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HOW TO PREPARE AN ESG REPORT

A Step-by-Step Guide to ESG Reporting



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Introduction

The landscape for ESG reporting is rapidly changing. Regulators, investors and other stakeholders are focused on corporate disclosures regarding certain climate-related and social issues.

There is a need for a transition in our thinking and actions in this area. In this document, HKEX provides guidance to issuers on:

- (i) How to provide a more decision-useful report to investors, especially in light of the recommendations of the Task Force on Climate-related Financial Disclosures (**TCFD Recommendations**)¹ ;
- (ii) The key steps for the preparation of an ESG report, from preparatory stage to the writing of the report;
- (iii) Issuers' common pitfalls when preparing ESG reports; and
- (iv) Guidance on data collection methodologies and practical tips regarding the information required under each KPI in both "Environmental" and "Social" Subject Areas of the ESG Reporting Guide².

We will amend this document from time to time to ensure that it remains up to date.

Increasing demand for ESG information

Investors are becoming increasingly aware that corporate financial statements alone are not necessarily sufficient in determining the company's access to capital, cost of capital, the likely environmental and social risks that it may face, and the way in which these risks are managed. Whilst in the past investors may have made decisions based largely on a company's track record, they are increasingly looking to the future. ESG reporting reflects management strength and engenders investor confidence in the long-term prospects of the company.

The Exchange's role

We play a key role in fostering market confidence and promoting good governance and disclosure. An "informed market" calls for disclosure of all information that might have a significant impact on a company or its business. ESG disclosure is crucial to ensuring that investors are given sufficient information to make properly informed investment decisions.

HKEX also has a duty to continuously review and develop our regulatory framework, to make sure that it is up to date and is aligned with international best practice. Over time, we hope that these efforts will facilitate the development of a corporate culture in which ESG practices and reporting are fully integrated into daily business operations, leading to greater transparency, more resilient risk management processes and sustainable value creation.

¹ See Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017), Task Force on Climate-related Financial Disclosures (<https://www.fsb-tcf.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf>)

² Appendix 27 to the Main Board Listing Rules or Appendix 20 to the GEM Listing Rules

The value of an ESG strategy

The impact of ESG issues on financial risks can be minimised if there is a strategic approach that is forward-looking and reflects the long-term interests of the company.

Therefore, it is important for companies to develop an ESG strategy to respond to and manage such risks. In particular, the board of directors should have oversight of and assume the overall responsibility for an issuer's ESG matters and strategic direction.

ESG reporting approach

Recognising that there is no “one-size-fits-all” framework for ESG reporting, we have adopted a “comply or explain” approach to ESG reporting. That is, issuers are required to report on the provision, or provide considered reasons why information in respect of the provision has not been reported on.

It is important for issuers to ascertain the ESG issues that are most material to them from the outset. For instance, if an Aspect/provision of the ESG Reporting Guide is considered not material to an issuer's business, the issuer does not need to disclose but should explain in the ESG report that no disclosure is made because such Aspect/provision is not material to its business. Such explanation is sufficient to meet the “comply or explain” requirement.

Understanding climate-related risks

Climate change-related impacts present financial risks to many, if not all sectors, in which our issuers operate. As such, companies need to consider their actions today in light of how financial risks from climate change may evolve in the future. Under the framework provided by the TCFD Recommendations, financial risks from climate change can arise from two primary channels or “risk factors”: physical and transition³.

Physical risks

Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for companies, such as direct damage to assets and indirect impacts from supply chain disruption.

Acute risks	Chronic risks
Acute physical risks refer to those that are event-driven, including increased severity of extreme weather events, such as super typhoons, floods, extreme temperature fluctuations.	Chronic physical risks refer to longer-term shifts in climate patterns (e.g. sustained higher temperatures) that may cause sea level rise or chronic heat waves.

Companies’ financial performance may also be affected by changes in water availability, sourcing and quality; food security; and extreme temperature changes affecting the company’s premises, operations, supply chain, transport needs, and employee safety.

Transition risks

Transitioning to a lower-carbon economy may entail extensive policy, legal, technological, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to companies.

³ Sources:

Transition in thinking: The impact of climate change on the UK banking sector (September 2018), Bank of England. Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017), Task Force on Climate-related Financial Disclosures (<https://www.fsb-tcf.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf>).

Policy and legal risks	Technology risks
Potential climate-related regulation and policy changes, such as the adoption of energy-efficiency requirements, as well as increased exposure to legal risks may impact operational costs and product demand.	Development and use of emerging technologies may increase production and distribution costs, and reduce the company's competitiveness.
Market risks	Reputation risks
Supply and demand for certain commodities, products and services may change as climate-related risks and opportunities are increasingly taken into account.	A company's reputation may be impacted due to changing customer or community perceptions of said company's contribution to or detraction from the transition to a lower-carbon economy.

