
Signature (with Company/Entity Chop if the response represents company/entity view)

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/eng/newsconsul/mktconsul/Documents/cp201507.pdf>

Where there is insufficient space provided for your comments, please attach additional pages.

1. Do you agree with our proposal to amend Rule 13.91 to require issuers to disclose in their annual reports or ESG reports whether they have complied with the “comply or explain” provisions in the ESG Guide and if they have not, they must give considered reasons in the ESG reports?

Yes

No

Please give reasons for your views.

Ultimately we would like to see mandatory ESG disclosure but beginning with a comply or explain framework may lead to better outcomes (as the consultation paper mentions) because issuers will have time to acclimate to new requirements, an opportunity to develop the skills and processes required for reporting, and less incentive to circumvent them.

2. Do you agree with our proposal to amend Rule 13.91 to require the issuer to report on ESG annually and regarding the same period covered in its annual report?

Yes

No

Please give reasons for your views.

ESG disclosure is useful to investors only in the context of financial information so ensuring similar reporting timelines allows investors to effectively use both sets of data.

3. Do you agree with our proposal to include a Note under Rule 13.91 to clarify that:
- (i) an ESG report may be presented as information in its annual report, in a separate report, or on the issuer’s website; and
 - (ii) the issuer should publish the ESG report as close as possible to, and in any event no later than three months after, the publication of the issuer’s annual report?

Yes

No

Please give reasons for your views.

In our opinion, publishing information somewhere on a corporate website is not an adequate form of disclosure because it is not formal, standardized, or easily accessible. Investors expect to find relevant information in one easily accessible place. We suggest either an integrated report or mandating inclusion of a summary of the comply/explain ESG disclosure in the annual report, then linking to the separate sustainability report. This distinction is important particularly because HKEx is not requiring disclosure in a specific format. Knowing that any information disclosed is published in a formal and easily accessible format will increase corporate accountability and allow investors to find and use the disclosed information. Limiting disclosures to one format will also avoid the publication of contrasting or incomplete information in some formats that may be confusing to investors.

4. Do you agree with our proposal to revise the introductory section of the Guide into four areas (i.e. “The Guide”, “Overall Approach”, “Reporting Principles” and “Complementing ESG Discussions in the Business Review Section of the Directors’ Report”), and with the wording set out in Appendix II to the Consultation Paper?

Yes

No

Please give reasons for your views.

Overall, these areas clearly convey the intent behind and processes surrounding ESG disclosure requirements. Several edits could be made to make the Guide even more accessible to issuers:

1. **Item 4:** Include wording of Appendix 14 of Main Board Listing Rules with a note explaining that these standards apply but do not originate in this Guide or any HKEx rule
2. **Item 6:** When mentioning “stakeholders” in this context, the term should be explicated. Different issuers may have different interpretations and it is helpful to clarify whether HKEx expects issuers to engage only shareholders or also community members, NGOs (domestic or international), etc.
3. **Item 7:** When mentioning international ESG reporting guidance that issuers may adopt, include examples of frameworks that HKEx considers to have comparable disclosure provisions. We suggest including the upcoming UN Sustainable Stock Exchanges guidance along with the related World Federation of Exchanges Sustainability Working Group recommendations.
4. **Item 9:** Although boards may have ultimate responsibility for an issuer’s ESG risks, clarify that management is responsible for identifying those risks and board is responsible for ensuring risks *are* evaluated and mitigated as appropriate. Often these issues do not receive proper attention if there is no staff member dedicated to managing them.

Please note the above comments do not include recommendations made elsewhere in this questionnaire, such as limiting reporting formats.

5. Do you agree with the proposed wording of the Reporting Principles (i.e. “Materiality”, “Quantitative”, “Balance” and “Consistency”) in the introductory section of the Guide, as set out in Appendix II to the Consultation Paper?

Yes

No

Please give reasons for your views.

The definitions of materiality and quantitative should be clarified. We recommend removing the clause “and other stakeholders” from the explanation of “Materiality.” Stakeholders is so broad a term that almost any information might be “sufficiently important” to some stakeholders, and considering all that information as material places an undue reporting burden on issuers. It also is not clear that this principle may require companies to disclose beyond the exact KPIs. It would be helpful to clarify by adding a second sentence such as “HKEx requires companies to disclose on a comply-or-explain basis all material information, including information related to voluntary KPIs and information not specifically covered by listed KPIs.” How a company determines what information is material should also be explained. During Ceres’ consultation with 100 global investors, including [REDACTED] and many other large and small institutional investors and asset managers, there was unanimous consent that there must be a robust discussion of the process of determining materiality in disclosures (including what stakeholders were engaged). We also recommend rewording the item “Quantitative;” some of the KPIs ask for yes/no answers and other explicitly ask for narrative explanations, which are qualitative answers. The definition could be retained if “Quantitative” is replaced by “Measurable” or “Comparable.”

