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23 July 2019

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**

The captioned Consultation Paper refers. Please find attached the views from the Consumer Council for consideration of the HKEX.

Should you have any queries on the issue, please feel free to contact Ms Vera Tam, Acting Head, Planning & Trade Practices Division at tel: [REDACTED]; email: [REDACTED].

Yours faithfully,

Chief Executive  
Consumer Council

Encl.

## **Consumer Council**

### **Submission to the Hong Kong Exchanges and Clearing Limited on Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules (23 July 2019)**

1. The Consumer Council (the Council) is pleased to submit its views concerning the proposed changes to the Environmental, Social and Governance Reporting Guide (ESG Guide) set out in a consultation paper issued by the Hong Kong Exchanges and Clearing Limited (HKEX).

#### **Consumer/Investor Expectations**

2. In 2016, the Council published a report regarding its baseline survey of consumers' knowledge and attitude towards sustainable consumption. It was found that a majority of consumers are concerned about companies' policies and practices on environmental protection. In particular,

- about 60% consumers expressed preference to purchase products or services from companies which embrace the environment and engage into environmental protection industries;
- close to 60% of consumers said they usually purchased goods and services produced in an environmentally friendly or sustainable way; and
- 67% and 60% of consumers said they were concerned about information related to "environmental damage caused in production" and "resource consumption in production" respectively.

3. These findings clearly indicate that there is a demand by consumers/investors for more information from companies/issuers to report on ESG matters. In actual fact, the concerns over sustainable production and environmental care were widely discussed at the UNCTAD Committee on Consumer Protection, and many consumer protection agencies worldwide are actively advising the responsible ESG reporting agency in the local market in enhancing the quality and transparency of the ESG reporting.

4. The Council considers that strengthening the environmental indicators reported in ESG reports definitely help consumers, investors and stakeholders in better understanding of how issuers manage their ESG related performance and risks and whether issuers are operating a "sustainable business".

5. The followings provide the Council's views on specific aspects from the perspectives of sustainable production and consumption and consumer protection.

#### **Proposed Amendments to the Listing Rules**

6. The Council agrees with the proposals to amend the Listing Rules to shorten the timeframe for publication of ESG report, and to clarify that issuers are not required to provide printed form of the ESG report to shareholders unless responding to requests. While noting that the issuers would be required to notify shareholders when the ESG report has been published on the HKEX's and the issuer's websites, the Council is of the view that the issuers should also make announcement via press release or website news to draw the attention of the public in general about the publication of the ESG report.

#### **Introducing Mandatory Disclosure Requirements**

7. On the whole, the Council supports in principle the proposed changes set out in the consultation paper, namely to require disclosure of a statement from the board setting out the board's commitment and effort in ESG issues, how the issuer has applied the materiality principle in the preparation of the ESG report, and standards and methodologies used for the reporting of emissions/energy consumption. The Council believes that these requirements would enhance the transparency and quality of ESG reporting for benefits of all stakeholders.

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

8. Climate change impacts all across the globe. The Council fully supports the need to introduce a new aspect on climate change to require disclosure of policies on measures to identify and mitigate the climate-related issues and to revise the Environmental KPIs to require disclosure of a description of targets set regarding emissions, energy use and water efficiency and waste reduction, and steps taken to achieve them. The Council opines that such requirements could encourage the issuers to set out practical measures to contain climate change impacts and improve environmental performance, which align with the rising consumers' aspiration on sustainable production and consumption as revealed in the Council's survey.

9. Since the use of packaging materials and the reduction of such usage are a growing concern in particular to the prevailing e-commerce, the Council suggests that the ESG Guide should also require disclosure of a description of target(s) set for total packaging material used for finished products (KPI A2.5) and steps taken to achieve them.