TCFD Recommendations

Issuers may refer to the TCFD Recommendations for guidance on identifying and disclosing the potential financial impacts of climate-related risks and opportunities on their businesses.

What are the TCFD Recommendations?

The TCFD Recommendations focus on helping companies identify and disclose the potential financial impacts of climate-related risks and opportunities on their businesses under four thematic areas:

- **Governance** - the company's governance around climate-related risks and opportunities.
- **Strategy** - the actual and potential impacts of climate-related risks and opportunities on the company's businesses, strategy, and financial planning where such information is material.
- **Risk Management** - how the company identifies, assesses, and manages climate-related risks.
- **Metrics and Targets** - the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Scenario analysis

The purpose of scenario analysis⁴ is to explore alternatives that may significantly alter the basis of “business-as-usual” assumptions. The TCFD Recommendations advocate scenario analysis as an important and useful tool for companies to assess the potential business implications of climate-related risks and opportunities, and for informing stakeholders about how companies are positioning themselves in light of these risks and opportunities.

This kind of analysis will be helpful for issuers to improve disclosure of decision-useful, climate-related financial information.

Tips

Companies may include scenario analysis into their strategic planning and/or enterprise risk management processes by:

- Identifying and defining a range of scenarios, including a 2°C scenario, that provide a reasonable diversity of potential future climate states.
- Evaluating the potential resiliency of their strategic plans to a range of scenarios.
- Using this assessment, enabling the identification of options for increasing the company’s strategic and business resiliency to plausible climate-related risks and opportunities through adjustments to strategic and financial plans.

⁴ Learn more on the TCFD website about the use of scenario analysis in disclosure of climate-related risks and opportunities: <https://www.tcfhub.org/scenario-analysis/>

Step-by-step guide to ESG reporting

We have identified the following steps for the preparation of an ESG report, which will be further explained in this chapter:

1. [Board and ESG working group](#)
2. [Understanding the requirements of the ESG Reporting Guide](#) (Appendix 27 to the Main Board Listing Rules or Appendix 20 to the GEM Listing Rules)(as amended by the amendments set out in the Consultation Conclusions on “Review of the Environmental, Social and Governance Reporting Guide and related Listing Rules” published in December 2019) (**Guide**)
3. [Reporting boundary](#)
4. [Materiality assessment](#), including stakeholder engagement
5. [Target setting](#)
6. [Writing the ESG report](#)

Under the Listing Rules, issuers must issue an ESG report (whether as part of their annual reports or in separate ESG reports) on an annual basis and regarding the same period covered in their annual reports. The steps and procedures set out in this document and its appendices ([Appendix 1: Toolkit](#), [Appendix 2: Reporting guidance on Environmental KPIs](#), [Appendix 3: Reporting guidance on Social KPIs](#) and [Appendix 4: Table of references to international standards/guidelines and other resources](#)) are for general reference and guidance only. Each issuer is unique and, as such, should develop its own steps and procedures for ESG reporting in view of its specific circumstances.

Issuers may also refer to HKEX’s dedicated [ESG webpage](#) for further resources and materials on ESG reporting.

Step 1 Board and ESG working group

Role of the board

The board has a responsibility to oversee ESG issues, which are as important as other types of enterprise risks. It is essential for the board to assess the potential impacts of ESG issues on their company’s overall strategy, as these issues could have a material impact on the company’s ability to generate returns.

The board has overall responsibility for an issuer’s ESG governance, which includes⁵:

- evaluating and determining the issuers’ ESG-related risks and opportunities;
- ensuring that appropriate and effective ESG risk management and internal control systems are in place;
- setting the issuer’s ESG management approach, strategy, priorities and objectives;
- reviewing the issuer’s performance periodically against ESG-related goals and targets; and
- approving disclosures in the issuer’s ESG report.

⁵ See paragraph 13 of the Guide.

ESG is a dynamic area that often requires a new way of looking at a mix of familiar and new topics. The board's role in relation to ESG may require more deliberate consideration due to the newness and level of maturity of understanding of the topics involved. Directors may need to invest time and effort to upskill so they can meet their responsibilities.

Tips

[Board's ESG oversight : A Seven Part Framework](#) illustrates the steps a board can take to exercise its oversight of ESG issues.

ESG working group

Issuers may establish an ESG working group, which reports to the board, comprising senior management and staff who have sufficient knowledge of current and emerging ESG matters as well as the issuer's operations.

Tips

The ESG working group should have clear terms of reference setting out:

- Powers delegated to it by the board.
- Authority to carry out various tasks (including internal and external materiality assessments).
- Scope of its work (e.g. implementing the board's strategy and policies, preparing the ESG report).
- Cost and resource commitment from the issuer.

Step 2 Understanding the requirements of the Guide

The ESG working group should understand the reporting requirements of the Guide, the issuer's ESG-related risks as determined by the board and the board's ESG strategy.

