

## 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 support the changes to be made on the publication duration of ESG reports to 4 months for Main Board issuers and 3 months for GEM issuers from their financial year-end. It is more timely and convenient for investors to study and analyse the financial data and ESG information at the same time while making their investment decisions. Normally, analysts would like to see all the updated financial and non-financial data at one time to facilitate their investment decision-making with a holistic perspective.

### 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 agree to abandon the printed format of ESG reports. Since more and more target readers are get used to reading materials online, it's more convenient and environmental friendly to do the disclsoure through online publication. This measure can also save trees and hence paper so as to support environmental protection.

## 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 agree with the introduction of MDR, which is a global trend. MDR could be a major driving force for all publicly listed companies, especially SMEs, to further fulfill the requirements of disclosure on ESG information. This would be able to encourage publicly listed companies to take a more serious approach in preparing the related report. And at the same time, HKEx is expected to give more precise and concrete requirements and guideline on which level of disclosure is deemed sufficient.

### 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 with the proposal to introduce the MDR, demanding for a statement from the board containing these three elements. Bringing ESG's accountability to the board level will benefit as the board member is the crucial sponsor to ESG effort in companies. Without the Board's endorsement, even CFOs/Company Secretaries may not be serious enough to make the commitments in preparing the ESG reporting. In some cases, some CFOs/Company Secretaries are even hands off, making delegation of all ESG works to the staff at lower level. Furthermore, setting targets, on the one hand, requires the commitment and coordination among different departments, and on the other hand, is a very practical tool to prompt the improvement in their ESG performance. What get measures, what get done. Of course, this also affects the entire operation with resources implication behind, which needs the blessing from senior management. But for setting achievable targets, it appears to be a major challenge for those SMEs and /or some industries (e.g. social media). There is a need for SMEs to equip themselves with relevant knowledge and resources. To keep track of the progress in target achievement, additional resources are required to do the measurement. In conclusion, board-level support is of the utmost importance to make these happen.

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.

Yes, we agree. This will help the board to obtain an overview and start the exercise of resources alignment to ensure consistency and sensible comparison. The board should examine if the corporate strategies introduced is in alignment with different level of departmental policies and measures. Moreover, this provides an opportunity for the companies to work on articulation with different action plan in harmonization with the established policies and measures. This is also an effective way to set concrete and clear directions for companies to make improvement and comparison. ESG reporting is no longer a mere exercise to show the past data but becomes an integral part of corporate strategy development, which helps the senior management to make better decisions.

### 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.

An MDR requiring a disclosure of an explanation on how the issuer has applied the Reporting Principles is essential. This will illustrate the rationale and logics of the issuers behind their reporting. This will also supplement the qualitative explanation about their presentation and interpretation on specific aspects regarding the reporting principles. This will facilitate the development and improvement in terms of the depth of interpretation and elaboration, which at the same time gives readers a reference about the credibility of the data collection and presentation.

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.

Stakeholder engagement is an important process to collect different views both internally and externally and hence determine the materiality of the issues, which is/are significant to the company. Throughout the procedures, a more balanced picture will be formed and an alert could be sent to senior management if big divide is views are found. For example, some critical issues are weighted heavily by external stakeholders - suppliers, such as, anti-corruption or ethical marketing, may be ignored by the internal stakeholders - companies staff. The gap found could be used as part of the risk management and priority setting. Moreover, follow-up action should be reported as a feedback to the stakeholder engagement exercise in order to acknowledge the input of stakeholders. As stakeholders' viewpoints may be changing over the time, doing annual stakeholder engagement is necessary to catch up the latest development. Finally, it's better to give a clear and minimum requirements on how the engagement and facilitation process should be carried out without bias and pre-set leading directions.

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.

This proposed change will make the report much lengthy and issuers need to commit more resources while increasing the robustness of the methodologies, and resulting in the reduction of errors and miscalculations. But for the FULL compliance, it may be too demanding for those SMEs at this point of time. Therefore, stages of implementation or pilot scheme on some particular sections or KPIs is recommended.

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.

Since there are many criteria for setting reporting boundaries, it could be sales, number of staff, regions, etc., a clear explanation on selecting a particular criterion for boundary setting has to be disclosed and justified. In addition, if the criteria are changed from previous years, the reason(s) has to be clearly spelt out.

## 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 is essential for risk management, which is one of the main concerns of investors. Reduction / mitigation plan in Carbon emissions has to be in place by having a comprehensive policies and measures. Issuers may need to evaluate and quantify the impact of climate change to their businesses. Scenario-based climate risks is highly recommended and to be incorporated in ESG integration. Although some research show that simply skewing portfolios to better ESG-risk-scoring holdings has not generated higher returns, but higher ESG risk profile carries more significantly financial portfolio tail risks versus benchmark portfolios. ESG disclosure will fuel the risk management process for analysts and investors.

### 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.



A more clear guideline for the timeframe of target setting is recommended. For instance, it could be one-year target or three-year target or typical 5-year target to facilitate the investment in resources. Showing previous years' KPI results is also important for comparison purpose. Lower requirements as well as implementation by phases or pilot tests should be considered for those SMEs.

A good reference is "Your Guide to ESG Reporting" issued by London Stock Exchange, there are many good recommendations in Section 3 "Investment Grade Data", including the reporting requirements for smaller issuers.

## 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.

The data for calculating Scope 1 and Scope 2 GHG are relatively easier to collect, and most importantly, they are within the control of companies. GHG Protocol also sets a good guideline for reporting. Although WRI put resources to explore the coverage of Scope 3 reporting for supply chain, the scope is still not common due to the difficulty in data collection and privacy issues. Therefore, reporting Scopes 1 and 2 is sufficient at this point of time.

## **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.

Social KPIs can reflect issuers' competitiveness in terms of talent development, recruitment and retention. This provides a more concrete non-financial information for investors to make a more meaningful and holistic assessment.

## 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.

Not very useful because different industries may have their industry-specific needs on employing full-time and part-time staff. For instance, catering and retail industries may employ more part-time staff due to the operational needs. It does not imply any significant issue in employees rights. Furthermore, for example, banks are employing more and more part-time staff nowadays due to automation and digitalization. This does not give rise to any particular concerns.

### 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.

It could give readers a better sense of how companies perform in this area over a certain period of time or in consecutive years. A trend can be examined to judge whether the issuers' performance in this aspect are improving or deteriorating. And if an adverse figure happens in any particular years, more attention can be aroused.

## 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.

This could raise the awareness of companies to pay more attention on selecting suppliers in terms of ESG, a pressure to focus on relevant ESG performance criteria for suppliers could be widely spreaded. Walmart is doing well in this area by setting environmental KPIs for its suppliers, and this, in turn, helps Walmart achieve its own KPIs. This is not only a best practice, but also a good risk management on supply chain management.

## 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 is a crucial element to preserve Hong Kong's core values. Training is important for directors and staff to update them with the latest anti-corruption legal requirements, to make them alert of any suspicious transactions and avoid getting trapped in accidental situations. The training will equip them with the sufficient knowledge of how to handle corruption cases as well.

## 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 and not agree. It can help HKEx lessen the workload to ensure the integrity and accuracy of ESG data and content both qualitative and quantitative, especially the above-mentioned disclosure of calculations and formula. However, this will significantly increase the cost of issuers in preparing the report. If a sufficient guideline and a stringent penalty system are provided by HKEx, it may be good enough for issuers to carefully disclose their ESG performance.

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