



**FAIR TRADE  
HONG KONG**  
香港公平貿易聯盟

July 2019

**SUBMISSION TO HKEX  
CONSULTATION PAPER ON  
REVIEW OF THE  
ENVIRONMENTAL, SOCIAL AND  
GOVERNANCE REPORTING  
GUIDE AND RELATED LISTING  
RULES**

## 1. Introduction

Fair Trade Hong Kong, on behalf of the Fairtrade Marketing Organization of Fairtrade International, welcomes the opportunity to make this submission to the HKEX.

This is an additional submission to the questionnaire addressing the REVIEW OF THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE AND RELATED LISTING RULES.

Fair Trade Hong Kong is part of the Fairtrade International network. Fairtrade International is a global system that represents more than 1.6 million farmers and workers around the world. Retail sales of Fairtrade products exceeded €8.4 billion in 2017. Our mission is to establish a Fair Trade economy to ensure producers in the developing world can receive their fair share of income, alleviate poverty, reduce inequality, and contribute to a sustainable future. We have been an advocate for an alternative approach to conventional trade which is based on a partnership between producers and consumers.

**Fair Trade Hong Kong fully supports the Upgrading of the Disclosure Obligation of the Social KPIs. We will recommend HKEX to further improve and strengthen the disclosure obligation by the introduction of possible new KPIs in line with recommendations from the United Nations reports.**

***Our Recommendations for Revising the Social KPIs (see further details below)***

**Recommendation 1: Introduce new KPIs to Aspect B1**

**Recommendation 2: Revise KPI B5.4**

**Recommendation 3: Introduce new KPIs to Aspect B5**

## 2. The United Nations Guidelines

In 2015, with the 2030 Agenda for Sustainable Development, the world's leaders set out on an ambitious path to end poverty, fight inequality and injustice, and protect the planet. The Member States of the United Nations unanimously agreed upon the 17 Sustainable Development Goals (SDGs), making them the world's agenda for sustainable development.

Transparency has become the new paradigm for conducting business. Sustainability reporting has since been the business world's top priorities. The UN Report published in 2017 entitled "Business Reporting on the SDGs: An Analysis of the Goals and Targets"<sup>1</sup> precisely aims to aid progress towards these global top priorities by helping businesses improve their reporting and performance on the SDGs. It offers a structured approach to help companies choose which targets to report on and how to use their reporting to drive action.

Based on the "Analysis of the Goals and Targets", we are able clearly to identify gaps where aspects of ESG Reporting under the current Guide of HKEX are yet to be fully established. Notably, the proposed amendments to GEM Listing Rules in the current consultation, whilst in the right direction, do not go far enough and are still lagging behind the recommendations from the UN, especially on the risks related to the Social Aspect.

It is widely recognized that ESG risks present financial, operational and compliance risks to companies. Failure to manage these risks carefully may bring about real financial impacts on the company. Investors are increasingly willing to allocate capital in sustainable investments. According to PRI reports<sup>2</sup>, 'WHY AND HOW INVESTORS CAN RESPOND TO INCOME INEQUALITY' (2018), institutional investors are increasingly conscious that income inequality—the gap in income and wealth between the very affluent and the rest of society—has become one of the most noteworthy socioeconomic issues of our time. It has the potential to negatively impact institutional investors' portfolios as a whole.

The proposed amendments in the current consultation do not adequately address the latest developments. As an organization devoted to poverty alleviation, we strongly believe the following KPIs should be introduced to Aspect B1 and B5.

### Recommendation 1: Introduce new KPIs to Aspect B1

#### Wages and Benefit

KPI B1.3 Ratio of CEO compensation to companies' employee median pay

KPI B1.4 Number & percentage of employees' salaries subjected to minimum wage

KPI B1.5 Percentage of real wage (increase in nominal wage compared to cost of living)

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<sup>1</sup> <https://www.unglobalcompact.org/library/5361>

<sup>2</sup> <https://www.unpri.org/academic-research/why-and-how-investors-can-respond-to-income-inequality-/3777.article>

### **Rationale**

- The ratio between American CEO compensation and employee median pay has increased from 20 times in 1965 to around 300 times in 2017. CEO compensation is often linked with short-term stock performance which lead to long-term risk for investor.

- In Hong Kong, there were still 0.14 million non-CSSA working poor households after policy intervention. A study from Chinese University has found that a Hong Kong citizen must be paid at least HK\$54.70 (US\$7) an hour to ensure a basic standard of living, 58 per cent higher than the minimum wage.

### Gender Equality

KPI B1.6 Ratio of the entry level wage by gender

KPI B1.7 Ratio of average wage by gender

### **Rationale**

- Men earn 12.5% more than women in 40 out of 45 countries with data. Companies should implement gender-sensitive recruitment and retention practices.

### Workplace Environment

KPI B1.8 Average working hours per week (months/weeks), including overtime

### **Rationale**

- Hong Kong has been known as the city with the highest percentage of those working more than 50 hours a week among 71 jurisdictions, according to a 2015 UBS survey.

