BUSINESS
ENVIRONMENT
COUNCIL
商界環保協會

19 July 2019

Hong Kong Exchanges and Clearing Limited
8th Floor, Two Exchange Square
8 Connaught Place
Central, Hong Kong
Email: response@hkex.com.hk

Submission on the Consultation Paper on Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules
Views from Business Environment Council Limited
商界環保協會有限公司

Over the last 26 years, Business Environment Council Limited 商界環保協會有限公司 (BEC) has played a leading role in advocating the business case for environmental excellence in Hong Kong. Our members are committed to actively engaging with regulators in Hong Kong such as Hong Kong Exchanges and Clearing Limited (HKEX) on issues related to environmental protection and sustainability.

Views expressed in this submission are those of BEC, based on consultation with our members and in line with BEC's Mission and Vision as well as policy position on relevant issues, but may not necessarily be the same as the views of each individual member. BEC is an independent charitable membership organisation comprising over 200 member companies from Hong Kong's major holding companies to small and medium-sized enterprises.

Question 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?*

We acknowledge that shortening the time to publish ESG reports helps to provide investors and stakeholders with timely information. Timeliness of information is important for enabling informed decision-making by investors and stakeholders.

BUSINESS
ENVIRONMENT
COUNCIL
商界環保協會

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 and lead to the unintended consequence of lowered disclosure content quality and causing issuers who typically go "above-and-beyond" the requirements (for example voluntarily disclosing according to Global Reporting Initiative standards) to opt to disclose according to minimum compliance. Furthermore, if independent assurance of ESG information is to be encouraged, time will be needed for this extra step.

As such, we suggest HKEX shorten the timeframe incrementally and establish a clear timeline of planned changes to the timeframe. This will allow issuers to steadily adjust to shortened time on a predictable schedule without shocks or disruptions.

Question 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. Such clarification will help issuers to allocate resources efficiently, and the notification will facilitate improved communication with shareholders.

Question 3: *Do you agree with our proposal to amend the Guide to introduce Mandatory Disclosure Requirements (MDR)?*

Yes. The introduction of MDRs will help to facilitate the disclosure of detailed and precise information within ESG reports to further provide value to readers. Moreover, MDRs provide issuers with greater clarity on how to communicate information according to disclosure expectations.

Question 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?

Business Environment Council Limited
商界環保協會有限公司
2/F, 77 Tat Chee Avenue, Kowloon Tong, Hong Kong
香港九龍塘達之路77號2樓
T (852) 2784 3900
F (852) 2784 6699
www.bec.org.hk

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. The proposed MDR will encourage issuers to review and strengthen their ESG governance structures. We agree that issuers should disclose the board's oversight of ESG issues as the board's involvement is essential for robust ESG governance and long-term sustainable success. Requiring the disclosure of processes used within the board statement will encourage issuers to utilise robust and holistic approaches to manage ESG-related issues and ensure a meaningful board oversight of the management approaches. Disclosure of how the board reviews progress made against goals and targets will help to boost investor and stakeholder confidence in that ESG performance and improvements are considered at the highest level of management. A clear process for the review and evaluation of progress towards ESG-related goals and targets is an important aspect of ensuring continued improvement.

Question 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. Such note will serve as a guideline for issuers to provide useful information through the board statement and encourage the board to take a holistic and substantial approach in its oversight over ESG issues. Additionally, making clear links between ESG issues and the issuer's businesses will help to integrate and mainstream ESG into business operations. We furthermore suggest that the note provide clarification as to the board statement's form and its relation to the CEO/chairman's statement which is oftentimes included by issuers.

Question 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. An explanation of how the issuer has applied the Reporting Principles will help to improve transparency, reliability and comparability of the disclosures. Further to the

Business Environment Council Limited
商界環保協會有限公司
2/F, 77 Tat Chee Avenue, Kowloon Tong, Hong Kong
香港九龍塘達之路77號2樓
T [852] 2784 3900
F [852] 2784 6699
www.bec.org.hk

explanation, the application of the Reporting Principles as described should be demonstrated in the ESG report.

Question 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?*

We are supportive in that these enhanced requirements will provide issuers with clearer direction for determining and disclosing materiality. The amendments will help to ensure that the materiality assessment process is transparent and robust. However, we suggest modifying the wording of the requirement so that materiality of ESG issues must be "endorsed" by the board. This clarification will ensure greater operational flexibility, but effectively still require board involvement in the process.

Question 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?

We are supportive of improved information consistency and comparability. We agree with the proposal to require the disclosure of standards used. For methodologies, assumptions, calculation tools and conversion factors used, we view that these could be described and referenced rather than disclosed in full technical detail. For these elements, disclosure in the form of succinct yet descriptive explanations would be more suitable for readers to understand. Disclosure in such format also helps to protect business intelligence and intellectual property of service providers. The clarification regarding KPIs will be useful for issuers to express and disclose targets.

