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.

Shortening the time to publish ESG reports will encourage issuers to consider ESG issues together with strategic and annual operating plans.

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.

The MDRs proposed for Appendix 27 require the Board to have greater oversight of management's role in identifying, evaluating and managing ESG issues (and risks) which itself risks becoming a process that the Board simply reviews. It would be preferable for the MDRs to include a clear obligation on the Board to assess overall ESG risk or level of materiality and to include an obligation for the issuer to actually disclose material ESG risks and how it manages such risks vis a vis the Environmental and Social KPIs. Further, requiring disclosures against the KPIs in Appendix 27 does not include any disclosure on level of materiality, impact to the business or exposure and risks perpetuating a tick the box approach for both the Board and management which is of limited relevance to investors and stakeholders. The material issue for the Board, investors and stakeholders is the extent to which the Board "itself" has identified material ESG risk, and if so how it manages or intends to manage such risks. In the view of the 30% Club, this should be the fundamental disclosure requirement that should be appropriately made in the Corporate Governance Report. The requirements of Appendix 27 including the new amendments governing the ESG Report would then support the overall Board and governance focus and disclosures.

The 30% Club recommends that the Corporate Governance Code in Appendix 14 be amended at the same time as these proposals for Appendix 27 to include a new rule based obligation requiring an issuer to disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.
In fact, the 30% Club believes this opportunity should be taken to consider more broadly how these changes to ESG Reporting Guide relate to the fundamental governance of an issuer as well as how they link to the requirements under the Listing Rules and the Corporate Governance Code.

Specifically, the 30% Club notes the recent changes to Rule 13.92 which requires issuers to have a Board diversity policy. We further note the new mandatory guidance to IPO applicants HKEX-GL86-1 requiring applicants for listing to make a range of disclosure on board diversity, measurable objectives etc. While the 30% Club hopes that this proposed requirement will lead to greater gender balance, we believe it will be increasingly seen as indefensible that existing issuers and those who make up the HSI and who should be leading the way with their corporate governance, still have single gender boards. The 30% Club strongly recommends that the earliest opportunity is taken to upgrade the principles outlined in GL86-16 and include this as as part of the mandatory disclosure requirement in the Corporate Governance Report.
Please see our Additional Pages which provides additional responses in relation to this question and an overall reponse to the Consultation from 30% Club Hong Kong.

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.

We agree subject to our comments under Q3 above.

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.

Please see our comments under Q3 above.

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.

Please see our comments under Q3 above.

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.

Please see our comments under Q3 above.

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.

We agree with this but think targets should be expressed by reference to specific percentages.

<u>Reporting Boundary</u>

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.

No comments.

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.

No comments.

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.

No comments.

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.

Whilst we welcome the proposals to introduce Mandatory Disclosure Requirements outlining the Board's governance role in ESG issues and that Social KPIs are proposed to be amended from voluntary disclosure to "Comply or Explain", we consider the overall approach to be a missed opportunity that does not recognise the importance of diversity as either a fundamental aspect of corporate governance or a wholesale non-financial risk issue to be mitigated by issuers for following reasons:

The 30% Club Hong Kong supported the introduction of the new LR 13.92 as a measure to improve gender diversity at board level. However, board diversity cannot be considered in isolation or separate to diversity issues across an organisation. Companies must take a wholesale approach to promoting and committing to diversity and inclusion (D&I) across their businesses at all levels, and foster an understanding of how D&I contributes to business success. Not only do we need to build a strong pipeline of female talent and provide women with the enabling workplace environment to reach the top, but also create the demand for such talent in senior levels of management, including at the board level. Unless both the supply and demand sides are addressed, efforts to achieve greater gender diversity will be undermined.

Gender equality is globally recognised as a priority but many organisations struggle to put this recognition into practice. Hong Kong lags behind not only in terms of board diversity but also on gender equality in the workforce overall. There are low numbers of women in the workforce and at management level and women in Hong Kong bear a disproportionate responsibility for child and elder care

With increased focus and expectations by the community, investors and stakeholders on overall workplace diversity as well as board diversity, this represents a significant risk to Hong Kong issuers. This is not only in terms of human capital risk but includes diversity and social risk overall which we believe should be addressed by the boards of Hong Kong issuers through the establishment of overall diversity policies, setting measurable objectives to achieving greater workforce diversity, and disclosing the make-up of their workforce at general, management, senior management and board level by gender. Other markets such as the U.K. and Australia have implemented similar wholesale approaches, guided by regulation, which has led to board gender diversity levels in both markets reaching approximately 30% without the need for quotas.

