

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.

As rightly mentioned in your para 69 of the consultation paper, majority of entities have chosen to issue ESG report together with the annual report. Our experience is that entities who prefer not to invest so much in ESG will also choose the same in order to save time, effort and also cost on printing, proof-reading and translation.

On the other hand, there are also entities who would prefer to invest more time and effort into producing a good ESG report. However, they may find this proposed change a disincentive, since this will force their annual ESG reporting processes to run in parallel with their financial reporting processes, instead of one after the other which they are currently able to do.

And without a doubt there are a lot of entities that issue quality ESG reports separately after the issuance of their annual reports. We believe that we should encourage them continue to do so and not be penalised for taking a reasonable amount of time.

While we recognise that the timeliness of the ESG report is important, this must be balanced with ESG information quality. Hence we consider that there is no immediate need to shorten the ESG report publication period.

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.

Strongly agree, otherwise it is an irony that ESG efforts which purport to lessen the impact to the environment has in reality the opposite effects.

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.

We agree with all of the requirements of the MDR, except those related to quantitative disclosures which we shall explain in question 8 below.

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.

Strongly agree, most of our clients are already doing so.

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.

Strongly agree, most of our clients are already doing so.

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.

Strongly agree, this will enable stakeholders to better understand the ESG report.

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.

Strongly agree, most of our clients are already doing so.

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.

While we welcome the proposed change that "if a particular Aspect in the Guide is deemed not material to the issuer's business, the report should explain rather than disclose immaterial information/data" (para 7) and "the targets can be expressed by way of directional statements or quantitative descriptions" (para 89 & 91) which will provide reasonable flexibility to the disclosures of mandatory KPIs, we do not agree with the change in further additional disclosures on "... standards, methodologies, assumptions and/or calculation tools used, source of conversion factor..." (para 89).

For listed entities with many different business entities, involving a range of different industries and jurisdictions, the calculations of these KPIs can be a very complicated exercise. These disclosures as described in para 89 may cause more confusion than clarity to general public, and further they may also be a matter of controversy among stakeholders. Hence, the entity should be given the flexibility to disclose these as necessary.

While we agree comparing ESG information across different issuers (para 90) is useful, without a set of internationally recognised standard for ESG accounting that is commonly adopted by HKEx issuers, we believe the comparison will not be useful.

However, we do agree that it is important to maintain consistency in the methods used to calculate the data so that ESG performance of the entity can be compared year after year.

In that respect, instead of full unconditional disclosure we propose that a conditional disclosure would be more appropriate, i.e. requiring only significant changes in "standards, methodologies, assumptions, etc." (para 89) since the previous report to be disclosed.

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.

Strongly agree, most of our clients are already doing so.

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.

We agree, environmental discussions should take climate-related issues into consideration.

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.

We welcome the clarified wordings to provide flexibility in the KPI disclosures, especially with respect to KPI A1.5 and A1.6 which currently force entities to provide emission/waste reduction results achieved, when there are cases where reduction is not always possible, e.g. when sales or production volume increased. The change will provide more flexibility in the explanation.

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.

Strongly agree, most of our clients are already doing so.

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.

Strongly agree, most of our clients are already doing so.

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.

Strongly agree, most of our clients are already doing so.

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.

Agree, most of our clients are already make disclosures of this KPI. Providing historical figures for comparison will not be an issue.

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.

Strongly agree, most of our clients are already doing so.

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.

Strongly agree, most of our clients are already doing so.

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.

While we agree that the quality of ESG information on the report is extremely important, we believe that entities should not be forced to obtain independent assurance at this moment, hence we agree that entities should be given a choice to do so.

We agree that when independent assurance is obtained, the entity should describe the level, scope and processes adopted for assurance.

Furthermore, we propose that the work of independent assurance should at least include the review of the correctness of those items described in para 89 (i.e. sources of conversation factors, calculation used, etc.).

And if such a review has been performed and the result was satisfactory, then the entity should not be required to provide further disclosure of those items described in para 89.

- End -