




Asia Investor Group on Climate Change (AIGCC)

Submission to The Hong Kong Stock Exchange:

Response to the Consultation Paper on
Review of the ESG Reporting Guide and
Related Listing Rules

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

The Asia Investor Group on Climate Change (AIGCC) welcomes the opportunity to respond to public consultation on the review of the ESG Reporting Guide by the Hong Kong Stock Exchange.

AIGCC members include over 30 Asian and international institutional investors active in the region with over US\$4 trillion funds under management, along with members of the investment community focused on the impacts of climate and energy issues.

AIGCC is also the Asia partner organisation of the Global Investor Coalition on Climate Change (GIC)¹, a coalition of four regional investor groups working collaboratively on global climate

¹ The four partner organisations are AIGCC (Asia), with 31 members and US\$3.5trn AUM), Ceres (North America), with 163 members and US\$25.4trn AUM, Investor Group on Climate Change (Australia/NZ), with 70 members and over A\$2trn AUM and the Institutional Investor Group on Climate Change (Europe), with over 170 members and €23trn AUM. For details, please visit: <https://globalinvestorcoalition.org/>

initiatives and engaging with members in our local markets to implement investor action on climate change.

AIGCC members are invested across Asian economies and are part owners of many of Asia's large companies. As managers of retirement savings and pooled investments we are concerned with the evident and increasing impacts of climate change on the global and Asian economies and the flow through impacts for investment returns.

Overall comments on the consultation

In recent years, we have witnessed a shift in how the Asian business and financial community views climate change and the need to reduce greenhouse gas (GHG) emissions. Climate change has moved from being seen primarily as an environmental issue to additionally being understood as an economic risk. Whether physical, regulatory or market-driven, climate change has financial implications and for business and investors, GHG has a bottom line impact.

We consider effective carbon risk disclosure that is fully integrated into business-as-usual financial reporting is the foundation of good risk management. Companies have a fiduciary duty to consider climate-related risks to their business. Around the world, a growing number of government bodies have begun introducing statutory requirements for the disclosure of environmental and other non-financial information. These generally require companies to disclose environmental information in as part of mainstream financial reporting and to connect environmental performance with business strategy, performance and future profitability.

AIGCC response to Mandatory Disclosure Requirements on Governance Structure

We welcome the proposed recommendations by the Hong Kong Stock Exchange in mandating governance for ESG and improved disclosure on the board's oversight of ESG issues. In particular, we emphasise the importance of adopting the long-term view in the evaluation and management of material issues and suggests the integration of climate-related impacts in the board's oversight of ESG issues. To inform the materiality assessment processes, we encourage references be made to sector-specific guides such as the [GIC Sector Reports](#) and the [TCFD Implementation Guide](#) developed by The Climate Disclosure Standards Board (CDSB) and the Sustainability Accounting Standards Board (SASB).

AIGCC response to addition of new Aspect on Climate Change

We are strongly in favour of the addition of the new Aspect on Climate Change and encourage issuers to review and assess the impact of climate-related risks which is broadly divided into transition and physical risks. Issuers are recommended to consider longer-term strategies and disclose transition plans including opportunities to allocate capital to lower-carbon economy and specific measures across the value chain to build resilience against climate change effects. The

Task Force on Climate-related Financial Disclosures (TCFD) Recommendations has been widely adopted and is a recommended reference for issuers embarking on the journey of climate-risk disclosure. Ultimately, issuers are encouraged to provide decision-useful information on financial implications associated with climate change.

AIGCC response to target setting and Greenhouse Gas Emissions

We welcome the recommendation to require the disclosure of environmental targets, in particular, we strongly encourage issuers to disclose Scope 1 and Scope 2 GHG emissions as a minimum and work towards disclosing Scope 3 targets as part of the target setting practice. Where applicable, this would/could support Hong Kong's Climate Action Plan 2030+.

In conclusion

A growing number of investors across markets in Asia are now actively taking steps to review and manage climate-related risks alongside ESG-related issues and impacts. We believe that enhancing a continuous dialogue between investors and issuers in the application of the revised reporting guide will confirm its wide applicability and accelerate the adoption of climate risk integration among issuers in Hong Kong.

We look forward to continuing to constructively engage further in recommendations to assist the Hong Kong Stock Exchange in its efforts with regard to the Review of the ESG Reporting Guide.

Yours sincerely,



Rebecca Mikula-Wright

Director

Asia Investor Group on Climate Change

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

- End -

