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19 July 2019

By Email

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

Dear Sir/Madam,

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

[REDACTED] has been in the sustainability consulting practice in Hong Kong for over a decade and has witnessed the evolution of sustainability/ESG reporting and corporates adopting more sustainable, responsible and inclusive business models. Overall, we are pleased to see that the proposed amendments from the latest HKEX consultation paper are approaching towards alignment with international best practices in reporting, and therefore we are generally in support of most of the changes. We hereby summarize several key feedback and recommendations for HKEX to consider.

1. We recommend that **larger listed companies should be required to report in accordance with GRI Standards**. Large listed companies in Hong Kong, most of which are considered world-class, ought to be required to align with world-class reporting standards. With reference to the Taiwan Stock Exchange, companies in designated industries and of a capital stock no less than NT\$5 billion are required to produce an annual corporate social responsibility report meeting the requirements under the core option of the GRI Standards¹. HKEX should consider adopting the same approach, requiring larger listed companies with higher capital to take on more responsibility in ESG reporting.
2. **We do not agree with the proposal to shorten the timeframe for publication of ESG reports**. Having worked with a lot of large listed companies many of which report against GRI Standards, we fully understand that time and quality has direct correlations in the production of a report. Therefore, having a shorter timeframe may compromise the quality of the ESG reports. Additionally, we believe that the value of the ESG reports is in disclosing relevant indicators that help inform investors of a company's potential medium to long-term ESG-related risks and management approach. The focus should be on requiring issuers to disclose more valuable information related to the good quality systems in place to manage environmental, social and governance issues that would contribute to long-term value, rather than rushing issuers to publish reports for the sake of meeting requirements.
3. We agree with the proposal to introduce a new aspect on climate change and recommend **more time and resources provided for issuers to understand how climate-related issues would impact businesses**. There is a pressing need for businesses all around the world to set targets

¹ <https://twse-regulation.twse.com.tw/ENG/EN/law/DAT0201.aspx?FLCODE=FL075209>

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to reduce greenhouse gas emissions and mitigate climate-related risks, but companies need to first acknowledge and understand the issue at hand. There needs to be a step-wise approach to demonstrate that issuers are disclosing an adequate and strong understanding of climate-related impacts on business, otherwise it will become another form of "box-ticking", and the quality of disclosure would be even more difficult for HKEX to evaluate. We suggest that HKEX provide a grace period of a year for issuers to understand their current gap with respect to climate-related issues and how they impact the business, before mandating necessary disclosures. In the meantime, HKEX should provide ample resources for issuers to understand the standard in meeting compliance.

4. We agree with the proposal to introduce new KPIs that would strengthen the description of respective supply chain management, and we recommend HKEX **to further stress the importance of supply chain transparency** as it is becoming a global demand. In light of recent global actions to address modern slavery and human trafficking, namely the enactment of UK and Australia's Modern Slavery Act, it is important for Hong Kong listed companies to be aware of the need for transparency in supply chain management. We recommend HKEX to draw reference from the Modern Slavery Act, and consider requiring issuers to address slavery and human trafficking in the supply chain in their annual reports.

Should there be any questions, please feel free to contact the undersigned at [REDACTED].

For and on behalf of [REDACTED],

[REDACTED]

[REDACTED]

Associate Director

Encl. HKEX Consultation Paper May 2019_[REDACTED]_reply_questionnaire

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.

Firstly, having a shorter timeframe may compromise the quality of ESG reports. For the past decade, ██████████ has produced a number of ESG reports, many of which are in accordance with GRI Standards (G4 in the earlier days). The experience in sustainability reporting has led us to conclude that companies that want to produce a report in accordance with GRI, in general need a longer timeframe to consolidate data. Given that this Consultation Paper is requesting companies to disclose even more information, more time would be needed to gather data, and under such a time crunch, the quality of reports may be jeopardized and may deviate towards a "compliance-based" or "box-ticking" approach again.

Secondly, the value in the ESG reports is in disclosing relevant indicators that would inform investors of a company's potential medium to long-term risks and management approach. We believe the basis of application of ESG-factors in investment decisions is not the same as conventional investments- whereby conventional methods may reward the investor with the fastest and most up-to-date transactional information, ESG-considered investments reward those with the understanding of the larger context and trajectory of ESG performance. The focus should be on requiring issuers to disclose more valuable information related to the good quality systems in place to manage environmental, social and governance issues that would contribute to long-term value, rather than rushing issuers to publish reports for the sake of meeting requirements.

