



July 24, 2019

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

Via Email: response@hkex.com.hk

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

Dear Sir/Madam,

We welcome the opportunity to respond to the Consultation.

British Columbia Investment Management Corporation (BCI) is an asset manager with more than \$145 billion Canadian dollars in assets under management, one of the largest institutional investors in Canada. Our investment activities help finance the pensions of approximately 583,000 people in our Canadian province. On behalf of these pension beneficiaries, we provide long term capital to companies around the world that we believe will provide strong and stable financial returns.

As a long-term investor, BCI relies on well-functioning capital markets. We see it as our responsibility to contribute to the overall stability of the financial system. As an active participant in the capital markets, we address systemic risks with the expectation that our efforts will lead to greater stability and integrity within the markets. We regularly engage with regulators and advocate for legal and regulatory changes to ensure that principles of good governance are integrated into the regulatory framework.

In addition to providing our Consultation response below, as a member of the Asian Corporate Governance Association (ACGA), BCI supports the detailed ACGA submission to the HKEx.

For ease, we have broken down our response into the individual sections that are addressed in the Consultation document.

ESG Report Publication – Questions 1 and 2

BCI agrees with the proposal to amend MB Rule 13.91 and GEM 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. As the Consultation document has noted, it is considered best practice to provide ESG data in a timely manner, and ideally either at the same time as the annual report and accounts are published, or as soon as possible afterwards. We therefore agree that the current timeframe of up to seven months after publication of the financial year end is too long. This being said, the desire for more timely and higher quality ESG reporting should not result in a weakening in other areas of disclosure.

We also agree with the 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.

Governance Structure – Questions 3-5

BCI believes that it is crucially important for issuers to have in place a governance structure for ESG, with emphasis on the role of the board in the oversight of assessing and managing material environmental and social risks and issues. It is important for ESG matters to be led by the board so as to ensure, amongst others, that ESG issues are factored into high level discussions and appropriate systems and processes are implemented with adequate resources. In addition to this, as the Consultation points out, the board's involvement in ESG would also help to promote the board's understanding of ESG issues and their accountability in this area. We therefore agree with the proposal to introduce a Mandatory Disclosure Requirement (MDR) that requires the disclosure of the board's involvement in the governance of ESG issues. We also believe that the proposed elements, as laid out in question 4 and expanded upon in question 5, will provide stakeholders with a strong picture of an issuer's governance of ESG issues, and therefore support the proposal to introduce an MDR requiring a statement from the board on these elements. However, to avoid the risk of boilerplate reporting, we believe that the guidance should be enhanced around the board statement, such that it is company specific and therefore more meaningful for shareholders. One example of this, which is consistent with our above-stated view that the board's involvement in ESG would also help to promote the board's understanding of ESG issues and their accountability in this area, would be a disclosure requirement around how the board educates itself on ESG issues and ensures that it is kept up to speed on emerging ESG trends. Another example would be a description of the working relationship between the board and management in developing sustainability strategy and setting goals/targets, including the structures that exist within management to organize this process, such as an ESG department. We believe that it would be appropriate for such requirements to be part of the note proposed under question 5.

Reporting Principles and Reporting Boundary – Questions 6-9

BCI is in agreement with all of the proposed changes under the Reporting Principles and Reporting Boundary sections. As we highlighted in our 2015 submission on the HKEx's

consultation paper on the review of the ESG reporting guide, we believe that investors require a comprehensive view of how issuers have decided what is material based on their unique business circumstances, and this needs to be backed up by a robust process. BCI also believes that investors require consistency when analyzing ESG information across different issuers in order to assess a company's performance. This being said, we have additional comments on this section for your consideration. While stakeholder engagement is a useful exercise for prioritizing issues, it should not be a substitute for strategic thinking by the board and management on sustainability. The Guide implies that an annual stakeholder engagement exercise is a mandatory requirement. This may not be necessary as the issuer may already have a strong understanding of the ESG risks and concerns of stakeholders. We recommend that the Guide should clarify this. In addition, under the Reporting Principles section of the Guide, it is stated that the issuers should set targets (which may be actual numerical figures or directional, forward-looking statements) to reduce a particular impact. We believe that such wording risks issuers setting vague or easy to achieve goals that ultimately could have little impact. We believe it would be helpful for the Guide to at least reference, in the context of greenhouse gas emissions KPIs, the goals of the Paris agreement, and in particular the efforts of issuers to align their emissions with this.

