

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.

Ideally, the ESG report should be published at the same time as the financial statements as investors evaluate the material ESG issues together with the information made available in the statements. Investors see that the two are inter-related and should not be studied in silos.

There is a trend for issuers to integrate the ESG report as part of annual report, and the ESG report usually shares part of the content as in the annual report. Recommendations from the Exchange should not cause difficulties to issuers.

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.

Printed reports are not necessary if issuers can inform the investors of the availability of the report in a timely nature. The accessibility of web-based or PDF format report is good to read and allows readers to search relevant information required in a much easier and swift way. In view of environment, such measures also save the consumption of 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.

Such an amendment would raise the overall disclosure level, quality of the ESG report, and to meet increasing demand from investors and stakeholders to obtain material and up-to-date non-financial information from the issuer for their analysis and decision-making.

In long run, it is believed the Exchange would like the issuers to disclose what should be disclosed and concerned by stakeholder in long-run. the Exchange should take reference to the case in UK, to work with the Government in updating the Companies Ordinance (Cap.622), to make disclosure of relevant non-financial/ESG elements as legal requirement in future.

The Exchange may find "Guidance on the Strategic Report" produced by Financial Reporting Council, UK for more information:

<https://www.frc.org.uk/getattachment/fb05dd7b-c76c-424e-9daf-4293c9fa2d6a/Guidance-on-the-Strategic-Report-31-7-18.pdf>

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.

This statement can be an important tool to improve corporate transparency and enables investors and other stakeholder groups to assess the involvement and engagement of the board in this important subject. However, to be meaningful, it is important that measures be in place to ensure that this won't become a "boiler plate" text. For instance, there should be documentary evidence (e.g. board minutes) to substantiate that the board is not only involved, but has conducted a rigorous and thorough deliberation process with a high degree of accountability.

The statement from the board should include direction, framework, key issues identified and solutions to material issues in the area of ESG.

For issuers that don't think they can single out 2-3 ESG issues, they can come up with a longer list, but need to explain why they don't think they can identify the key ones.

For issuers that don't think that ESG issues are material to their businesses, they can provide a statement to that effect, and explain why they think so.

If the assessment for a year is different from previous ones, issuers should highlight the differences and the reasons for the differences. By doing so, investors could have a good understanding on the progress and efforts contributed by issuers in solving such ESG issues.

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.

Similar to Question 4, management has the responsibility to ensure implementation of ESG elements into their daily operations to minimise potential risks posed.

Report and disclosure on progress or actions taken should be made in the next ESG report ensure investors and stakeholders are informed on progress and measures taken by top management of the issuer, instead of treating ESG reporting as an annual "box-ticking" exercise.

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.

With ESG disclosure quality review conducted by the Exchange at earlier time, it is known that the disclosure level of listed companies are generally good, but variation does exist, such an MDR, with guidance and support from the Exchange, would help issuers and the audience understand and measure the level and methodology of reporting. For instance, the application of international standards such as GRI and SASB would be appreciated.

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.

Some have suggested to change or amend the wording such that there should be more flexibility, e.g. an option is to require the board to determine the materiality of ESG issues...". Another option is to require "The board to approve the materiality of ESG issues identified". Thus, the responsibility will be vested with the management of the issuer, and the board's role is to provide oversight.

Such information would provide a base for the issuer to identify stakeholders, and the audience to interpret the relevancy of such stakeholders to the business, as well as provide a view from the board on such matters. It would be more ideal to have the issuer include what kind of engagement work has been conducted with views and responses from the issuer during the reporting period as a reply, and the board's role is more to scrutinise the reasons, the process and results.

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.

Information in the ESG report produced by some issuers are somehow vague and incomplete (detailed breakdown is not required) at the moment, and the audience cannot validate the accuracy of data. An amendment in an such area with a quantitative approach would help to improve the quality, measurement and accuracy of information disclosed, as well as comparability.

Instead of allowing issuers to risk the reporting base on wrong assumptions, using out-dated information, spending excessive time and duplicated effort in researching credible sources of conversation factors, the HKEX or an authority may provide a standardised tool to facilitate the calculation and reporting of emissions (referencing the UK Government GHG Conversion Factor for Company Reporting jointly published by the Department for Environment, Food and Rural Affairs, and the Department for Business, Energy and Industrial Strategy on an annual basis).

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.

The proposed amendment allows the audience to understand how the content of the report is formulated, however, the issuer is not required to disclose performance data of subsidiaries in a separate way. The audience does not have a way to know the actual performance of individual operation.

In addition, some have gone a step further by suggesting that the HKEX should set minimum boundaries for inclusion, such as a percentage of assets or turnover.

Environmental impact may not have direct correlation with business value, i.e. a higher turnover business does not necessarily lead to higher environmental degradation. Instead, it relates more to the business nature and operational practices.

A more scientific approach is to estimate the total impact of every business /subsidiary individually, and account for how individual business /subsidiary contributes to the aggregated impact of the Issuer as a whole. The issuer may then determine the boundary for inclusion of the majority and report the impact according to threshold of different metrics.

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.