The issuer may consider adopting international ESG reporting guidance for its relevant industry or sector, so long as it includes comparable disclosure provisions to those set out in the Guide⁶.

Tips

[Appendix 4: Table of references to international standards/guidelines and other resources](#) provides references to provisions of international standards/guidelines and other resources that may be useful in understanding the ESG topics covered by the Guide.

A list of relevant international standards/guidelines can also be obtained via HKEX's [ESG Resources Hyperlinks](#).

⁶ See paragraph 8 of the Guide.

Identifying information gaps

In respect of each disclosure requirement, the ESG working group should identify relevant sources of data, or develop a process by which relevant data will be collected in the future.

For policies, ask the following questions:

- Do we have any existing policies in the specific area? If not, is it necessary to develop such policies?
- Who in the company is responsible for determining the policies and overseeing their implementation?

For KPIs, ask the following questions:

- What information or data do we need to report for this KPI?
- Are there any gaps in the data and, if so, what do we need to do to generate the required data?

Tips

- Use [Appendix 1: Toolkit – identifying information gaps](#) to identify information gaps.
- [Appendix 2: Reporting guidance on Environmental KPIs](#) contains useful data collection methodologies and practical guidance on how to collect data and calculate information called for under each of the KPIs in “Subject Area A. Environmental” of the Guide.
- [Appendix 3: Reporting guidance on Social KPIs](#) contains useful data collection methodologies and practical guidance on how to collect data and calculate information called for under each of the KPIs in “Subject Area B. Social” of the Guide.

Seeking independent assurance

Paragraph 9 of the Guide specifies that issuers may seek independent assurance to strengthen the credibility of ESG information disclosed. An issuer may choose to obtain external assurance for all or part of its ESG report, so long as the scope of assurance is clearly set out in the ESG report.

When selecting an assurance provider, an issuer should consider whether the assurance provider:

- is independent from the issuer and its controlling shareholders;
- is demonstrably competent in both the subject matter and applicable assurance practices⁷; and
- will issue a written report⁸ which includes:
 - an opinion or set of conclusions;
 - a description of the responsibilities of the report preparer and the assurance provider; and
 - a summary of the work performed, which explains the nature of the assurance conveyed by the assurance report.

⁷ The Guide does not prescribe the assurance framework to be adopted. While a globally-accepted standard specifically for ESG reports is yet to be developed, issuers may refer to ISAE 3000, being the standard for assurance over non-financial information issued by the International Federation of Accountants, which comprises guidelines for the ethical behaviour, quality management and performance of an assurance engagement.

⁸ For the avoidance of doubt, issuers are not required to disclose the text of this report in the ESG reports.

Step 3 Reporting boundary

The reporting boundary is the scope of the ESG report, and an issuer should have its own criteria for determining the scope, depending on its own business and circumstances.

There are different ways of determining what to include in the ESG report. Some issuers may prefer following the scope used in their annual reports. Some may apply a financial threshold (e.g. inclusion of subsidiaries or operations contributing to a certain percentage of the issuer group's total revenue or more), or risk level (e.g. inclusion of operations exceeding a certain risk level despite being a non-major business sector of the issuer's group). In some cases, issuers may adopt different scopes for different Aspects/provisions.

Step 4 Materiality assessment

“Materiality” is one of the keystone Reporting Principles for preparing a quality ESG report. In the Guide, materiality is defined as the threshold at which ESG issues are determined by the board to be sufficiently important to investors and other stakeholders that they should be disclosed.

International standards / guidance (such as the GRI Standards and the TCFD Recommendations) and the Guide address many environmental and social issues, but not all of these issues are relevant to all companies. Depending on the industry, geographical location(s) of its operations and other factors⁹, an issuer may consider certain Aspects to be material to its business, whilst others are not.

It is important for an issuer to ascertain which Aspects are material to its business and prioritise relevant content in its ESG report accordingly.

Internal materiality assessment

An internal materiality assessment should be conducted by senior managers and/or key employees. Issuers are encouraged not to outsource internal materiality assessment because members of staff have a better understanding of the issuer's specific circumstances, and as a result may be in a better position to identify and prioritise material issues.

When preparing to conduct an internal materiality assessment, an issuer could take into account:

- Its overall mission and competitive strategy, corporate values, policies, strategies, operational management systems, impact assessments, goals, and targets, including its risk management framework, risk register and related studies/analyses.
- Laws, regulations, international agreements, or voluntary agreements of strategic significance to the issuer.
- Main topics and future challenges for the issuer's sector, particularly taking into account relevant guidance and resources that are available.

