

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.

The amendment could ensure that ESG information and performance are disclosed in a timely manner, and the alignment of timeframe between ESG report and annual report enables investors to have more comprehensive information for decision making.

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.

This could help save the unnecessary paper consumption, especially since the ESG reports are generally getting longer due to the enhanced disclosures.

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.

This could help drive the board to put more attention on ESG, and ensure that issuers are allocating appropriate resources in addressing the requirements.

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.

There is generally lack of disclosures in these areas in the issued ESG reports, therefore adding such MDR could provide investors more information on how ESG is governed by issuers.

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.

This will help issuer to define the content, and ensure this important information is covered in the board statement.

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.

Disclosing the application of the Reporting Principles could demonstrate the effort that the issuer has taken to make the ESG report a fair representation of its ESG performance, which gives additional confidence to those who rely on the information.

It might be necessary to define the term "significant impact" of ESG incidents, especially negative events that issuers should report, in order to compliance the principle of "Balance". Our experience shows that issuers are more likely to report positive impacts, whereas negative ESG events and their impacts should also be reported

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.

Materiality assessment is the key process to define the scope of the ESG report, however such processes may not be conducted in a structured matter which may hinder the issuer and investor to properly identify key ESG related risks and opportunities. With more comprehensive disclosure requirements of the process, it helps investors to evaluate the reliability of the assessment results, and also drives companies to enhance the process.

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.

Unlike financial reports which are governed by widely adopted, standardized accounting principles, ESG data may have various calculation methodologies, and conversion factors of units or emissions may vary across issuers. Therefore, such amendments provide a better context for readers to understand and interpret the ESG data presented. Some issuers may take time to adjust to reporting targets, therefore to offer the option that these might be directional statements or quantitative descriptions is a good idea.

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.

With such information disclosed, it enhances the transparency and enables readers to assess whether the boundary is defined in a reasonable manner, and provides more context for ESG data analysis and comparison.

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.

Climate change has become a significant risk globally and for corporations. The amendment could help raise the awareness, and drive issuers to assess the risks and develop a mitigation plan in order to enhance their resilience.

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.

This can motivate issuer to set out specific action plans and monitoring mechanism on ESG, and provide investors a better understanding to what extent the ESG performance could be improved over time.

We suggest to gradually enhance the requirements for newly listed companies to set ESG targets, therefore they can use the buffer period to improve compliance and reduce risks. This will avoid making ESG goal setting a mere formality and avoid enterprises setting only basic qualitative goals that will not promote the underlying management of ESG issues.

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.

This provides a clear scope of disclosures on GHG emissions to the issuer, and allows readers to have a better understanding of the components of the issuer's emissions profile.

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.

For some industries, Social KPIs are not less important than environmental ones. Therefore, making social KPIs “comply or explain” could make the ESG disclosures of issuers more comprehensive.

HKEX should also revisit several KPIs to enable a more meaningful disclosure, for example, for lost day due to work injury, instead of disclosing the number of lost day, frequency and rate of injuries maybe more meaningful to readers. HKEX may also suggest a standard calculation method for certain social KPIs to enhance the comparability among different issuers.

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.

This can help reader to understand the distribution of workforce, and encourage issuers to pay more attention to their non-full time employees as well.

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.

Comparative figures enable the understanding of efforts that the issuer has made to improve safety conditions and the progress over time. However, since not all issuers have three years data available, HKEX may allow a transition period at the launch of the requirement.

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.

The current disclosure requirements may not be enough for reader to clearly understand the effort of issuers in addressing ESG risks in their supply chain. Therefore, the amendments which set out clearer and more specific disclosure requirements are considered necessary.

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.

Training is an important element in establishing directors' and employees' awareness on anti-corruption.

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 could enhance the credibility of ESG information, especially with the facts that ESG data may not have a consistent calculation and reporting methodology across issuers, and issuers generally have relatively less capability in this area as compared with financial information.
Further, there is some confusion in the market about the characteristics and value of different types of assurance. Describing the level, scope and processes adopted will allow the market some insight into the different types available.

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