As such, we would like to see a far stronger link (and associated amendments) between the requirements of the Corporate Governance Code – Appendix 14, the Board Diversity rule in LR13.92, Guidance Letter GL86-16 and the ESG requirements in Appendix 27.

We recommend that the current rule based requirements of LR13.92 and the guidance included in the Guidance Letter GL86-16 be combined together to apply to issuers post listing with a wider focus on diversity across an issuer's organisation and that this be dealt with as a new section that be set out in the Corporate Governance Code –as a Mandatory Disclosure Requirement for the Corporate Governance Report. We propose that the new requirement should read as follows:

An issuer should:

(a) have and disclose a diversity policy;

(b) through its board or a committee of the board, set measurable objectives for achieving gender diversity in the composition of its board, management, senior management and workforce generally; and

(c) disclose in relation to each reporting period: (1) the measurable objectives set for that period to achieve gender diversity; (2) the entity's progress towards achieving those objectives; (3) the respective proportions of men and women on the board, in management and senior management positions and across the whole workforce.

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.

The 30% Club agrees with the proposed amendment but recommends that disclosures under B1 be extended to further address diversity issues more broadly. We recommend disclosure of key workplace and Board gender statistics such as the breakdown by gender in general workforce, management, senior management and board level. As reporting on these statistics is a fundamental component of a diversity policy as well as measurable objectives to address gender diversity we recommend these be mandatory disclosures be requirements of the Corporate Governance Report rather than under "comply or explain" provisions of the ESG Report.

The 30% Club also thinks that KPIB1.2 should also be extended to include disclosure of policies in relation to fair and equal payment of employees including a disclosure on the ratio of the remuneration by employee category by gender and disclosure of the mean and median pay gap across an issuer by gender.

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.

No comments.

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 30% Club supports this but suggests the proposals be extended to included a requirement on an issuer to disclose gender diversity in its supplier and procurement policies.

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.

The 30% Club considers that disclosures in this section B7 go to the heart of ethical and lawful conduct overall for an issuer. This is a fundamental element of good corporate governance and must therefore be the responsibility of the Board and not simply considered in relation to ESG. In addition to the requirements in Appendix 27, we strongly recommend that this issue be included in the Corporate Governance Code Appendix 14 on the following basis:

- An Issuer should articulate and disclose its values
- An Issuer should: a) have and disclose a Code of Conduct for directors, senior executives and employees and that the Board or a Committee of the Board is informed of material breaches of the Code of Conduct
- An Issuer should: a) have and disclose a whistleblower policy b) ensure that the Board or a Committee of the Board is informed of any material incidents reported under that policy.

In addition the Corporate Governance Code should include a requirement that an issuer have and disclose an anti bribery and corruption policy and ensure that the Board or Committee of the Board is informed of any breaches of that policy.

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.

This is good international practice.

- End -

<u>Additional Pages to 30% Club Hong Kong Submission (18 July 2019):</u>

<u>Cover Note and additional answers to Question 3</u>

Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules – Submission by 30% Club Hong Kong

Board Gender Diversity Developments

The 30% Club is pleased to note the continuing focus of Hong Kong Exchanges and Clearing Limited (HKEX) on developing and improving corporate governance standards in Hong Kong including the important issue of gender diversity on boards.

We entirely agree with the sentiments expressed by Mr. David Graham that board diversity promotes effective decision-making and enhances corporate governance and that considerations of diversity are an increasingly important factor when investors make their investment decisions. There is a growing body of research that a diverse board that reflects different perspectives and experiences has a higher probability of business success, and is better positioned to navigate challenges in these volatile and disruptive times.

It should thus be a matter of deep disappointment and concern to HKEX and to the business and investment community that the percentage of women on boards in Hong Kong is very low - the current representation of women on HSI boards is only 13.5%. Only 3 women have been appointed to HSI boards so far in 2019, compared to 42 male appointments. The number of all male boards remains at 12, from a low of 10 last year. As HKEX has previously noted, approximately one third of all issuers in Hong Kong are without a single woman on their boards. Hong Kong lags behind most Asian markets (and far behind other international financial centres) in this regard. In times of increased market volatility due to geopolitical factors, it is all the more important that Hong Kong rises to international best practice.

The 30% Club hopes that new issuers will respond positively to the guidance now provided in Guidance Letter GL86-16 that, in addition to the main board Listing Rule 13.92, not only should new issuers have a diversity policy but if they propose to list with a single gender board, they must disclose and explain how and when gender diversity of their board will be achieved, what measures they will adopt to develop a pipeline of potential successors, and what measurable objectives have been set.

If insufficient progress is made, there should be an expectation that more stringent rules will be imposed.