Apart from disclosure, investors/stakeholders would like to know continuous efforts and actions that the issuers have made to deal with such situations and risks posed to the issuer's business until it is resolved. Follow-up disclosure on the situation is encouraged.

TCFD also recommends issuers disclose climate-related risks and opportunities identified in short, medium and long term, and its likeness to occur. The Exchange should recommend issuers to disclose in such an approach for a comprehensive picture, including risks, views and judgements from the Board on the matter, etc, to investors and stakeholders.

Through the use of measurable KPIs, issuers should disclose significance of climate-related issues (both mitigation and adaptation) and its level of impact in a quantitative manner.

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.

Echoing with direction on decarbonisation of the Government, WWF welcomes the suggestion. Establishment of quantifiable target encourage the issuer to perform a concrete effort towards the goal with a pathway. It is encouraged to have the issuer describe how such targets, pathways with details on specific measures are established, and whether the target is a science-based, non-science-based, or adhere to the 1.5 - 2°C or in a more ambitious scenario.

As a note here, it would be better to have relevant guidelines and support materials to corporates in medium or smaller scale for their easier "pick-up" on the matter upon its implementation.

On the other hand, similar to comments made in Question 9, issuers are encouraged to disclose relevant critical KPIs to be achieved by the subsidiaries, and describe relevancy to their respective business.

The climate crisis poses serious risks to the global economy and has an impact across many, if not all sectors, in which issuers operate. There is an increasing trend that companies not only establish a set of targets for their own operations, that is, to guide the action planning or pathways to mitigating climate risks, but also initiate another set of targets across supply chains partners so that the entire business portfolio could be climate proof and the long term sustainability assured.

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.

Disclosure in Scope means the issuer has to adhere to international carbon accounting standard. WWF welcomes the proposal. It is known some of the issuers have published their Scope 3 emissions as well, and Scope 3 emissions would account for a major part of emissions for some sectors, the Exchange may consider to encourage or to provide relevant resources in helping Issuers to include their Scope 3 emissions.

GRI-305 document would be a useful reference to Issuer with less experience in such area of disclosure.

In summary, the Scope 3 emissions can be further categorized as Upstream Scope 3 emissions (e.g. processing/provision of purchased materials/services, transportation of purchased materials/services, etc), downstream Scope 3 emissions (e.g. distribution of companies' products or services, product use, product disposal, etc) and other Scope 3 emissions related to the companies' own operation (e.g. employees' commuting to work, employees' business travel, outsourced corporate support services, etc). It is highly recommended for issuers to include the small Scope 3 emissions (i.e. Scope 3 emissions related to own operations) in the reporting.

It is worth mentioning that any avoided emissions resulted from renewable energy, tree planting or carbon offsetting /insetting programme should be reported separately from Scope 1, Scope 2 and Scope 3.

A related point to consider is the compilation of the GHG emissions sources /inventory. Majority of the emissions are arisen from the burning of fossil fuel or energy-related activities. However, the fugitive emissions should not be forgotten as the impact could also be significant due to the global warming potential of concerned gases.

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.

Such upgrade encourage Issuers to take concrete actions in this area and to provide a more comprehensive non-financial disclosure to investors and stakeholders.

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.

Such disclosure is mandatory for GRI reporting (GRI-102), revision would further enhance the transparency in disclosure.

It is encouraged to cover subcontracted service and self-employed that only serves the reporting company in its disclosure statement.

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.

WWF agrees the amendment. Further disclosure and description on the incident with remediation measures should be made for work serious injury cases - 1) with sick leave for more than 7 days and would likely result in permanent incapacity; and 2) fatality caese, under a general classification mechanism in "Employees' Compenstaion Ordinance" of Hong Kong or in respective business locations.

A step further, the Exchange should have the Issuer to include such figures along their supply chain.

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.

Management of supply chain is a good proxy for the quality of risk management. Thus, it is useful to introduce this piece of information.

The supply chain selection procedure should include request for information covering all the key aspects as covered in the HKEX ESG guidelines.

Further description on geographical-location or preference on selecting local-based suppliers, environmental friendly products with percentage to total procurement are encouraged, since it provides extra information to audience in view of supply chain stability or Issuers' social responsibility.

Please also refer to comments made under Q11.

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 has been common practice in corporate world. In view of training to directors, board or C-suites, a description on training content covered should be included in disclosure.

More importantly, there should be disclosure of policies on bribery and corruption. The audience can make use of such information to understand areas that may pose to respective business of Issuer.

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.

Independent assurance ensures credibility and accuracy of ESG information disclosed. At the same time, the Exchange should also study the disclosure and independent assurance quality of ESG report, and regularly publish observations and findings.

It will also be good for the HKEX to publish some guidances or compile a directory of individuals and companies that have the qualification to provide independent assurance services. That is, to assure the capability of service providers in delivering a high quality job that will strengthen the credibility of ESG information disclosed.

The HKEX may also consider random pick and "audit" a percentage of the issuers' reports to understand the level of credibility, or require issuer to submit an independent assurance report on a periodic basis, say every 5 years.

- End -