## Recommendation 2: Revise KPI B5.4 &

## Recommendation 3: Introduce new KPIs to Aspect B5

### Supply Chain Management

KPI B5.4 Description of practices used to promote environmentally/socially preferable products and services when selecting suppliers, how they are implemented and monitored

KPI B5.5 Total number of permanent vs temporary workers (months/weeks) along the supply chain

### **Rationale**

- By promoting socially preferable products and services, it would increase spillover effects through the supply chain, addressing global inequality.

- Globally, 61% of all workers were engaged in informal employment in 2016. Companies should create decent and formal jobs in the supply chain, especially for marginalized/underrepresented groups.

### 3. Next Step

HKEX stated, 'ESG is no longer merely a corporate social responsibility or a reputational issue. It affects business, and failure to manage these risks carefully may bring about real financial impacts on the company.' Fair Trade Hong Kong supports the proposal to revise the Social KPIs, and believes that HKEX should provide trainings on the possible risks related to Social KPIs.

For example, the 2015 Modern Slavery Act (MSA) passed by the United Kingdom, made it a punishable offense for companies to knowingly engage in modern slavery or forced labour in the UK. And UK Home Office published a report recommending all organizations to take their responsibilities seriously to audit their supply chains and to expand the scope of MSA liability to directors. There is certainly legal implications for Hong Kong listed companies operating in UK.

All these possible risks have to be well-communicated to the stakeholders to facilitate understanding of the revise ESG Reporting Guide. Trainings and seminars should be provided to relevant parties with a materiality assessment and showcases. Toolkits should also be available for the companies to assess the risks related to social KPIs. Fair Trade Hong Kong believes HKEX can build a sustainable stock market for Hong Kong and the region by implementing all the recommended measures.

## 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.

ESG report shares the same importance with the annual report for investors to judge the companies's performance. There is no reason why a longer time lag should be allowed for ESG performance disclosure.

### 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.

The notification to shareholders is a good way to raise the awareness of ESG report and nurture literacy of ESG report.

## 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 strongly support the introduction of Mandatory Disclosure Requirements. MDR will ensure the basic requirements of ESG reports are met. It will effectively ensure that corporate management takes ESG reporting seriously. MDR will also enable investors to better compare the quality of ESG reports of different companies.

### 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.

ESG reports contain information on compliance of laws and regulations, from environmental law to anti-corruption law. Board governance and progress review should be mandatory.

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.

In order to enhance the ESG performance of a company, it requires the support from the board.

### 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.

This will enable the public to better understand and assess the ESG performance of the issuer concerned.

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.

Measures to enhance transparency should be welcome. Greater transparency will enable the public to better assess the ESG performance of the issuer concerned.



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.

A scientific ESG report should disclose all these information for the public and the investor to evaluate the quality of the data.

### 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.

Reporting boundary varies in different ESG reports nowadays. Investors seldom find the most comprehensive reporting boundary. An explanation is clearly needed in every report to justify areas not being reported.

## 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 introducing KPI A4.1, HKEx should also require issuer to disclose as KPI A4.2 the total loss of the significant climate-related issues in the reporting year, if any. It will provide investor a materialized impact of climate-change to their investment.

### 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.

Without disclosure of the reduction plan, it is difficult or even impossible for investors to evaluate the effectiveness of the reduction measure(s).

## 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 disclosure should include Scopes 1, 2 & 3 instead of only 1 & 2. Carbon Auditing is very mature in Hong Kong market. Listed companies certainly have the capacity and ability to achieve Scope 3 reporting. Also, Hong Kong listed companies do engage significantly in business travels, which admits a huge potential for reduction. By excluding disclosure of emission from business travels from the KPIs, the ESG report will have omitted a major emission source and will have failed to differentiate the outstanding companies for their effort in cutting down business travels from the others.

## **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 are more important for companies in labour intensive industries. Therefore, it is fully justified for all Social KPIs to upgrade to 'comply or explain' obligation as a significant proportion of Hong Kong listed companies are from such labour intensive industries.

## 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.

In order to clarify "employment types", permanent worker, contracted worker, temporary worker and outsourced worker, should be included for greater clarity instead of full- and part-time staff.

### 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 will provide a better picture to include a track record of the work-related fatalities.

## 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.

It is important that companies should be required to identify such risks, and how such risks are managed and monitored. Once risks are identified, it follows that there must be corresponding disclosure of practices to promote both environmentally and socially preferable products and services. These are important information for investors' evaluation of how seriously the issuers take their ESG responsibility.

## 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 should be the norm for every company. Information on training(s) is an important part of such disclosure for investors to evaluate the quality of corporate governance.

## 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.

Credibility of ESG information disclosure is vital. If the information disclosed is not accurate, it will damage not only the ESG reporting system but the credibility of HKEX. On the other hand, independent assurance will improve the quality of information disclosure as well.

- End -