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-related performance is/should be an intrinsic part of the company's annual operational performance, which drive the ultimate financial results. Capturing and reporting of material ESG parameters should become normal operational practice and be simultaneously captured and reported along with financial performance with no reason for any time lag between financial and ESG reporting, thus moving a company towards 'integrated thinking' as well as Integrated Reporting.

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.

Going paperless is more in line with environmentally sustainable practices. In fact, paperless reporting is highly recommended for the Annual financial/company report as well, with perhaps some interim steps to help the transition towards electronic and/or online distribution.

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.

For certain aspects of business performance that do affect society, like ESG aspects, mandatory compliance is needed to provide the support that business needs in order to move in the appropriate direction needed to mitigate and/or manage these impacts and to turn them from negative into positive impacts where possible.

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.

Clarifying the Board's role in these areas helps encourage embedment of the Board's vigilance on ESG-related matters, which ultimately are part of and/or can affect how effectively the Board can carry out its fudiciary responsibilties anyway. These also help to elevate the importance and priority of actioning on ESG-related short term compliance, as well as medium to long term business risks and opportunities within a company.

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.

This ensures the actual implementation of the duties as recommended in Question 4 above, further encouraging embedment of the Board's vigilance on ESG-related matters, which ultimately are part of and/or can affect how effectively the Board can carry out its fudiciary responsibilties anyway.

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.

Reporters often focus on providing the recommended or required KPIs and metrics but not on the actual Reporting Principles underpining the report, which form the foundation for ensuring that ESG reports meet the main objectives and expected standards of having them in the first place. This MDR will help ensure the company's awareness of the objectives and expected standards of 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.

Similar to our reponse to Question 5, this ensures the actual implementation of the duties as recommended in Question 4 above,

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.

Since independent assurance is not yet required, 8(a) will help shed light on the methods and assumptions used to generate the data reported and hopefully allow/inform comparability across reporting entities. Towards this end, it would be helpful if the amendment also included reference to best local and/or international practices, "...emissions/energy consumption (where applicable) should be disclosed, as well as relevant references to best local and/or international practices."
For 8(b), some examples to illustrate what constitutes 'directional statements' or quantitative descriptions' would be helpful.

<u>Reporting Boundary</u>

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.

Only applying financial reporting rules will leave out entities that are not directly financially materal, but may unintentionally leave out entities that pose potential ESG and/or reputational-related risks that could affect its operations and possibly financial performance indirectly. Hence disclosing how and why the entities are included in the reporting scope is essential to ensuring all ESG-material entities have been included. It woud be even better if in Appendix I, parts A & B, item 14 Reporting Boundary, the amended text could include as a last sentence "A general description or statement of what has not been included and the reasons why, would help to complete the description on the Reprting Boundary scoping methdoogy."

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.

The international momentum on climate-related financial disclosures (TCFD) is ummistakeable and it is envisioned that this will move from best practice to become common practice time - even in Asia. Identifying and disclosing potential climate-related impacts on a business and the relevant management strategies and measures should be part of any good business risk monitoring and management practice.

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.

This provides more clarity on the performance of a company in terms of actually reducing their relevant and most material environmental impacts. It would also help to ensure that companies are not only implementing what they have committed to implement, but over time, it would also make them think more about how to set and achieve targets and commitments more efficiently and effectively.

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.

This is already international best practice and can be reasonably implemented by all listed companies. It is good that Scope 3 has not been included at this stage, since the relevant methods for establishing Scope 3 for all the different sectors and size of companies, as well as the appropriate investment and operating burden required has yet to be established

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.

It was already assumed and well communicated by the HKEx that lifting Social KPIs to 'comply or explain' was only a matter of time and that this was not done earlier to give the business community more time to build the relevant Social KPI reporting systems and processes after they have set up ones for the Environmental KPIs.

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.

This will help ensure that companies monitor labour regulations for both part-time as well as full-time employees and hopefully strike an appropriate and/or a relatively more equitable balance in the terms and conditions between the two categories.

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.

Requiring the reporting of 3 years provides more context to whether there has been improvement or not in performance over time. In fact requiring several years of data for all KPIs should be a good practice to understand the historicla trend and context. Furthermore, since it may take 2 or 3 years for new policies, processes and systems to take effect, requiring 5 years may be more apporpriate to capturing the changes but this can be considered in the next review after companies have at least set-up what they need to set up first.

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.

The changes are welcomed since they are now more specific: asking to identify the environmental and social risks will help ensure their practices are linked at least to risk management and not just window dressing; asking how environmentally preferable products and services are promoted sends the desired signals to suppliers to create more demand for such products and services.

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.

Ensuring that anti-corruption behaviour can be avoided in the first place starts with awareness and education and so disclosing the relevant training undertaken by the company is a good KPI to capture. Enforcement measures should be in place but if the culture of the company of zero tolerance is firmly communicated and supported by relevant punitive measures, less investment or cost is needed to maintain and operate such measures.

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.

Agree that encouraging independent assurance is important. Ensuring that the disclosed information and data is robust and accurate is critical to maintaining the trust of the public and managing a company's reputation. In fact, HKEx should consider mandating independent assurance on all the KPIs but perhaps incrementally over time. It would be very constructive if the HKEx supported capacity building and perhaps the development of professional standards for future ESG professionals as the proposed changes would trigger an increase in the demands for competence for the identification of environmental, as well as social issues under the new ESG reporting requirements from the corporation, regulatory and the service providers perspectives.

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