For the reasons stated above, ██████████ recommends not to shorten the timeframe for publication of ESG Report, but rather continue the existing practice of publishing 3-months after the publication of the annual report.

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.

██████████ agrees to communicate that printed form of ESG reports are not required, as this would be a more environmentally-friendly approach in saving paper.

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.

██████ agrees that the amendment to introduce MDR will raise awareness for the board and the leadership of every listed company, on fundamental ESG issues related to respective business activities.

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.

██████ agrees to introduce the MDR containing the abovementioned elements for the governance structure. This is a good approach to raise awareness of ESG-issues at each company's leadership level.

We would recommend HKEX to provide specific guidance notes on how these MDR requirements would be enforced, and what are the specific criteria that HKEX is looking for in this board statement related to ESG issues.

Additionally, we would recommend HKEX to encourage and provide training to ensure board members understand the benefits and implications of having a ESG-integrated approach in business development and risk assessment.

HKEX should compliment these set of mandatory requirements with necessary tools (i.e. e-Learning, seminars, workshops, etc.) to educate and help companies understand the business implications of having an ESG-integrated approach.

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.

██████ agrees on the abovementioned amendments into the board statement in order to demonstrate top leadership's awareness of and implementation of ESG-matters and integration with business activities.

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.

██████ agrees that a more detailed explanation on applying the Reporting Principles will be more aligned with international standards such as the GRI Standards.

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.

██████ agrees that the amendments in the disclosure on materiality will largely enhance the transparency of issuer's ESG materiality assessment

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.

██████ agree with the amendments as they will enhance transparency and track for consistency in quantitative disclosure of KPIs.

We also recommend HKEX to develop an online resource center for sector/industry-specific set of standards, methodologies and calculation tools for issuers as reference. In alignment with clause 90 in the consultation paper, we believe HKEX also has a crucial role to play in establishing standardization and criteria to help facilitate and enable issuers to publish comparable ESG information for their stakeholders.

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.

██████ agree that the explanation on reporting boundary will enhance transparency and the justification for specific entities or operations that are included in ESG report.

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.

██████████ agree to introduce a new Aspect around Climate Change, however believe that most issuers would require some time to develop such policy and relevant KPIs.

We suggest that HKEX provide a grace period of a year for issuers to understand their current gap with respect to climate-related issues and how they impact the business. There needs to be a step-wise approach and disclosure to demonstrate that issuers are disclosing an adequate and strong understanding of climate-related impacts on business. Otherwise it will become another form of "box-ticking", and the quality of disclosure would be even more difficult for HKEX to evaluate.

Again, specific guidance notes from HKEX would be necessary to educate issuers on how to develop policies around climate-related issues, and relevant KPIs to measure performance and impact.

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.

██████ agree to require issuers to disclose relevant targets.

Moreover, we recommend to align the respective targets to the SDG, to further demonstrate an alignment with international best practices. There has been a growing trend of companies listed on the HKEX reporting against the SDGs. However, the room for improvement is on how each business' targets align with the targets within each SDG. The key is that each company need to interpret the applications of the SDG targets with respective to their goals and targets. This approach will further provide the context needed in establishing S.M.A.R.T. goals and targets.

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.

██████████ agree to delineate GHG according to Scope 1 and 2 for better comparison in GHG emissions between companies, and better alignment with international disclosures.

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.

██████████ agree that social KPIs should be upgraded to comply or explain as these KPIs are indicators to demonstrate the health of a company.

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.

██████████ agree to clarify employment types as this aligns with GRI disclosures and international best practices. This information would also give insights into the nature and sustainability of the business model.

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.

██████████ agree with the proposed amendments because these KPIs provide a good indicator on the health and safety governance issues.

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.

██████████ agree that more stringent disclosures in issuer's supply chain management is necessary. Moreover, due to recent year's awareness of human rights issues, and the enactment of UK and Australia's Modern Slavery Act, it is pertinent for Hong Kong listed companies to also be aware of social and environmental risks embedded along the supply chain.

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.

██████████ agree to introduce the new KPI. We would additionally recommend the KPI to delineate the breakdown of percentage of directors and staff trained (refer to GRI 205-2). This would further serve the purpose of issuers having more responsibility to provide training on anti-corruption to all staff, and being more transparent in annual disclosures.

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 with the proposed revision of wording on independent assurance in order to enhance the credibility of the ESG reports.

- End -