⁹ Issuers may also refer to the “double materiality perspective”, which involves considering the internal impacts related to ESG topics on the issuer's development performance and position as well as its external impacts on economy, environment and society, as advocated by the European Union. For more information refer to European Union's Guidelines on non-financial reporting: [https://eurlex.europa.eu/legalcontent/EN/TXT/PDF/?uri=CELEX:52017XC0705\(01\)&from=EN](https://eurlex.europa.eu/legalcontent/EN/TXT/PDF/?uri=CELEX:52017XC0705(01)&from=EN)

Issuers may refer to the Sustainability Accounting Standards Board's Materiality Map[®], an interactive tool for identifying and comparing disclosure topics across different industries and sectors¹⁰, or other international best practices for specific sectors¹¹. Additional resources are also available from Bloomberg¹² and the Climate Disclosures Standards Board¹³.

Tips

- Use [Appendix 1: Toolkit – materiality and relevance](#) to assess and determine the materiality of each provision of the Guide.
- Refer to the [materiality table](#) at the end of this document for a sense-check on which topics are material for businesses in different sectors.

External materiality assessment

Stakeholder engagement is an important tool that issuers can use to identify, develop and achieve accountable and strategic responses to ESG issues. Since stakeholder engagement should be part of an issuer's everyday operations, it is not necessary for an issuer to conduct stakeholder engagement specifically for the purpose of preparing its ESG report.

Tips

Stakeholder engagement helps issuers to:

- Understand stakeholders' expectations, interests and information needs.
- Be aware of the impact of the company's business on the environment and society and vice versa.
- Identify material ESG issues so as to mitigate risks and maximise opportunities.

Identifying stakeholders

Stakeholders are entities or individuals that can reasonably be expected to:

- be significantly affected by an issuer's activities, products and services; and/or
- whose actions can reasonably be expected to affect the ability of an issuer to successfully implement its strategies and achieve its objectives.

¹⁰ <https://materiality.sasb.org/>

¹¹ For example, GRESB has developed a materiality scoring tool for infrastructure companies and asset operators (<https://gresb.com/resources/#resources+s:materiality>); and the Sustainable Apparel Coalition has developed the Higg Index suite of tools to evaluate companies and products in the apparel, footwear, and textile industry on social and environmental sustainability performance (<https://apparelcoalition.org/the-higg-index/>).

¹² <https://www.bloomberg.com/impact/approach/materiality-assessment/>

¹³ <https://www.cdsb.net/what-we-do/reporting-frameworks/environmental-information-natural-capital>

Depending on the issuer's business, industry and other factors, external stakeholders groups may include but are not limited to:

- Investors/ shareholders/ members
- Customers and potential customers
- Suppliers/ business partners
- Employees (e.g. in the context of the human resources department, employees would be their external stakeholders)
- Government and regulators
- NGOs and lobby groups
- Local communities
- Competitors/ peers
- Experts and specialists (e.g. professional/industry associations and academia)

To achieve long term success and sustainability, issuers should build successful relationships with stakeholders and maintain this engagement on an on-going basis.

How to engage with stakeholders?

When engaging with stakeholders, an issuer may consider taking the following steps:

1. Generate a full and complete list of stakeholders by consulting various departments (e.g. corporate communications/public relations, human resources, investor relations, sales and marketing, procurement, legal, government relations, etc.).
2. Reduce the list of stakeholders into a workable size. If the ESG working group does not have the resources to contact representatives from every stakeholder group, focus on key stakeholders only.

Tips

- Use [Appendix 1: Toolkit – stakeholder influence – dependency matrix](#) to identify key stakeholders (i.e. those in the top right-hand quadrant).

3. Decide on the most effective engagement methods, which may include:



4. Engage with the key stakeholders to seek their views on material issues.

Tips

- Use [Appendix 1: Toolkit – stakeholder profile](#) template and [Appendix 1: Toolkit – stakeholder engagement plan](#) to help with the stakeholder engagement process.

5. Create an action plan to address the most important and relevant stakeholder concerns.

Tips

- Use [Appendix 1: Toolkit – post stakeholder engagement action plan](#) to help create the action plan.

Outcomes of a materiality assessment

An issuer’s board has the ultimate responsibility of determining the threshold at which ESG issues are sufficiently important to investors and other stakeholders that they should be disclosed in the ESG report.

