

18 July 2019

Hong Kong Exchanges and Clearing Limited
8/F, Two Exchange Square
8 Connaught Place,
Central
Hong Kong

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

Dear Sir/Madam,

We are honored and grateful to support the public consultation regarding the review of the ESG Reporting Guide and Related Listing Rules. In addition to our response to the consultation, we would like to further express our view in this letter.

AvantFaire Investment Management Ltd., to the best of our knowledge, is currently the only SFC licensed asset manager in Hong Kong specialising in impact investment. Impact investment is a thematic approach in managing assets and investments with measurements around ESG and sustainable factors. We tackle ESG problems through investing in funds and private companies that provide solutions to ESG and sustainability issues. We carry fiduciary duties to our investors and provide them suitable financial products. The nature of our business requires us to understand and measure ESG impacts along the supply chain, communicate, and deliver measurable and meaningful social impact and financial returns to our investors.

The following are our views on ESG reporting and disclosure.

Firstly, social-KPIs must be measurable, trackable, and meaningfully linked to the compensation structure and profit of the organizations. For each listed company, both internal and external social-KPIs must be linked to the compensation structure, not only to the top management but to the whole organization. In order to align organizational interests with the public, the implementation of ESG policy needs to be supported by regulatory enforcement. The questions related to work safety and record keeping are also very important. For example, industry regulations in North America, Europe and the UK require reporting of fatality rates and making trend comparisons. For construction and energy industry, fatality rate is one of the most critical measures to value a company. With record keeping and mandatory disclosure, analysts would be able to produce social risk adjusted valuation and impact analysis. Work safety, anti-corruption, anti-harassment training should be provided on a regular basis.

Secondly, supply chain must be managed and disclosed with data and qualitative details. For example, because of the ESG regulation in China, an overseas producer listed in Hong Kong may shift its manufacturing operation to other countries, where less disclosure is required. In this case, the analysts may find it even harder to trace the economic impact, the stakeholders of this producers in Hong Kong and overseas may be affected, and the net environmental and humanity impacts are less traceable. Stock price may not be able to reflect the stakeholders' interest in some circumstances. With supply chain management disclosure, we believe HKEX will be ultimately benefited from its ESG transparency policy and active market engagement.

Thirdly, we need more data and disclosure to correctly assess risk and valuation of investments. Climate change has become an urgent global issue, more data and disclosure will not only benefit Hong Kong financial market practices, but also become a critical contributor to tackle global warming, support United Nations initiatives, and tangibly benefit our local community. We look forward to HKEX taking the lead in Asia in ESG reporting and disclosure for listed companies, and building the ecosystem in Hong Kong for impact investment for both local and overseas investors.

We remain at your service at contact@avantfaireim.com.

Yours Faithfully,



Catherine Chen

Founder and Managing Partner

AvantFaire Investment Management Ltd.

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.

We encourage all corporations to fully factor ESG considerations into their business operations and investment, and to align the publication timeframe of ESG reports with annual reports.

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.

We support initiatives to reduce printed documents in all forms as long as the ESG reports can be broadly and efficiently distributed to stakeholders and interested readers.

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 believe the implementation of MDR and its enforcement will drive the culture to put ESG as one of the major considerations in the business operation and governance structure in corporations.

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.

We agree that corporations should use a top-down structural approach to integrate ESG into their businesses. The board of the corporation should take a leadership role to ensure all ESG policies are properly regarded and executed by staff at all levels.

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 a corporation should set a clear strategic direction, business plan, execution process and result target in order to show stakeholders the relevance, importance, integration and measurement of ESG in relation to the business.

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.

We encourage corporations to have a structural framework to report ESG with a long term target to standardize as much as practically feasible in such reporting.

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.

It is essential for corporations to only report ESG with relevance and materiality in relation to their businesses. Corporations should genuinely integrate ESG into their businesses and to understand the strategic value of ESG to their businesses.

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.

We strongly support quantitative measurement and reporting of ESG factors which can facilitate our analysis for making impact investment decisions. It is also important to get a qualitative supplement to understand the direction that the management takes towards ESG. KPI must be quantitative in order to link real compensation with ESG intentions to avoid green washing.

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.

As an impact investor, we consider the totality of ESG policy and measurement of a corporation and its associated entities as a group. ESG measurement process and methodology highly affect the quality of reporting and validity of measurement results.

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.

As an impact investment asset manager, climate change is one of our targeted investment themes. Policy disclosure and KPI definition will help making impact investment decisions. These also help corporations to define and implement both internal operation and external business policies in relation to climate change.

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 support disclosure in environmental KPIs, description of targets and plans to achieve the targets in order to understand the environment impact created by the corporation and if such impact can be sustainably created. Such disclosure can also provide the guidance and incentive for employees to comply with these KPIs within the operation of the corporation.

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.

We look forward to seeing corporations to meet the international standard for GHG emission. It will facilitate our comparison of investment projects associated with GHG in different geographic locations.

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.

We believe the implementation and enforcement of disclose obligation will drive the culture of corporations to factor social KPIs in their business operations.

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.

Investors always prefer more clarity and information to less when making investment decisions. Compensation structures and work specifications are different between full-time and part-time staff. KPI must be designed to match targets for each employment type.

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.

Investors always prefer more clarity and information to less when making fully informed investment decisions. Work safety and such historical trends are important factors to understand and value companies.

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.

As an impact investment asset manager, we care about the net positive impact a corporation and its associated supply chain create. Not managing the supply chain is not considered as real ESG management. Corporations do discrete disclosure of ESG or impact factors would prevent impact investors from making comprehensive impact analysis and valuation.

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.

Anti-corruption training must be designed to have proper whistle blowing system and process of escalation. Periodic studies must be done as compared to one-time training.

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.

Since ESG identification, measurement and reporting are new and evolving themes, it is helpful for corporations to get professional advice from independent assurance agents. It can accelerate corporations to meet international standards in relation to ESG and flourish the ESG and impact investment ecosystem in Hong Kong.

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