



Date: 19 July 2019

To: Corporate Communications Department  
Hong Kong Exchanges and Clearing Limited

From: Ka Shi Lau  
Managing Director & CEO  
BCT Group

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

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BCT Group (comprising BCT Financial Limited (“BCTF”) and Bank Consortium Trust Company Limited (“BCTC”)) is a key provider of MPF/ORSO products and best-in-class asset servicing for investment funds and pensions with BCTC being one of the largest trust companies in Hong Kong. With BCT Group operating under the foundation of sound corporate governance and business sustainability, we therefore welcome the opportunity to express the views on the HKEX Consultation Paper on ESG Reporting.

#### **(A) Mandatory Disclosure Requirements**

BCT agrees with the proposal to amend the Guide to introduce Mandatory Disclosure Requirements (“MDR”) from “comply or explain” obligation as we believe ESG inevitably will play an indispensable role on risk management in the international financial markets as investors are increasingly wary over the impact to both financial and non-financial outcome resulting from climate inactions. Yet, we have to be mindful in terms of resources and capabilities of companies on ESG reporting, particularly the Small to Medium Enterprise (“SME”) and single business strategy company. There are companies that have published ESG reports but have no experience in terms of data collection for disclosure of their environmental KPIs. Surely, there are also companies that have not published any type of ESG reports.

Against this backdrop, we are uncertain about proposal to shorten the time required to publish an ESG report (i.e. 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) as most companies are still at any early stage in their ESG journey which require more effort in ESG reporting. In addition, capacity is another consideration given the annual report production already requires extensive effort.

#### **(B) Materiality**

BCT supports the proposal to amend the Reporting Principle on “materiality” to

make it clear that materiality of ESG issues is to be determined by the board. We observe a steady increase in interest from investors on ESG-related risks and value creation. ESG materiality assessments also serves as the key part of ESG risk management discussion of any company. We believe this could be a motive for company to enhance the overall corporate risk model, including stakeholder engagement (i.e. stakeholder engagement should manage expectations of both management and stakeholders). Enhancing ESG regulations notwithstanding, companies should recognize the importance of understanding and managing ESG risks and opportunities when establishing long-term strategic planning. On the other hand, we have to take in consideration the capability of the board members in the ESG space as this will lead to the quality of the three MDR requirements from the board. In addition, it may be a challenge for the company to identify which information should be considered material.

We support the proposals on the upgrade of the Social KPIs obligation to “comply or explain” from “voluntary disclosures” as well as the introduction of the eleven Aspects under Environmental (three Aspects) and Social (eight Aspects). For the former one, the upgrade not only helps to increase the level of disclosure but also help company or investors to reassess the importance of Social KPIs as there had been some misconception that Social KPIs are less important than Environmental KPIs under the ESG framework. Meanwhile the latter provide a more unique guidance for companies to act in the best interest for both community and the company itself. On the other hand, to emphasise the importance of the governance structure of ESG, the board’s leadership role and to promote accountability of the board in this area, we support the proposal to mandate disclosure on the governance structure and ESG matters including the board’s role, Reporting Principles and reporting boundaries.

### **(C) Independence Assurance**

With respect to 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 disclosure, we are uncertain at this stage as there may not be that many independent assurance ESG expertise available in the market, and cost is also a consideration. Moreover, we have to be mindful that a globally accepted assurance standard is yet to be developed. International and sizeable companies are likely to benefit as they can leverage on global resources.

### **(D) Education & Training**

Lastly, we encourage HKEX to continue taking the lead in education and training, focusing on how to prepare ESG reporting cost effectively and less burdensome as HKEX is not intended to be exhaustive but anticipate this reporting guide could represent a starting framework for identification and disclosure of ESG issues, upon which companies can build to develop a set of disclosures that reflects what is material for them. In addition, HKEX should continue improving their collaboration with Securities and Futures Commission (SFC) to strengthen investor companies in engaging with investee companies on ESG issues. Periodically conduct workshops or forums to companies, especially the SME to strengthen their



knowledge and help them understand the rationale and objective of HKEX.

More fundamentally, we believe government and regulators should raise awareness and education of the general public, thus reinforcing the development of ESG in Hong Kong.

In conclusion, we agree with HKEX that “engagement” and “materiality” are the keys at this stage for the development of the ESG journey in Hong Kong.

Once again, BCT Group is grateful for the opportunity to provide comments on the Consultation and sincerely hope that you would find our comments useful. For questions in relation to the above, please do not hesitate to contact me at [REDACTED].