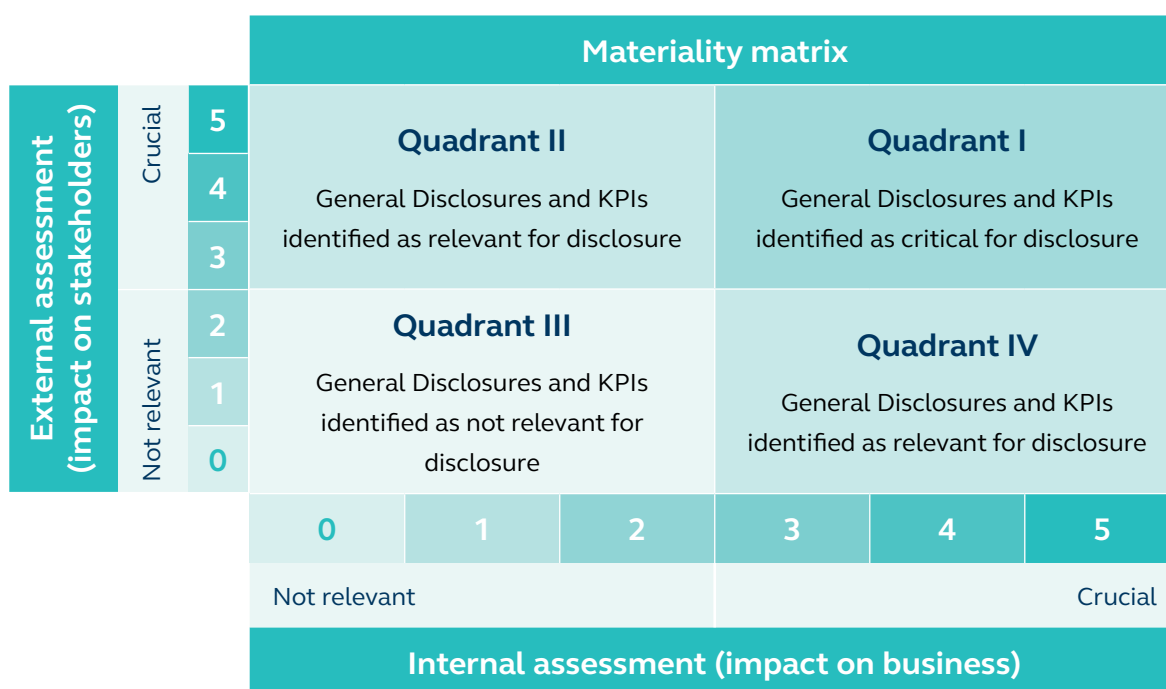
In consideration of all “comply or explain” provisions, for ESG topics that are determined by the board to be material, the issuer should:

- Disclose the required information; or
- If it decides not to disclose the information, give considered reasons for this decision in the ESG report (please refer to [Step 6D](#) below for further guidance).

Understanding the materiality matrix

While not a requirement, a materiality matrix is a useful tool to graphically represent the outcomes of a materiality assessment. An issuer should identify the list of material ESG topics that are specific to its organisation and exercise judgement to determine the appropriate position of each topic on the matrix.

The diagram below illustrates how the position of each ESG topic on the materiality matrix represents the board’s view of its relative importance to the issuer:



General Disclosures, KPIs and ESG factors that are placed within Quadrant I of the materiality matrix are considered critical for disclosure in the ESG report because they are highly material. ESG factors that have a high position on one axis but a lower position on the other axis (i.e. Quadrant II and Quadrant IV) may also be considered material.

Tips

- Use [Appendix 1: Toolkit – materiality matrix](#), a graph with (1) impact on stakeholders and (2) impact on business as the axes, to merge the results of internal and external materiality assessment.

Note on “partially material” topics

General Disclosures and KPIs under each Aspect call for information on various matters (e.g. Aspect B6 calls for information on “health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress”). An issuer could determine that a particular “comply or explain” provision is partially material to its business (e.g. in respect of Aspect B6, “labelling” is not considered to be material because the issuer’s operations do not involve any packaged products). In which case, issuers should make note of the partial disclosure accordingly.

Topics that are not material

A “comply or explain” provision (or any part thereof) may not be material to the issuer if it has a low position on both axes of the materiality matrix (i.e. Quadrant III). In this case the issuer may:

- Continue to disclose the required information; or
- Opt not to disclose the information, in which case it should explain why with reference to the process and outcomes of its materiality assessment.

Step 5 Target setting

In accordance with the quantitative principle (paragraph 11 (2) of the Guide), issuers should set targets, which may be numerical figures or directional statements, to help reduce negative impacts and evaluate/validate the effectiveness of their ESG policies and management systems.

How to set ESG targets

One commonly accepted approach to target setting is using “S.M.A.R.T.”, which is a concept designed to ensure that targets are clear and attainable. Issuers should consider the following questions when setting “S.M.A.R.T.” targets:

- **Specific** – What specifically do you want to achieve?
- **Measurable** – How will you know when you have achieved the target?
- **Attainable** – Is it something you have control over and can actually achieve?
- **Relevant** – How applicable is the target to your business and does it align with existing strategies?
- **Time bound** – By when do you want to achieve your goal?

Disclosure of ESG targets

While issuers may set targets for all KPIs that are material to them, the Guide only expressly requires disclosure of targets for KPIs A1.5, A1.6, A2.3 and A2.4 on a “comply or explain” basis.

