

**STRICTLY PRIVATE AND CONFIDENTIAL**

17 July 2019

Hong Kong Exchanges and Clearing Limited  
8th Floor, Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

Dear Sir or Madam,

**Re: Consultation Paper on Review of the ESG Reporting Guide and Related Listing Rules**

The Hong Kong Independent Non-Executive Director Association (“HKiNEDA”) has thoroughly studied the Consultation Paper on Review of the Environmental, Social and Governance Reporting Guide (the “Guide”) and Related Listing Rules (“Consultation Paper”) and is pleased to make the submission.

**Background Information about HKiNEDA**

Based in Hong Kong, HKiNEDA is a non-profit association mainly representing INEDs of Mainland China, Hong Kong and Taiwan. HKiNEDA aims at enhancing professional development of INEDs, promoting healthy and outstanding corporate governance of listed companies, and sustainable development of the capital market in Greater China.

Should you have any questions on the above comments, please do not hesitate to contact Ms. Joanna Cheung, at [REDACTED].

Yours faithfully,  
[REDACTED]

The Hong Kong Independent Non-Executive Director Association

## 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.

<p>- HKiNEDA acknowledges that shortening the time to publish ESG reports helps provide investors and stakeholders with timely information. Timeliness of information is important for enabling informed decision-making by investors and stakeholders.</p> <p>- However, assigning the same deadline for ESG reports and annual reports which essentially requires the concurrent preparation of the two reports, in the short term may strain resources of issuers.</p> <p>- HKiNEDA suggests HKEX shorten the timeframe with a transition period of 3 to 5 years for the proposed changes.</p>
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### 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

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No

Please give reasons for your views.

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| <ul style="list-style-type: none"><li>- This clarification helps issuers allocate resources efficiently.</li><li>- It would avoid environmental footprint of printed reports.</li></ul> |
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## 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.

- This sends a clear message on emphasising the importance of ESG disclosure.  
- MDR provides issues with clarifications to more clearly communication according to disclosure expectation.

### 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.

- Board involvement is essential for robust ESG governance and long-term sustainable success  
- This disclosure ensures the meaningful board oversight of the management approaches and steady improvement towards the achievement of said goals  
- HKiNEDA suggests issuers to establish an ESG Committee within the Board to monitor and review ESG related issues.

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 serves as a guideline for issuers to provide useful information through the board statement and encourage the board to take on a holistic and substantial approach in its oversight over ESG issues.  
- However, HKEX should avoid duplication of this note with the elements in under Consultation 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.

- It helps improve transparency, reliability and comparability of the disclosures.  
- This proposed amendment aligns with other international standards such as GRI.

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.

- For the small-sized listed companies, a robust stakeholder engagement and materiality assessment may be too costly.
- The board may not have the expertise to determine and clarify the materiality of ESG issues.
- HKiNEDA suggests providing a working timeframe with a transition period of 3 to 5 years for issuers to equip with the ESG knowledge for better reporting quality.

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.

- HKiNEDA is supportive of improved information consistency and comparability.  
- This is useful for issuers to express and disclose targets.

### 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.

- This amendment improves the transparency, elevates the value and meaningfulness of the entire report as well as aids the comparability of information and performance over time.

## 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.

- This aligns with the international trend of growing concern on climate change and TCFD recommendations.
- This induces issuers to actively assess the climate emergency and implement mitigation, adaptation and resilience actions.
- HKiNEDA suggests this "comply or explain" requirement shall be applied to large conglomerates only and put it optional for the others.

### 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.

- HKiNEDA supports requiring disclosure of targets and steps taken to achieve targets, in addition to existing required disclosures under the Environmental KPIs.
- The target could be a directional target, which provides a framework for issuers to formulate and present a holistic environmental performance strategy and action plan.



## 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 emissions is a norm for GHG accounting and reporting.
- This better informs investor and stakeholders of an issuer's climate change impact.
- This helps issuers understand their own carbon footprint and formulate strategies to effectively reduce their emissions.

## **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.

- HKiNEDA supports the proposal which will result in more comprehensive disclosure.
- This helps to rightfully solidify the importance of social performance of businesses.

## 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 provides a clear definition of employment types.

### 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.

- Other KPIs are reported on a yearly basis.  
- Aligning the same reporting timeframe would help readers understand the issuer's ESG performance in the forehead mentioned reporting period.

## 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.

- HKiNEDA suggests issuers to disclose the description of practices used to identify environmental and social risks along the supply chain and the practices used to promote environmentally preferable products and services when selecting suppliers only.  
- Supply chain management and monitoring are complex, and that direction, resources and capacity building will be needed to support issuers. It is hard for issuers to control and monitor all of their suppliers.

## 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.

- The new KPI will show the importance a listed company attaches to upholding business ethics and ensuring the integrity of its directors and workforce. This will strengthen the confidence of the investing public in the listed company.

- HKiNEDA suggests HKEX take further steps to emphasise the importance of whistle-blowing within a company.

- At present, there is no whistleblower protection legislation in Hong Kong. Whilst upgrading the KPI to require disclosure of whistle-blowing procedures, such procedures should contain measures to ensure confidentiality of the reports made, preserve identities of whistleblowers and protect them against retaliation.

## 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.

<p>- HKiNEDA has no objection in HKEX stands in promoting external assurance. - However, we suggest keeping it optional as there is no uniform assurance standard and recognised auditor on ESG assurance in the market currently.</p>
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