Business Environment Council Limited
商界環保協會有限公司
2/F, 77 Tat Chee Avenue, Kowloon Tong, Hong Kong
香港九龍塘達之路77號2樓
T (852) 2784 3900
F (852) 2784 6699
www.bec.org.hk

Question 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. This amendment will improve the transparency and will elevate the value and meaningfulness of the entire report. This will also aid the comparability of information and performance over time.

Question 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. The disclosure of climate issues and actions will induce issuers to actively assess the climate emergency and implement mitigation, adaptation and resilience actions. This is important as climate change is a challenge of unprecedented scale with deep implications to business sustainability. The proposal is also one step closer towards aligning with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures.

However, to enable issuers to perform in-depth and robust assessments on climate-related issues and impacts, greater quality and quantity of relevant data and information must be made available to issuers. HKEX should provide appropriate support on this front.

Question 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?*

Business Environment Council Limited
商界環保協會有限公司
2/F, 77 Tat Chee Avenue, Kowloon Tong, Hong Kong
香港九龍塘達之路77號2樓
T (852) 2784 3900
F (852) 2784 6699
www.bec.org.hk

We support requiring disclosure of targets and steps taken to achieve targets, in addition to existing required disclosures under the Environmental KPIs. Target setting is key for managing environmental performance and driving improvements. It is important for issuers to disclose the targets and progress towards targets, if any, to present a full picture of the company's environmental performance strategies and action plans.

However, we note that in the initial phase of this requirement's effectiveness, some issuers may not be ready to impose or disclose target on the various environmental areas. In such cases, they should be obliged to disclose numerical targets only where they are able to do so, and to lay out a roadmap for disclosure of the undisclosed elements. Flexibility for issuers in this manner should be permitted.

Question 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. A detailed disclosure of GHG emissions will help to better inform investors and stakeholders of an issuer's climate change impact. Accounting for Scope 1 and Scope 2 GHG emissions separately will also help issuers to more usefully understand their own carbon footprint and formulate strategies to effectively reduce their emissions.

Question 13: *Do you agree with our proposal to upgrade the disclosure obligation of all Social KPIs to "comply or explain"?*

Yes. We support the proposal which will result in a more comprehensive disclosure. This proposal will help to rightfully solidify the importance of social performance of businesses.

Question 14: *Do you agree with our proposal to revise a KPI to clarify "employment types" should include "full- and part-time" staff?*

Yes. We are supportive of the clarification, which is helpful for issuers and ensures that readers receive detailed information.

Question 15: *Do you agree with our proposal to amend the KPI on fatalities to require*

Business Environment Council Limited
商界環保協會有限公司
2/F, 77 Tat Chee Avenue, Kowloon Tong, Hong Kong
香港九龍塘達之路77號2樓
T (852) 2784 3900
F (852) 2784 6699
www.bec.org.hk

disclosure of the number and rate of work-related fatalities occurred in each of the past three years including the reporting year?

Yes. Disclosing information of the past three years improves comparability and understanding of issuers' progress made against this target.

Question 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.*

Beyond issuers' direct ESG performance, their indirect ESG impact through their supply chain and procurement is an important aspect of a company's overall performance, hence is information which should be made available to investors and stakeholders. However, given the complexity and immensity of supply chain management, we view that at this stage only issuers' key suppliers ought to be subject to these requirements. In other words, we support this proposal on the provision that the principle of materiality applies to this requirement, as with all other requirements.

Question 17: *Do you agree with our proposal to introduce a new KPI requiring disclosure of anti-corruption training provided to directors and staff?*

Yes. Disclosure of anti-corruption training provided to directors and staff will provide readers with a more thorough understanding of issuers' commitments to ethical business conduct.

Question 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?*

Business Environment Council Limited
商界環保協會有限公司
2/F, 77 Tat Chee Avenue, Kowloon Tong, Hong Kong
香港九龍達之路77號2樓
T (852) 2784 3900
F (852) 2784 6699
www.bec.org.hk

Yes. Encouraging independent assurance will help to enhance the accuracy, reliability and credibility of ESG reports and the disclosures within. We agree that should independent assurance be sought, the level, scope and processes for assurance should be disclosed for transparency. However, seeking independent assurance will require additional time, as explained in response to Question 1.

For queries related to this submission, please contact our Chief Executive Officer, Mr Adam Koo at [redacted].

Yours sincerely,

[redacted]

Richard Lancaster
Chairman
Business Environment Council Limited

Business Environment Council Limited
商界環保協會有限公司
2/F, 77 Tat Chee Avenue, Kowloon Tong, Hong Kong
香港九龍塘達之路77號2樓
T (852) 2784 3900
F (852) 2784 6699
www.bec.org.hk