Example disclosure of a S.M.A.R.T. target

Below is an example of a S.M.A.R.T. target from a multinational retailer that sells clothing, home and food products:

*“Our goal is **to become a zero-waste business**....By **2025**, the **50 key raw materials** used for our products will come **from sources verified as respecting the integrity of ecosystems, the welfare of animals and the wellbeing of people and communities**. This will cover **over 80% of raw material usage by volume**...”*

- **Specific** – it specifically states the desired outcome to become a zero-waste business.
- **Measurable** – it can track and analyse how many materials are verified.
- **Attainable** – the company has control over which suppliers they work with and can require product verification from their suppliers to meet this target.
- **Relevant** – it applies to 80% of their material usage by volume.
- **Time bound** – the company aims to achieve the target by 2025.

Discussion on directional statements

Targets may be actual numerical figures or directional, forward-looking statements. Depending on an issuer’s specific circumstances, its ESG targets may also feature a combination of numerical figures and directional statements.

An example where directional statements may be relevant is when new initiatives are being launched, and the issuer is not yet sure what is possible and/or does not have a baseline of past performance. In line with the quantitative principle, when a directional target has previously been reported, an issuer may over time proceed to collect and disclose numerical data in order to evaluate its performance with respect to that target. The issuer may also revise such target to take into account quantitative information as it becomes available.

Example of a directional statement

*“**From this year onwards, all new build and major retrofit projects will meet relevant international sustainable building standards**”*

In this example, the issuer may not know how many new build or retrofit projects are going to be undertaken. The issuer should provide additional contextual information about its approach to sustainable building standards, such as efforts to first meet local sustainable building standards (e.g. Hong Kong’s BEAM Plus certification program), in its ESG report.

Step 6 Writing the ESG report

The ESG report should include the following:

- A. A description of the issuer’s ESG governance;
- B. Explain the reporting boundary and describe the process used to determine the boundary;
- C. A description on how it applied certain Reporting Principles;
- D. Report on each of the “comply or explain” provisions;
- E. Independent assurance (optional); and
- F. Key messages that the issuer aims to convey to investors and other stakeholders.

A. ESG governance

It is mandatory for an ESG report to include a statement from the board providing a description of the following elements:

Elements	Information to be disclosed
Board’s oversight of ESG issues	<p>Board’s overall vision and strategy in managing ESG issues in short-term, medium-term and long-term.</p> <p>If there is an ESG committee or ESG working group, disclose its structure and functions.</p>
Board’s ESG management approach and strategy, including process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer’s businesses)	<p>Process for materiality assessment and how the board has determined the materiality of different ESG risks.</p> <p>Identify key ESG topics and strategic priorities in managing ESG issues for the short and medium-term.</p>
How the board reviews progress made against ESG-related goals and targets, with explanation of how they relate to the issuer’s businesses	<p>Board’s views on performance against its targets, focusing on the board’s evaluation of progress rather than the targets themselves.</p> <p>Provide an outlook on the issuer’s main challenges and goals for the coming three to five years.</p>

Tips

- In evaluating progress against ESG-related goals and targets, the board may take into account the following factors:
 - Internal or external auditing or verification
 - Measurement systems
 - External performance ratings
 - Benchmarking
 - Stakeholder feedback
- Issuers may refer to international guidance on best-practice reporting about ESG governance and disclosures on management approach¹⁴.

B. Explain the reporting boundary and describe the process used to determine the boundary

An issuer should explain the reporting boundaries of the ESG report. It should also describe the process used to identify which entities or operations are included in the ESG report. This allows readers to appreciate the scope of the ESG report and facilitates a more comprehensive understanding of the report contents. If there is a change in the scope, an issuer should explain the difference and reason for the change. If different scopes are adopted for different Aspects/provisions, it should also disclose such information in the report.

An issuer may consolidate its description of entities, operations and/or business relationships according to relevant attributes, such as type, location, or size.

Examples

- *“Our mandatory disclosures cover all entities listed in our financial statements, including all subsidiaries and associates with the exception of X and Y, which were acquired as part of our merger with Z during the reporting period.”*
- *“The disclosures on Environmental Aspects in this report include operations over which we exercise full management control, namely the facilities and equipment owned/ controlled by our manufacturing and trading subsidiaries in regions X and Y as indicated on the following map.”*
- *“For the purposes of this KPI, we define our supply chain as direct (tier 1) suppliers exceeding an average minimum spend value of \$X/ annum over the past three years.”*

In general, stakeholders may assume that an issuer’s ESG report covers all corporate entities included in its consolidated financial statements or equivalent documents for the same period. An issuer may consider disclosing and explaining in its ESG report any variation from this general rule to avoid confusion.

