



OFFICE OF THE  
HON KENNETH LEUNG  
梁繼昌立法會議員辦事處

Room 918  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong  
香港中區立法會道1號  
立法會綜合大樓918室

Tel [REDACTED]  
Fax [REDACTED]  
Email [REDACTED]  
FB Kennethleung.legco

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

Dear Sir/Madam,

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

I am writing to respond to the above consultation paper published by Hong Kong Exchanges and Clearing Limited in May 2019. My office is generally supportive to the proposed changes in making a progress towards ESG reporting, but we do have other concerns regarding the specifics.

Please refer to the enclosed "Response to Consultation Paper on the Review of the Environmental, Social and Governance Reporting Guide" for further details.

Yours faithfully,

**Kenneth Leung**  
Member of the Legislative Council

# **RESPONSE TO CONSULTATION PAPER ON THE REVIEW OF THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE**

1. The Hong Kong Exchanges and Clearing Limited (HKEX) published a consultation paper in May on review of the environmental, social and governance (ESG) reporting guide and related listing rules. The Office of the Hon. Kenneth Leung welcomes the progress in Hong Kong's ESG reporting guide proposed in the paper. Echoing the increasing demand for corporate sustainability, the proposed review of the ESG reporting guide facilitates the incorporation of ESG issues into business practice and operation. Our comments are set below.

## ***Proposed amendments to the Listing Rules***

### **Question 1**

2. We agree with the proposal to amend Main Board Listing Rule 13.91 and the GEM Listing Rule 17.103 to shorten the time required to publish an 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.
3. By aligning the publication time frame of ESG reports with annual reports, the proposed amendment ensures timely and relevant data for existing and potential investors as well as other stakeholders. This could facilitate their evaluation of an investment by examining the company profile on all aspects from financial performance to ESG achievements.
4. Nevertheless, we would like to draw your attention to the potential impact on listed firms and ESG reporting service providers as actions including materiality assessment, stakeholder engagement and data collection will need to be taken much earlier accordingly. In this respect, the quality of ESG reports and annual reports might be compromised for meeting the same deadline. We suggest HKEX allow a transition period for issuers to gradually adapt to the shorter reporting time frame.

### **Question 2**

5. We agree with the proposal to clarify that issuers are not required to provide a 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. This is because no significant and adverse impact of the proposed amendment is anticipated.

## ***Proposed amendments to the ESG Guide***

### ***A. Introducing Mandatory Disclosure Requirements***

#### **Question 3**

6. We agree with the proposal to amend the Guide to introduce Mandatory Disclosure Requirements (MDRs) in support of improvement in issuers' ESG disclosure and performance. It could help to guide the issuers to communicate material information in a systematic and clear manner.

#### **Question 4**

7. We agree with the proposal to introduce an MDR requiring a statement from the board containing several elements, which refer to a disclosure of the board's oversight of ESG issues; the process used to identify, evaluate and manage material ESG-related issues (including risks to the issuer's businesses); and how the board reviews progress made against ESG-related goals and targets.
8. The board usually plays a pivotal role in governance regarding the company's ESG-related performance. Therefore, if involvement at board level is required under the new proposal, it will catalyze the development of corporate sustainability in Hong Kong in the long term.
9. However, we have further comments regarding the disclosure of how the board oversees ESG issues. Comprehensive and well-defined guidelines are important for issuers to elucidate the involvement of the board starting from identification of material issues to carrying out stakeholder engagement. Another approach could be mandatory disclosure of the board's accountability for the oversight of its ESG issues. Otherwise, vague disclosure will add no value to their ESG reports and shareholders' reference.

#### **Question 5**

10. We agree with the 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.
11. Target setting helps listed companies design strategies and formulate a roadmap for achieving sustainable goals such as greenhouse gas emissions and energy consumption. However, the HKEX should provide a self-explanatory framework and guideline on establishing appropriate and effective targets. For instance, science-based targets have been commonly developed and adopted by many companies, especially when reporting material environmental issues.<sup>1</sup>

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<sup>1</sup> <https://sciencebasedtargets.org/step-by-step-guide/>

### **Question 6**

12. We agree with the 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.
13. By explaining how the issuer has applied the Reporting Principles in their ESG reports, we believe that the proposed MDR can guide the issuer to identify the aims and objectives of their ESG reports. Issuers are also expected to include contents that revolve around the Reporting Principles instead of unwanted minimal compliance.

### **Question 7**

14. We agree with 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 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.

### **Question 8**

15. We agree with the 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 KPIs for historical data must be measurable, targets may be expressed by way of directional statements or quantitative descriptions.

### **Question 9**

16. We agree with the 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.

## ***B. Introducing Aspect on Climate Change and Revising the Environmental KPIs***

### **Question 10**

17. We agree with the proposal to introduce a new Aspect A4: (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.
18. As suggested by Task Force on Climate-related Financial Disclosures, climate-related issues can pose serious physical and transition risks. These climate risks may result from physical impacts of climate change

such as drought and rise in sea level, and relevant policy responses like a ban on coal-fired generating units. Such variables can affect long-term value of assets and future income streams of a company. Therefore, by identifying significant climate-related issues associated with the issuer's business nature, the issuer can plan ahead how best to mitigate such risks.

#### **Question 11**

19. We agree with the 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.
20. Not only does it allow more clarity in the issuer's environmental performance but it also promotes the implementation of mitigation measures to address environmental impacts incurred by operation of the issuers.

#### **Question 12**

21. We agree with the proposal to revise the Environmental KPI to require disclosure of Scope 1 and Scope 2 GHG emissions.
22. Although it makes a better alignment with other leading international reporting standards such as the Global Reporting Initiative's Sustainability Report Guidelines (GRI Guidelines), Scope 3 GHG emissions are still missing, which refer to all indirect emissions (excluding Scope 2 indirect emissions) that occur in the value chain of the reporting company, including both upstream and downstream emissions. The HKEX should set a timeline for developing such reporting and allow sufficient time for issuers to get prepared for related data collection.

### ***C. Upgrading the Disclosure Obligation of the Social KPIs***

#### **Question 13**

23. We agree with the proposal to upgrade the disclosure obligation of all Social KPIs to "comply or explain".
24. There is a global trend in tightening the disclosure level of information on Social aspect as it pertains to human trafficking, forced labour and child labour. With higher levels of disclosure obligation at the legislative and stock exchange level, it is justifiable that the disclosure level of ESG reporting in Hong Kong shall continue to evolve and improve. We suggest that a time frame towards mandatory reporting on all Social KPIs should be constructed.

## ***D. Revising the Social KPIs***

### **Question 14**

25. We agree with the proposal to revise a KPI to clarify “employment types” should include “full- and part-time” staff.

### **Question 15**

26. We agree with the 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.

### **Question 16**

27. We agree with the 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.

### **Question 17**

28. We agree with the proposal to introduce a new KPI requiring disclosure of anti-corruption training provided to directors and staff.

## ***E. Encouraging Independent Assurance***

### **Question 18**

29. We 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.
30. It has been criticised that some issuers employed unrecognized methodologies which might lower the quality and credibility of their reports. It is preferable to engage independent assurance but it may take some time for data audits. Worse still, as mentioned earlier, one proposed amendment is about shortening the time frame for publication of ESG reports so issuers may run out of time and it may in turn discourages independent assurance.