Hong Kong Exchanges and Clearing Limited
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# HKEX Review of the ESG Reporting Guide and Related Listing Rules

We refer to the Hong Kong Exchanges and Clearing Limited (HKEX)'s *Consultation Paper on the Review of the ESG Reporting Guide and Related Listing Rules,* launched on 17 May 2019, and we welcome the opportunity to contribute our perspective.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with USD 7.9 billion invested in equities and USD 366 million in fixed income in Hong Kong.[1]

As a long-term, global investor, we consider our returns over time to be dependent on sustainable development in economic, environmental and social terms, as well as well-functioning, legitimate and efficient markets.

When it comes to sustainability, it is important for investors that company boards address and report on material issues that could affect companies' future performance. The way companies manage sustainability risks and capitalise on opportunities can drive their long-term returns. In addition, boards should fulfil their objective of value creation and fair distribution of benefits to shareholders within principles for responsible business conduct.[2] They should understand the broader social and environmental consequences of business operations and value chains, set their own priorities to address these and account for associated outcomes.

As an investor, we are interested in HKEX's work to improve companies' ESG disclosures. We welcome the emphasis on the board's responsibilities concerning ESG and the new requirements concerning the governance structure for ESG matters. We also welcome the approach chosen by HKEX whereby the reporting is driven by financial materiality; it allows companies to focus on sustainability challenges specific to their sector or business model. We agree that the selection criteria and relevant assumptions supporting materiality assessments should be disclosed by companies.

[1] At the end of 2018
[2] Such as the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights



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Furthermore, we welcome the additional requirements concerning climate-related disclosure. As an investor, NBIM seeks to understand how a company's business model might be affected by climate change. We encourage companies, where relevant to conduct scenario analyses to assess the long-term sensitivity and resilience of their business strategy to relevant physical and transition climate scenarios. We also expect companies to incorporate potential climate risks and opportunities in their governance structure, strategy, risk management and reporting, in line with the recommendations from the Task Force on Climate-related Financial Disclosures.[3]

Finally, corruption exposes companies to legal and financial risk through penalties and blacklisting. In addition, corruption exposes companies, their investors and business partners to significant reputational risk.[4] In our view, companies should provide and document appropriate and regular training on anticorruption for all relevant employees and, where appropriate, business partners. Therefore, we welcome the proposed new requirement for the disclosure of anti-corruption training provided to directors and staff.

We appreciate your willingness to consider our perspective, and we remain at your disposal should you wish to discuss these matters further.

Yours faithfully

[redacted]

Carine Smith Ihenacho
Chief Corporate Governance Officer

[redacted]

Séverine Neervoort
Senior analyst, Policy Development

[3] Norges Bank Investment Management, Climate change strategy, expectations towards companies
[4] NBIM, Expectations towards companies on anti-corruption

## 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.

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   | Given the importance of ESG information, we believe the ESG report should be published alongside the annual report and supplement it. This helps inform investors ahead of the exercise of their shareholder rights. |

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.

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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.

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.

As an investor, we expect company boards to address and report on material ESG issues that could affect companies' future performance.
Boards should ascertain that responsibilities are clearly defined within the organisation and they should effectively guide, monitor, and review company management's actions in carrying out efforts on sustainability matters. Companies need to disclose the governance (i.e. role of the board and top management), due diligence processes and systems in place for identifying and assessing sustainability risks and impacts and how these are integrated in the overall risk management.
In addition, boards should fulfil their objective of value creation and fair distribution of benefits to shareholders within principles of responsible business conduct. They should understand the broader social and environmental consequences of business operations, set their own priorities to address these and account for associated outcomes.

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.

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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.

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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.

We welcome the approach chosen by the Hong Kong Exchange whereby the reporting is driven by materiality. It allows companies to focus on sustainability challenges appropriate to their sector or business model. The starting point for the reporting to investors should be financial materiality. We agree that the selection criteria and relevant assumptions supporting materiality assessments should be disclosed. Finally, in line with the OECD Principles of Corporate Governance, we expect company boards to consider the interests of all relevant 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.

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| It is important to disclose the methodologies and assumptions used.We believe qualitative information needs to be supplemented with quantitative metrics illustrating companies' commitment and performance over time. Currently, due to limited use of outcome-oriented metrics by companies, disclosure does not always allow investors to track companies' progress over time. As an investor, we would prefer, where possible, quantitative targets rather than directional statements. |

<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.

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**Introducing Aspect on Climate Change and Revising the Environmental KPIs**

<u>Climate Change</u>

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.

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| As an investor, NBIM seeks to understand how a company's business model might be affected by climate change. We encourage companies to conduct scenario analyses to assess the sensitivity of their long-term business strategy to relevant physical and transition climate scenarios.<br>We also expect companies to incorporate potential climate risks in their governance structure, business strategy, risk management and reporting, in line with the recommendations from the Task Force on Climate-related Financial Disclosures. We explain this in our document entitled 'climate change strategy, expectations towards companies'. |

<u>Targets</u>

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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| As a global investor, we encourage companies to disclose information in accordance with globally accepted reporting standards and frameworks. This increases comparability across markets. |

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.

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| Companies should develop a framework to monitor greenhouse gas emissions associated with their business operations. They should report absolute and relative greenhouse gas emissions in accordance with the Greenhouse Gas Protocol. They should report any emissions directly generated by industrial facilities they own or operate. They should also disclose emissions associated with purchased or acquired electricity, steam, heat, or cooling, and, if appropriate, scope 3 greenhouse gas emissions. As appropriate, companies should consider providing industry-specific greenhouse gas efficiency ratios. |

**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.

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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.

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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.

We agree that companies should conduct supply chain due diligence to identify both environmental and social risks and take the necessary measures to address these. Concerning the respect of human rights in particular, we believe companies should adopt strategies and policies based on industry standards and good practices addressing human right. Companies should conduct ongoing human rights due diligence and strive to identify actual and potential negative impact on relevant human rights in relation to all aspects of a business operation. Human Rights due diligence efforts should be guided by the severity of the potential adverse impact on human rights and practical considerations such as company size, sector, operational context, and business structure. Company policies should include measures to address salient human rights risks, including, as appropriate, through cessation, prevention and mitigation of potential human rights abuses.

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.

Corruption remains a serious challenge and exposes companies to legal and financial risk through penalties and blacklisting. In addition, corruption exposes companies, their investors and business partners to significant reputational risk. NBIM published a document entitled 'Expectations towards companies on anti-corruption', where we lay out our position on this topic.

Boards should ensure that the company sets a clear policy on anti-corruption and that relevant measures are integrated into business strategy, risk identification and management, and reporting. Boards should ascertain that relevant measures are implemented and enforced, and that the ensuing responsabilities are assigned and communicated in the organisation. Boards should effectively guide, monitor and review management in carrying out these efforts.

We welcome the new reference to anti-corruption trainings. In our view, companies should provive and document appropriate and regular training on anti-corruption for all relevant employees and, where appropriate, business partners.

**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.

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