¹⁴ GRI 102: General Disclosures: <https://www.globalreporting.org/standards/media/1037/gri-102-general-disclosures-2016.pdf> (Disclosures 102-14, 102-18, 102-19, 102-20 and 102-21)

GRI 103 Management Approach: <https://www.globalreporting.org/standards/media/1038/gri-103-management-approach-2016.pdf> (Disclosure 103-3)

C. Application of certain Reporting Principles

The Reporting Principles in the Guide underpin the preparation of every ESG report and as such, they should be followed without exception. Paragraph 14 of the Guide requires an issuer to explain its application of the “materiality”, “quantitative” and “consistency” principles.

While issuers are not required to explain how the “balance” principle has been applied in the ESG report, issuers should nonetheless ensure that the ESG report provides an unbiased picture of the issuer’s ESG performance (i.e. disclosing both “positive” information (e.g. awards and achievements) and “negative” information (e.g. accidents, challenges or failures)).

An issuer should take note of the following points when explaining its application of the relevant Reporting Principles:

Reporting Principles	Points to note
Materiality	<ul style="list-style-type: none"> Describe how the issuer decided on its material issues and include a materiality matrix illustrating prioritisation of issues along internal and external dimensions. Indicate whether any “comply or explain” provisions are not disclosed because they are not considered material for the issuer, and explain how the issuer has arrived at this determination. Provide details of who and how often the issuer engaged with its stakeholders, as well as insights gained therefrom.
Quantitative	<ul style="list-style-type: none"> This principle applies to all information in the report, not only to KPIs concerning emissions and energy consumption. If well-established international standards are adopted in the preparation of specific KPIs, it is sufficient to provide a description or reference to the standards adopted without explaining the underlying methodologies or assumptions in detail. Please refer to Appendix 2: Reporting guidance on Environmental KPIs and Appendix 3: Reporting guidance on Social KPIs for more information on application of this principle with respect to specific KPIs.
Consistency	<ul style="list-style-type: none"> Include a statement to confirm no change from previous years in the way the ESG report has been prepared. Alternatively, provide a description of any changes that may affect meaningful comparison with information provided in previous reports e.g. any change(s) in methodologies/calculation methods used.

D. Report on each of the “comply or explain” provisions

An issuer must either report on a “comply or explain” provision, or give considered explanation(s) as to why not. Failure to comply (i.e. disclose the required information) without explanation is a breach of the Listing Rules.

Issuers are reminded that “explanation” is not a less preferred or secondary option. For instance, if a “comply or explain” provision is not material to an issuer, it may be better for the issuer to explain that no disclosure is made as such provision is not material to the issuer, instead of disclosing irrelevant information.

An issuer should note the following points when explaining its reasons for not disclosing required information:

Reason for non-disclosure	Points to note
Not material	Specify the reason(s) why this disclosure is considered to be not material
Confidentiality constraints	Describe the specific confidentiality constraints prohibiting this disclosure
Specific legal prohibitions	Describe the specific legal prohibitions
Information not available	Describe the specific steps being taken to obtain the information and the expected timeframe for doing so

The following sets out what the Exchange expects for disclosure on (i) policy; (ii) compliance with relevant laws and regulations that have a significant impact on the issuer; and (iii) KPIs (if any):

a) Policies

The issuer should provide a summary of its policies that cover the Aspect (with links to those that are publicly-available) containing relevant information, such as:

- Date of issue and last review date
- Range and location of entities covered
- Person(s) or committee(s) responsible for approval and implementation
- References to international standards and widely-recognised initiatives
e.g. relevant government schemes

Tips

- Do **NOT** use generic statements such as “we have an anti-corruption policy” without further elaboration.

- b) Information on compliance with relevant laws and regulations that have a significant impact on the issuer

An issuer should consider whether there are laws and regulations in respect of that Aspect which may have a significant impact on the issuer.

- If yes: (i) Specify the relevant laws and regulations; (ii) disclose their potential impact on the issuer; and (iii) disclose ways in which the issuer has ensured compliance with such laws and regulations.
- If no: State that there are no laws and regulations that have a significant impact on the issuer.

Example

“Starting from 1 January 2018, China has implemented the “Environmental Protection Tax Law”, which is aimed at strengthening pollution control, protecting the environment, and regulating new tax targets enterprises and public institutions that discharge certain pollutants directly into the environment. The law requires these entities to pay tax for producing air and water pollutants, noise and solid wastes. Our tax liability is expected to increase by x% in view of this law, resulting in a reduction of our profit by y%.”