For both newly listed and currently listed companies, an all-male board should be a matter of considerable embarrassment and will be increasingly seen as indefensible to investors and governance bodies. The 30% Club stands ready to recommend suitable female candidates to the Chairman or Nomination Committee of any such board.

The 30% Club strongly recommends that the earliest opportunity is taken to align the principles outlined in GL86-16 with main board Rule 13.92 and make this a new Mandatory Requirement in the Corporate Governance Code and Mandatory Disclosure Requirement for the Corporate Governance Report for all issuers as further outlined below.

The 30% Club Hong Kong supported the introduction of the new LR 13.92 as a measure to improve gender diversity at board level. However, board diversity cannot be considered in isolation or separate to diversity issues across an organisation. Companies must take a wholesale approach to promoting and committing to diversity and inclusion (D&I) across their businesses at all levels, and foster an understanding of how D&I contributes to business success. Not only do we need to build a strong pipeline of female talent and provide women with the enabling workplace environment to reach the top, but also create the demand for such talent in senior levels of management, including at the board level. Unless both the supply and demand sides are addressed, efforts to achieve greater gender diversity will be undermined.

Hong Kong Lags Behind on Workforce Gender Diversity

Gender equality is globally recognised as a priority but many organisations struggle to put this recognition into practice. Hong Kong lags behind not only in terms of board diversity but also on gender equality in the workforce overall. There are low numbers of women in the workforce and women in Hong Kong bear a disproportionate responsibility for child and elder care

With increased focus and expectations by the community, investors and stakeholders on overall workplace diversity as well as board diversity, this represents a significant risk to Hong Kong issuers. This is not only in terms of human capital risk but includes diversity and social risk overall which we believe should be addressed by the boards of Hong Kong issuers through the establishment of overall diversity policies, setting measurable objectives to achieving greater workforce diversity, and disclosing the make-up of their workforce at general, management, senior management and board level by gender. Other markets such as the U.K. and Australia have implemented similar wholesale approaches, guided by regulation, which has led to board gender diversity levels in both markets reaching approximately 30% without the need for quotas.

As diversity is also a fundamental principle of good corporate governance as well as oversight and management of an issuer, we recommend that these key requirements be outlined in the Corporate Governance Code as Mandatory Disclosure Requirements.

Consultation Paper on the Review of the Environmental, Social and Governance Reporting Guide

We are pleased to respond to HKEX's Consultation Paper on Review of the Environmental, Social and Governance (ESG) Reporting Guide and Related Rules (ESG Consultation). Whilst we welcome the proposals to introduce Mandatory Disclosure Requirements outlining the Board's governance role in ESG issues and that Social KPIs are proposed to be amended from voluntary disclosure to "Comply or Explain", we consider the overall approach to be a missed opportunity that does not recognise the importance of diversity as either a fundamental aspect of corporate governance or a wholesale non-financial risk issue to be mitigated by issuers for the reasons outlined above.

As such, we would like to see a far stronger link (and associated amendments) between the requirements of the Corporate Governance Code – Appendix 14, the Board Diversity rule in LR13.92, Guidance Letter GL86-16 and the ESG requirements in Appendix 27.

In addition to our specific comments in response to the ESG Consultation, we recommend that the current requirements of LR13.92 and of Guidance Letter GL86-16 be combined together with a wider focus on diversity across an issuer's organisation into a new section that be set out in the Corporate Governance Code – Appendix 14 as a new Mandatory Requirement and, additionally, as a Mandatory Disclosure

Requirement for the Corporate Governance Report, rather than as additions to LR13.92. We propose that the new requirement should read as follows:

An issuer should:

(a) have and disclose a diversity policy;

(b) through its board or a committee of the board, set measurable objectives for achieving gender diversity in the composition of its board, management, senior management and workforce generally; and

(c) disclose in relation to each reporting period: (1) the measurable objectives set for that period to achieve gender diversity; (2) the entity's progress towards achieving those objectives; (3) the respective proportions of men and women on the board, in management and senior management positions and across the whole workforce.

Urgent Review of Appendix 14 Corporate Governance Code

As the ESG Consultation has highlighted a number of inconsistencies between the ESG Reporting Guide in Appendix 27, the Corporate Governance Code in Appendix 14, LR13.92 as well as other areas, we strongly recommend that HKEX commences a comprehensive review of Appendix 14 with a view to incorporating our recommended changes, further integrating the various requirements across Appendices 14 and 27 as well as considering others that can assist in improving corporate governance standards in Hong Kong. A strong corporate governance regime would help maintain Hong Kong's position and reputation as a leading global financial centre.