Climate Change and Environmental KPIs – Questions 10-12

We believe the HKEx is right to highlight climate change and elevate its importance by introducing a new Aspect A4 disclosure requirement in the comply or explain provisions. As the Consultation paper rightly points out, climate change is a global concern. Investors such as BCI need more information on the potential impacts to issuers, and how they are managing this critical risk. The proposed requirements addressed in question 10 will provide investors with important disclosure of the measures that issuers have taken to identify climate-related risks, and the steps they have taken to manage these risks. Furthermore, revising the environmental KPIs to require disclosure of scope 1 and scope 2 greenhouse gas (GHG) emissions will provide increased transparency and allow investors to clearly identify the leaders and laggards among issuers. Nevertheless, we believe that the Consultation could go further on climate change, and BCI would recommend that the ESG Reporting Guide encourages companies to report in line with the Taskforce on Climate-related Financial Disclosures (TCFD) framework, which has emerged as a global best practice. In addition, we believe, for Hong Kong to maintain pace with developed markets in Europe, Japan and the UK, a reference to scope 3 emissions should be included in the Guide. This part of the Guide is subject to comply or explain, and so it would not mandate issuers to report this data, however it would allow the more advanced issuers – in a reporting context – to do so.

BCI also agrees with the proposal to amend the environmental KPIs to require disclosure of a description of targets set in areas such as emissions, energy use, water efficiency, and waste reduction, and the steps taken to achieve them. We believe mandatory disclosure of such targets will drive stronger performance in these areas and will also increase transparency, allowing investors to identify those issuers that are better placed to succeed in a future where there is less dependency on the use of natural resources such as water and fossil fuels. However, BCI would like to emphasize that we support a materiality approach to the reporting

of environmental and social KPIs and targets. We recognize that certain ESG issues are more material to certain industries, and so company disclosures should reflect this. We urge the HKEx to provide additional guidance on how issuers can follow international standards in ESG reporting to disclose material and decision-useful ESG information to investors. For example, BCI strongly supports the Sustainability Accounting Standards Board (SASB), which is an independent standards-setting organization dedicated to enhancing the efficiency of the capital markets by fostering high-quality disclosure of material sustainability information that meets investor needs. SASB develops and maintains sustainability accounting standards that help public corporations disclose financially material information to investors in a cost-effective, decision-useful and consistent format.

Upgrading the Social KPIs – Questions 13-16

BCI strongly agrees with the proposal to upgrade the disclosure obligation of all social KPIs to comply or explain. By keeping the reporting obligation as voluntary, this may lead to issuers attaching less importance to social risks, when in fact these can be just as material as environmental risks. The comply or explain approach for social KPIs allows companies the ability to explain when certain social issues are not material, instead of providing unnecessary disclosures.

Revising the Social KPIs – Questions 14-17

BCI agrees with the proposals to revise the KPIs, as articulated in Consultations questions 14 and 15. In particular, we strongly support the expansion of the disclosure requirement on work-related fatalities to include the past three years, including the reporting year. We agree that such disclosure of the track-record would help issuers review their safety practice and provide useful information to investors and stakeholders.

We also support the introduction of new supply chain KPIs, as articulated under question 16 of the Consultation. Supply chain risks can have a very significant impact on a company, both from a financial point of view and reputationally. We believe that the requirement for issuers to describe the practices they use to identify environmental and social risks along the supply chain, and how they are implemented and monitored, will be of great benefit to stakeholders. BCI also agrees with the proposal to introduce a new KPI requiring disclosure of anti-corruption training provided to directors and staff. Not only will this serve to heighten awareness of the risks among staff and directors, but it will also elevate the importance of the issue among companies as a whole. However, this requirement does not align with the Hong Kong Corporate Governance Code, where a whistleblowing policy is only a recommended best practice. We believe that this is a key area where the Corporate Governance Code needs to be amended.

Independent Assurance – Question 18

ESG information is increasingly being used in conjunction with financial information by investors in their decision-making processes. BCI therefore agrees that it is important for ESG information disclosed to be reliable and credible. While we support the revised wording around independent assurance of ESG information, we would urge the HKEx to continue to assess the appropriateness of requiring ESG reporting to be audited in future.

In closing, we would like to draw your attention to one final suggestion that is outside the confines of the Consultation itself. As we did in our 2015 submission on the HKEX's consultation paper on the review of the ESG reporting guide, we would once again recommend that HKEx participate in the Sustainable Stock Exchanges (SSE) Initiative. BCI has been involved in this initiative for a number of years and we see it as a valuable tool for exchanges to learn from peers in the area of ESG disclosure. Transparency on ESG risk factors continues to evolve and having a peer-to-peer platform to explore developments can be an important resource for an exchange. We would encourage the HKEx to consider becoming a Partner Exchange of the SSE, which involves making a voluntary public commitment to promote ESG disclosure among listed companies. You can find more information on this initiative at www.sseinitiative.org.

We thank you for considering our views on this important matter. Please feel free to reach out to our Vice President, ESG, Jennifer Coulson at [REDACTED] as you consider these comments or if you require further clarification. I appreciate your time and consideration.

Regards,

[REDACTED]

Daniel Garant
Senior Vice President, Public Markets