

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.

Vigeo Eiris believes that the integration of corporate financial and extra/non-financial reporting can strengthen the ability of issuers to create and sustain value creation in time, for both economy and society.

Therefore, aligning non-financial and financial reporting is a prerequisite for issuers to demonstrate good governance and commitment to secure an appropriate ESG risks management, to sustain the value creation and to create value for stakeholders. There is growing momentum for Integrated Reporting (IR) to be one of the new global norm in corporate reporting. Through global platforms such as, for instance, the International Integrated Reporting Council (IIRC)[1], regulators, investors, companies, standard setters, accounting professionals and civil society working are joining forces to work towards aligning capital allocation and corporate behaviour to wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking. Within the European Union (EU), the High-Level Expert Group on Sustainable Finance (HLEG) has recognized the importance of promoting Integrated Reporting in order to foster long-term sustainability in financial and investment decisions [2].

Reference:

[1] <https://integratedreporting.org/the-iirc-2/>

[2] http://integratedreporting.org/wp-content/uploads/2017/07/Financing-a-Sustainable-Economy_en.pdf

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.

Vigeo Eiris analysts conduct company research and ratings based on information made publicly available by issuers on their corporate reports, accounts, or through direct engagement with issuers via our electronic platform. All interested stakeholders are also using the issuers' policies, reporting and materials that are publicly available on their corporate websites, and engage with them when more information or action is required. As an additional motivation, reducing paper waste helps reduce (even if to a smaller degree) the issuer's environmental footprint.

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.

ESG disclosure should remain a mixed and evolutive bag of voluntary and mandatory efforts across market and stakeholders expectations, including stock exchanges rules and requirements.

In a 2016 report, UNPRI has found that policymakers in 38 of the largest 50 countries in the world had or were developing ESG disclosure requirement for large companies [3]. For example, mandatory disclosure of extra/non-financial information has been legislated in France since 2009/2010 through the Grenelle 1 and 2 Laws [4], and in 2015, France introduced the world’s first mandatory climate disclosure requirements for institutional investors (Article 173 on Energy Transition) [5]. Also, companies listed in the UK are required to disclose ESG information under the UK Companies Act. However, the number of similar government-led initiatives remains unimpressive, which ultimately sends an unclear message about the global commitment to align sustainability with our financial systems. Stock exchanges can also play a role by advocating for higher ESG disclosure within their own legislatures.

Reference:

[3] <https://www.unpri.org/sustainable-markets/how-effective-are-corporate-disclosure-regulations/211.article>

[4]

https://www.diplomatie.gouv.fr/IMG/pdf/Mandatory_reporting_built_on_consensus_in_France.pdf

[5] https://www.frenchsif.org/isr-esg/wp-content/uploads/Understanding_article173-French_SIF_Handbook.pdf

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.

The Board of Directors provides strategy and oversight over the issuer's operations and risks. Vigeo Eiris looks at how the Board of Directors includes/approaches ESG considerations, how experienced and trained the Board is on ESG issues relevant to the issuer's business and industry, how often the Board reviews ESG and CSR issues in meetings and strategy development, and whether executive remuneration is tied to the issuer's ESG and CSR performance and targets.

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.

The Board of Directors has the role of integrating ESG factors in the issuer's strategy and overall management approach. Vigeo Eiris evaluates whether the issuer's audit and internal control function covers operational and ESG/CSR risk management.

Please also see our response to Question 4.

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.

Enhanced disclosure of ESG information and performance by issuers is a prerequisite to mitigate company risk and ensure transparency for all invested stakeholders.

Disclosure needs to be consistent, coherent, relevant, material and widespread across issuers in order to help all invested stakeholders know and understand how issuers address pressing issues affecting our world (poverty, education, climate change, biodiversity, or food supply).

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.

However, materiality should be endorsed and agreed by the Board (instead of “determined”) and should take in account all legitime interests, expectations and rights, starting with fundamental human right, of all stakeholders.

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.

As outlined in your ESG Consultation paper [6], the revision of the UK FRC’s Stewardship Code, currently undergoing, highlights that climate change has come out as the most prevalent stewardship theme in their analysis of large UK asset managers’ stewardship activities. While most chose to report on their stewardship on climate change, the method and intensity of oversight, engagement and challenge is not always made clear in their reports. [7]

Meanwhile, it is important to ensure that the company’s internal targets (whether it is a strategic statement or quantitative description) are aligned with relevant national/subnational or international targets.

