**BlackRock.**

16 July 2019

**Corporate Communications Department**
**Hong Kong Exchanges and Clearing Limited**
8/F, Two Exchange Square
8 Connaught Place
Central, Hong Kong

Submitted via email to: response@hkex.com.hk

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

Dear Sir/Madam,

BlackRock[1] welcomes the opportunity to respond to the "Consultation Paper on Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules" ("Consultation Paper")[2], issued by the Hong Kong Exchanges and Clearing Limited ("Exchange") on 17 May 2019.

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs. We appreciate this opportunity to comment on the issues raised by this Consultation Paper, and we will continue to contribute in the discussion on the issues that may assist in the final outcome.

Unless otherwise indicated, the terms used in this letter shall mean the same as in the Consultation Paper.

**Executive summary**

We welcome the Exchange's efforts to raise the standards of reporting on environmental, social and governance (ESG) issues for companies listed in Hong Kong. We are in almost complete agreement with the proposals in the Consultation Paper, and view the enhanced focus on governance and materiality in particular should contribute to improving issuers' ESG reporting. In the completed questionnaire we have provided detailed comments. While we are supportive of nearly all the proposals, we would like to put forward the following two suggestions relating to the proposed updates to the Reporting Guide and Listing Rules:

1. **Reporting boundary**

   We agree that it is essential to understand the reporting boundary of the ESG report in order to make sense of the reported KPIs. However, to achieve this, we believe issuers should explain the rationale and describe the process used to exclude certain entities or operations, in addition to disclosing the process used to identify the included entities and operations, as currently proposed in the Consultation Paper. This additional

[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.
[2] https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Consultation-Paper/cp201905.pdf?la=en

requirement does not necessarily entail the disclosure of a full list of entities or operations that are excluded, which as correctly pointed out by the Exchange may be lengthy and not necessarily helpful. Instead, it should require companies to report on the business significance of the excluded entities or operations in aggregate, stating revenue or profit contribution, asset representation, or other metrics deemed appropriate by the Exchange. Moreover, if any of the excluded entities or operations are considered significant on their own by these metrics, the respective entities or operations should be identified and an explanation provided as to why they are excluded from the ESG report.

2. **Information on contractors**

For companies in certain sectors such as property development, transportation and utilities, the health and safety practice of contractors used by the companies as well as the company's own staff is of increasing concern. Therefore we believe there should be additional KPIs under Aspect B1 and Aspect B2 to require such companies to disclose 1) the number of contractors hired, 2) the number of workers involved in the issuer's operations through contractors, 3) a description of services carried out by contractors, and 4) the number and rate of work-related fatalities occurred among contracted workers in each of the past three years including the reporting year.

We would also like to convey our thoughts on what leads to good ESG disclosure for investors in particular. At the moment, ESG Reports are designed to cater to a wide range of stakeholders, whose interests and ways of utilizing information provided in the reports can vary greatly. From our perspective, there are certain attributes that can contribute to more effective ESG reporting for investors that are keen to incorporate these factors into their investment processes. We discuss some of these attributes below:

1. **A focus on financial materiality**

As pointed out in the Consultation Paper, "the key to a meaningful and concise ESG report is materiality". However, different stakeholders may use different criteria when determining materiality. For investors like BlackRock, materiality is mostly defined from a financial perspective and the relevance of a particular factor to a company's ability to conduct its business operations long-term. As such, often times the issues we consider most relevant are only a small subset of what is covered while a large part of existing ESG Reports is usually not especially useful for investors.

While ultimately it is up to the board and management to determine which environmental and social (E&S) issues are financially material, there are existing guides that companies can refer to in this area. One such example is the Materiality Map and the Sustainable Industry Classification System developed by the Sustainability Accounting Standards Board (SASB)[3] through years of collaborative work with investors and industry experts. The SASB standards are also complementary to TCFD recommendations[4] and allow comparison among issuers in the same industry.

2. **Integrating financially material E&S issues into the annual reports**

Another challenge investors face when trying to incorporate ESG factors into investment processes is that disclosure is often dispersed, scattered across annual reports, ESG Reports and also the issuers' websites. We recommend that all financially material disclosure should be made in the annual report with governance issues covered in the Corporate Governance section and material E&S issues discussed in the Risk Management section.