10. As regards greenhouse gas (GHG) emissions, the Council is delighted that the consultation paper proposes to require disclosure of Scope 1 and Scope 2 GHG emissions. In its 2015 submission, the Council suggested that using standardised method, for instance, requiring issuers to use Scope 1, 2 and 3 classification for reporting GHG emissions will promote easy reference and comparison. In the long run, the Council suggests to require disclosure of Scope 3 GHG emissions as well to allow consumers, investors and stakeholders to have a more comprehensive understanding on the issuers' GHG emission performance.

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

11. Apart from environmental perspective, the social and governance performance of issuers in terms of customer services and product safety are of grave concern to consumer welfare. The Council is of the view that requiring the disclosure obligations of such information in ESG reports will heighten the attention of issuers in this aspect. The Council welcomes the proposal of upgrading the disclosure obligation of Social KPIs from recommended disclosures to "comply or explain" provisions. In its previous submission, the Council had urged for all KPIs be upgraded to "comply or explain". The Council believes that the current revision would further protect the interests of consumers and investors.

### **Revising the Social KPIs**

12. The Council supports the introduction of two new KPIs in respect of "Supply Chain Management" to require disclosure of the issuer's (a) practices used to identify environmental and social risks along the supply chain, and how they are managed and monitored; and (b) practices used to promote environmentally preferable products and services when selecting suppliers, how they are implemented and monitored.

13. Apart from the KPIs already covered in the "Social" subject area, the Council suggests the HKEX to explore the possibility of enriching the list of KPIs under this subject area. Below are some specific indicators drawn from the latest GRI Sustainability Reporting Standards in relation to supply chain management, customer services and product responsibility that should be included in the ESG Guide for the HKEX's consideration:

- Significant actual and potential negative environmental/social impacts in the supply chain and actions taken;
- Percentage of significant product and service categories for which health and safety impacts are assessed for improvement;

- Total number of incidents of non-compliance with regulations and/or voluntary codes concerning the impacts of health and safety, advertising, labelling relating to products and services;
- Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.

14. Besides, the Council also puts forward a requirement of disclosure of results of surveys measuring customer satisfaction where applicable, for the HKEX's consideration to include it as a KPI under "Social" subject area. The Council considers the disclosure of such information, along with the existing KPI relating to disclosure of number of products and services related complaints received and how they are dealt with, is important in promoting issuers to take appropriate measures to enhance consumer rights.

15. In view of the emerging threat of antimicrobial resistance in recent years which the Council had urged fast food chains in Hong Kong to leverage its procurement power to stop the sourcing and sale of meat raised with abusive use of antibiotics, the Council recommends that issuers should take into consideration about the use of antibiotics in their supply chain, if applicable, when they identify risks along their supply chains and describe of practices used to promote preferable products when selecting suppliers (e.g. such as suppliers who avoid the abuse of antibiotics). It is therefore supportive to require disclosure of procurement practices in the ESG reports to allow readers to better assess the risks associated with the issuer's supply chain.

### **Encouraging Independent Assurance**

16. The Council agrees the proposal that where independent assurance is obtained, the issuer should describe the level, scope and processes adopted for assurance clearly in the ESG report. The Council appreciates the aim of such proposal which is to set out guidance with respect to the information to be disclosed if assurance is obtained. In order to provide more reference value to the independent assurance sought, the Council suggests that, besides "level", "scope" and "processes" adopted for assurance as proposed in the consultation paper, the ESG Guide should also require the disclosure of the "standard" used for the assurance.

17. As mentioned in its previous submission, in view of the importance of the reliability, credibility and comparability of ESG information (e.g. greenhouse gas emissions, hazardous waste disposal), the Council considers it important that the ESG Guide should place emphasis on independent assurance and should not leave it as an optional action which is not conducive to strengthen the readers' confidence in the ESG information. While acknowledging the concern of the HKEX that possible

compliance burden may be imposed on small-to-medium sized issuers if independent assurance is mandatory, the Council suggests the HKEX to review such requirement on a regular basis and consider the possibility of implementing it mandatorily by a progressive approach.