Reference:

[6] <https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Consultation-Paper/cp201905.pdf?la=en>, page 9

[7] <https://www.fca.org.uk/publication/discussion/dp19-01.pdf>

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.

ESG reporting should cover all the chain value of the issuer.

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.

Climate change can and must be ignored no longer.

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.

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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.

Disclosure of Scope 1 and Scope 2 can help quantify the impacts of corporate activities on climate change and track progress in reducing corporate GHG emissions. To another extent, it can also help companies identify opportunities to cut costs (i.e. reducing energy consumption).

In addition, HKSE can use the opportunity to encourage issuers with activities in material sectors to start identifying and monitoring Scope 3 GHG emissions (e.g. emissions related to transportation of raw materials or finished products, business travel by means not owned or controlled by the company, etc.).

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.

Yes to the extent that Vigeo Eiris believes that all issuers should report on Social KPIs depending on their activities/industries, operations and locations. “Explain why not” should increase reporting transparency but, by no means, should not absolve issuers of their responsibility to report on Social factors, risks and impacts.

In a nutshell, issuers should report on all ESG factors that affect directly and indirectly their global business and operations. Corporate reporting on Social issues has traditionally received less attention than Environmental or Governance issues in corporate reporting, however company practices differ across industries, countries and geographies.

According to a 2018 Vigeo Eiris analysis of issuer performance, issuers headquartered in Europe usually shows stronger awareness of human rights and wider Social issues affecting company performance than their peers from Asia Pacific, North America or Emerging Markets, mainly due to a more stringent regulatory framework, the proliferation of sustainable products such as social indices or Social Bonds, as well as greater scrutiny from stakeholders, including investors, consumers and civil society. [12]

Also, the Sustainable Stock Exchanges (SSR) Initiative has recently acknowledged the importance of securities regulators to support the Sustainable Development Goals (SDGs) by adopting strengthened environmental and social disclosure rules to help improve the quality and quantity of the ESG data reported by issuers. [13]

Reference:

[12] <http://www.vigeo-eiris.com/human-rights-in-a-globalised-world-why-do-companies-need-to-pay-more-attention/>

[13] <http://www.sseinitiative.org/wp-content/uploads/2018/10/SSE-Regulator-Report-compressed.pdf>

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.

Yes, but on an even wider taxonomy. Vigeo Eiris considers that employment KPIs should clarify and reflect the quality of the issuer's working contracts with full-time, part-time, fixed-term and temporary staff, as well as agents and contractors.

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.

Yes, but not tying it to a minimum three-year threshold.

Providing comparable data for minimum three financial/operational years including the reporting year will give a more transparent picture of the issuer performance. Nonetheless, where available (given issuers adopt different styles of reporting), historical data past the minimum three-year threshold should be allowed and encouraged by the HKSE's guidance/rules.

The work-related fatality rate (or fatality incidence rate per 100 000 employed) is a timely and very relevant KPI; according to 2015/2017 ILO estimates, two-thirds of the estimated work-related mortality occurred in Asia, nearly six times that of Africa and Europe. [14]

Vigeo Eiris typically assesses the issuer's commitment to promote safe working conditions on two KPIs: (1) Total recordable injury frequency rate (TRIFR): The total number of accidents, relative to 200,000 hours worked; (2) Lost-time injury frequency rate (LTIFR): The number of accidents that resulted in loss of working time (usually one day following the accident or three days following the accident), relative to 200,000 hours worked.

Reference:

[14]

<http://www.icohweb.org/site/images/news/pdf/Report%20Global%20Estimates%20of%20Occupational%20Accidents%20and%20Work-related%20Illnesses%202017%20rev1.pdf>

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.

Although clarity over what is understood by “directors” is needed – are they the most senior executive staff or the Board Directors. If the latter (Board Directors), disclosure should not be tied to training only, but it would go deeper into the responsibilities to safeguard principles of anti-corruption and good governance across all the activities and operations of the issuer.

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.

However, with a stronger commitment -- the issuers should seek (as opposed to "may seek") independent assurance.

The issuer's audit and internal controls function needs to ensure the financial and sustainability risks considered as relevant and material are properly managed, and ensure the quality and transparency of ESG reporting. The ESG reporting must include KPIs on key material issues, and issuers should seek a third-party assurance of ESG reporting based on recognized assurance standards (e.g. AA1000AS or ISAE 3000; or Article L.225-102-1 of the French Commercial Code for French issuers). The independent assurance should evaluate the reliability of the reported KPIs and should make recommendations for improvement.

End -