[3] https://www.sasb.org/

[4] Refer to this document published TCFD on how SASB Standards and TCFD Recommendations are complementary: https://www.fsb-tcfd.org/wp-content/uploads/2017/12/SASB-SASB-Standards-TCFD-Recommendations-FAQ-14-Dec-2017.pdf

BlackRock.

Thank you once again for the opportunity to provide our views. We welcome further discussion on any of the points raised.

Yours faithfully,

[redacted]

**Amar Gill**
APAC Head of Investment Stewardship
[redacted]

[redacted]
**Winnie Pun**
APAC Head of Public Policy
[redacted]

## 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.

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   | We believe ESG issues should be discussed alongside financial performance and strategic developments of an issuer. As such, we agree the publication timeframe of the ESG report should be aligned with that of the annual report. |

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.

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   | We believe that printed form of the ESG report should not be required unless specifically required by shareholders, as a typical online pdf version generally suffices readers' needs. |

**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.

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| We believe the MDRs would help issuers focus on certain important principles such as governance, materiality and quantitative measures when reporting on ESG issues. |

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.

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| We believe a statement from the board on its oversight of ESG issues, the processes used to identify, evaluate and manage material ESG-related issues, and progress on ESG-related goals and targets would naturally bring about a top-down approach to ESG issues, which is crucial for effective oversight of ESG risks. Board-level accountability would also raise the level of attention given to ESG issues and align the management of ESG risks strategically with the business purpose of the issuer. |

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.

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| It is important for the board to be able to articulate the issuer's ESG management approach, strategy, priorities, goals/targets, and relevance to the issuer's businesses. |

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.

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| The Principle of materiality would help companies focus on critical issues that are actually relevant to its business, and the Principle of quantitative measures would ensure more data points are available for investors to make objective assessment and comparison across time periods and across industry peers. |

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.

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| As mentioned above, introducing board-level accountability would allow a more effective, top-down approach to managing ESG risks. Disclosure on significant stakeholders identified, process of issuer's stakeholder engagement, and criteria for selection of material ESG factors would also help investors better understand the issuer's approach to reviewing ESG related risks. |

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.

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| Quantitative, measurable KPIs are important for comparison across time periods and across industry peers, which are in turn crucial for assessment of an issuer's performance on the relevant ESG topics. |

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.

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| While we generally agree with the proposal to require an explanation of the ESG report's reporting boundary, and the process used to identify specific entities or operations that are included in the ESG report, we believe the reporting boundary can only be clearly defined if the excluded entities and operations are also disclosed. This does not necessarily mean disclosing a full list of the excluded entities and operations, which, as pointed out by the Exchange in the consultation paper, can be lengthy and not necessarily helpful. Instead, the disclosure can be on the business significance of the excluded entities and operations as a whole, in terms of revenue or profit contribution, asset representation, or any other metrics that the Exchange considers appropriate. Moreover, where an entity or operation that is excluded represents a significant part of the business, the issuer should identify the entity or operation, and provide an explanation on why it is excluded. |

**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.

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| This raises the standard of reporting. |

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.

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| This raises the standard of reporting. |

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.

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| This raises the standard of reporting and is a reasonable requirement. |

**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.

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| This raises the standard of reporting and is a reasonable requirement. |

**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.

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| Problems with contracted workers are of increasing concern, especially for issuers in industries such as property development and transportation. While we generally agree with the proposal to clarify "employment types" should include "full- and part-time" staff, we suggest the revision in Aspect B1: Employment to include separate KPIs on 1) the number of contractors hired, 2) the number of workers involved in the issuer's operations through contractors and 3) a description of services carried out by contractors. |

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.

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| As mentioned in our response to Question 14, problems with contracted workers are of increasing concern. While we generally agree with the proposal to require disclosure of number and rate of work-related fatalities occurred in each of the past three years including the reporting year, we suggest the revision in Aspect B2: Health and Safety to include separate KPIs on the number and rate of work-related fatalities occurred among contracted workers in each of the past three years including the reporting year. |

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.

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| This raises the standard of reporting and is a reasonable requirement. |

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.

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| This raises the standard of reporting and is a reasonable requirement. |

## 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.

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| We agree that the Exchange should encourage, but not obligate, issuers to seek independent assurance in respect of the ESG information disclosed, and should require the level, scope and processes adopted for assurance to be clearly communicated in the ESG report where an assurance is obtained. A low-level assurance of poor quality can be more confusing than helpful to investors. |

\- End -