to use the term 'Aspect' when GRI has changed to 'Topic'⁴.

Provide greater clarity a company's most material aspects

To repeat my answers to questions 5 and 11

Question 5: Please add to the MDR, that

The statement from the Board must provide a narrative discussion of its most material ESG issues. This discussion must identify two or three of the ESG issues which its Board considers to be among its most material, the process the Issuer used to identify which ESG issues are most material and action it is taking to mitigate risks arising from these ESG issues. Where an Issuer does not have a view as to which its two or three most material ESG Issues are, it may provide a longer list and comment on two or three of the ESG issues listed. If, the next year, it still has a more than three 'most material' ESG issues it should comment on different ones to the previous year.

Question 11: I believe asking this for all Environmental KPIs is likely to be counter-productive. Rather, it should be for the two or three Aspects which the Board considers most material - as recommended in my answer to Question 5.

J Robert Gibson

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³ GRI Standards Glossary: www.globalreporting.org/standards/gri-standards-download-center/gri-standards-glossary/

⁴ HKEx's use of the term 'Aspect' rather than 'Topic' is another example of it staying with terminology from GRI's superseded 'guidelines' rather than matching GRI's current 'standards'.

Comparison of reporting principles in the HKEx ESG Guidelines and the GRI Standards

HKEx ESG Guidelines (relating to report content)

Materiality: The threshold at which ESG issues determined by the board are sufficiently important to investors and other stakeholders that they should be reported.

The ESG report should disclose:

- (i) a description of significant stakeholders identified;
- (ii) the process and results of the issuer's stakeholder engagement (if any); and,
- (iii) the criteria for the selection of material ESG factors.

Reporting Boundary: A narrative explaining the reporting boundaries of the ESG report, describing the process used to identify which entities or operations are included in the ESG report. If there is a change in the scope, the issuer should explain the difference and reason for the change.

GRI Standards: Report Content

Materiality: The report shall cover topics that:

- 1 reflect the reporting organization's significant economic, environmental, and social **impacts**; or
- 2 substantively influence the assessments and decisions of **stakeholders**.

Stakeholder Inclusiveness: The reporting organization shall identify its **stakeholders**, and explain how it has responded to their reasonable expectations and interests.

Sustainability Context: The report shall present the reporting organization's performance in the wider context of **sustainability**.

Completeness The report shall include coverage of **material topics** and their **Boundaries**, sufficient to reflect significant economic, environmental, and social **impacts**, and to enable **stakeholders** to assess the reporting organization's performance in the **reporting period**.

HKEx ESG Guidelines (relating to report quality)

Balance: The ESG report should provide an unbiased picture of the issuer's performance. The report should avoid selections, omissions, or presentation formats that may inappropriately influence a decision or judgment by the report reader.

Consistency: The issuer should use consistent methodologies to allow for meaningful comparisons of ESG data over time. The issuer should disclose in the ESG report any changes to the methods or KPIs used, or any other relevant factors affecting a meaningful comparison.

Quantitative: KPIs in respect of historical data need to be measurable. The issuer should set targets (which may be actual numerical figures or directional, forward-looking statements) to reduce a particular impact. In this way the effectiveness of ESG policies and management systems can be evaluated and validated. Quantitative information should be accompanied by a narrative, explaining its purpose, impacts, and giving comparative data where appropriate. Information on the standards, methodologies, assumptions and/or calculation tools used, and source of conversion factors used for the reporting of emissions/energy consumption (where applicable) should be disclosed.

GRI Standards: Report Quality⁵

Balance The reported information shall reflect positive and negative aspects of the reporting organization's performance to enable a reasoned assessment of overall performance.

Comparability The reporting organization shall select, compile, and report information consistently. The reported information shall be presented in a manner that enables **stakeholders** to analyze changes in the organization's performance over time, and that could support analysis relative to other organizations.

No matching GRI reporting principle for Quantitative.

GRI's report quality principles which are not including in the HKEx reporting guidelines:

Accuracy The reported information shall be sufficiently accurate and detailed for **stakeholders** to assess the reporting organization's performance.

Reliability The reporting organization shall gather, record, compile, analyze, and report information and processes used in the preparation of the report in a way that they can be subject to examination, and that establishes the quality and materiality of the information.

Clarity The reporting organization shall make information available in a manner that is understandable and accessible to **stakeholders** using that information.

⁵ **GRI's Timeliness principle** is covered by HKEx's specific requirement to report within four months of the end of an accounting period.