Tips

- Do NOT use blanket statements of compliance (e.g. “we have complied with all laws and regulations”) or absence of non-compliance (e.g. “we are not in breach of any applicable laws and regulations”).
- Disclosure of certifications awarded by standard-setting organisations such as the International Organization for Standardization does NOT suffice as disclosure of compliance with local laws and regulations.

c) Information on KPIs

Disclose the information called for under the relevant KPI. The following KPIs are often overlooked or disclosed incorrectly:

KPI	Description	Common pitfalls
Aspect A1 - Emissions		
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Immaterial ESG data disclosures when the issuers are not producing significant hazardous waste. Explanation should be provided if the KPI is not material.
A.1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosure of total non-hazardous waste (or an explanation for absence of such disclosure) omitted.
Aspect A2 - Use of Resources		
A.2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Disclosure of total packaging material used (or an explanation for absence of such disclosure) omitted. Immaterial ESG data disclosures when the issuers' products do not require significant packaging material. Explanation should be provided when the KPI is not material.
Aspect A3 - The Environment and Natural Resources		
A.3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Confused KPI A.3.1 with "Policies on minimising the issuer's significant impact on the environment and natural resources" and limiting disclosure to only energy saving policies such as "turning off lights to reduce electricity usage". For KPI A.3.1, issuers should disclose (i) the significant impact of its business activities on the environmental and natural resources; and (ii) targeted actions taken to manage them.

Issuers are reminded that they are required to report all Social KPIs on a "comply or explain" basis for financial years commencing on or after 1 July 2020.

E. Independent assurance (optional)

Where independent assurance is obtained, the issuer should clearly describe in the ESG report the level, scope and processes adopted for the assurance given. Issuers may decide whether to disclose the name of the assurance provider.

F. Key messages that the issuer aims to convey to investors and other stakeholders

The ESG report is an opportunity for an issuer to demonstrate the resilience and readiness of its business activities in relation to sustainable development. Through preparing an ESG report, issuers would be in a better position to identify both risks and opportunities arising from ESG issues relating to their operations.

Issuers should use this opportunity to showcase their ability to look beyond the risks, and realise opportunities through innovation and value creation.

Tips

- Keep report text simple, concise and to the point.
- Provide explanations for data presented in graphs or charts.
- Use pictures to emphasise or clarify points made in the text.
- Include short case studies to highlight how the issuer has implemented ESG policies or practices.

ESG reporting flowchart

SET UP AN ESG WORKING GROUP

- Understand ESG reporting requirements, ESG risks and the board’s ESG strategy
- Set reporting boundary

MATERIALITY ASSESSMENT

- Conduct internal and external materiality assessments to decide which information to disclose
- Conduct stakeholder engagement (optional)

Toolkit:

- Materiality and Relevance (to be completed for each stakeholder)
- Materiality Matrix (overall)
- Stakeholder Influence – Dependency Matrix
- Stakeholder Profile
- Stakeholder Engagement Plan
- Post Stakeholder Engagement Action Plan

TARGET SETTING

- Set targets which are specific, measurable, attainable, relevant and time-bound (S.M.A.R.T.)
- Targets may be quantitative or directional

ESG REPORT WRITING

- Statement on ESG governance
- Explanation of reporting boundary and description of process of determining the boundary
- Explanation on the application of certain Reporting Principles
- Reporting on each Aspect

Toolkit:

- Identify Information Gaps

	MATERIAL	NOT MATERIAL
“Comply or Explain” provisions	Either report or explain reasons for not reporting	If a provision is not reported on, consider using materiality/relevance as an explanation

Description of independent assurance obtained (where applicable)
Key message to investors and stakeholders



Materiality table – by industry and aspect

This materiality table is for reference **ONLY**. An issuer should conduct its own materiality assessment to determine the materiality of each Aspect based on its own circumstances. Depending on an issuer’s own industry and sector, as well as its own business operations, materiality of an Aspect may be different from what is depicted in this table.

	Consumer Discretionary	Consumer Staples	Healthcare	Energy	Financials	Industrials	Information Technology	Materials	Properties & Construction	Tele-communication	Utilities
A1 Emissions	●	●	●	●		●	●	●	●	●	●
A2 Use of Resources	●	●	●	●		●	●	●	●	●	●
A3 The Environment and Natural Resources	●	●		●		●		●	●		●
A4 Climate Change	●	●	●	●	●	●	●	●	●	●	●
B1 Employment	●	●	●	●	●	●	●	●	●	●	●
B2 Health and Safety	●	●	●	●		●	●	●	●		●
B3 Development and Training			●		●		●	●		●	
B4 Labour Standards	●	●	●	●	●	●	●	●	●	●	●
B5 Supply Chain Management	●	●		●		●			●	●	●
B6 Product Responsibility	●	●	●		●	●	●		●	●	●
B7 Anti-corruption	●	●	●	●	●	●	●	●	●	●	●
B8 Community Investment			●	●	●	●			●		●

- Very likely to be material to issuers in the industry
- Likely to be material to issuers in the industry

Notes:

- 1) An issuer may find an Aspect to be material to its business or operations, but consider a KPI under such Aspect not to be material.
- 2) Industries in the table have been classified in line with Hang Seng Industry Classification System, except that “Conglomerates” is not included since issuers from this industry may be engaged in businesses classified as other industries.