6. Do you agree with the proposed wording in the Guide linking it to Appendix 16 to the Main Board Listing Rules (in relation to the requirement for ESG discussions in the business review section of the directors’ report), as set out in Appendix II to the Consultation Paper?

Yes

No

Please give reasons for your views.

Yes, it is important to align HKEx language with national standards on similar topics that already exist to reduce issuer and investor confusion.

7. Do you agree with the proposal to re-arrange the Guide into two Subject Areas (A. Environmental and B. Social) and re-categorise “Workplace Quality”, “Operating Practices” and “Community Involvement” under Subject Area B?

Yes

No

Please give reasons for your views.

The three subject areas being replaced generally fit under the “Social” category when being considered by investors.

8. Do you agree with the proposal to change the heading “Workplace Quality” to “Employment and Labour Standards”?

Yes

No

Please give reasons for your views.

The term “Employment and Labour Standards” better conveys the importance of topics such as recruitment and promotion tactics and anti-discrimination policies to *both* workers and the employer.

9. Do you agree with our proposal to upgrade the General Disclosures for each Aspect of the ESG Guide to “comply or explain”?

Yes

No

Please give reasons for your views.

Setting the standard as “comply or explain” conveys to issuers that these are important topics relevant to investors, regulators, and other stakeholders.

Many of the voluntary KPIs appear important to a meaningful disclosure of the required information and should be upgraded to comply/explain. We understand the exchange’s perspective that environmental disclosure is more applicable to all companies and the need to undertake an incremental approach, but we and our clients believe it is important to put companies on a path to broad social disclosure – particularly because much of the emerging risk in Asia is related to social issues. At this time, HKEx may consider making the voluntary KPIs mandatory for larger firms but voluntary for small firms for whom reporting would be a significant burden. (As mentioned on page 18, section 73 of the paper, an incremental approach is sometimes most appropriate and effective.)

10. Do you agree with our proposal to amend the wording of paragraph (b) under current Aspects A1, A2, A4, B1, C2 and C3, re-numbered Aspects A1, B1, B2, B4, B6 and B7, to “compliance with relevant laws and regulations that have a significant impact on the issuer...” in order to align it with the language of the relevant provisions of the Companies Ordinance?

Yes

No

Please give reasons for your views.

It is important to clarify requirements and minimize the reporting burden for issuers while encouraging disclosure of all material information, so aligning HKEx language with national standards is an improvement.

11. Do you agree with our proposal to revise proposed Aspect A1 (“Emissions”) by upgrading to “comply or explain” the current KPIs B1.1, B1.2, B1.4 and B1.5, re-numbered KPIs A1.1, A1.2, A1.4 and A1.5, concerning disclosure of emissions and non-hazardous waste?

Yes

No

Please give reasons for your views.

██████ recommends also defining “significant impact” and recommending what types of data are material for certain industries and thus required to be disclosed. Leaving it up to the issuers may result in inconsistent reporting that is not useful for comparative purposes. For example, for KPI A1.1, “types of emissions and respective emissions data” is vague enough to yield different types of data.

12. Do you agree with our proposal to upgrade to “comply or explain” the current KPIs B1.3 and B1.6, re-numbered KPIs A1.3 and A1.6, concerning disclosure of hazardous waste?

Yes

No

Please give reasons for your views.

13. Do you agree with our proposal to upgrade to “comply or explain” the KPIs under the current Aspect B2, re-numbered Aspect A2, “Use of Resources”?

Yes

No

Please give reasons for your views.

██████ also recommends revising the note to describe more broadly what types of resources the Aspect references. Instead of giving examples (production, storage, etc.) it would be useful to issuers to know what stages of resource use require disclosure. For example: “Resources may be used in any stage of a product or service’s life cycle, from design to end use.” *Or* “HKEx is concerned only with the resources used by the issuer in design, production, storage, and transport of products and services.”

14. Do you agree with our proposal to upgrade to “comply or explain” the current KPI B3.1, re-numbered KPI A3.1, concerning disclosure of the significant impacts of activities on the environment and natural resources?

Yes

No

Please give reasons for your views.

██████ also recommends making this KPI more specific and asking for disclosure of information including (but not limited to): relevant environmental regulations and company compliance, fines paid in last year, legal incidents ongoing, description of policies related to natural capital and limited natural resources, biodiversity impacts. The Climate Disclosure Standards Board and Natural Capital Declaration have valuable resources on what specific measurements may be and we are happy to discuss those in more depth if useful.

15. Do you agree with our proposal to incorporate gender disclosure in proposed Subject Area B. Social, under the sub-heading “Employment and Labour Standards”?

Yes

No

Please give reasons for your views.

Another gender-related topic that should be included in General Disclosure is “parental leave.” We also strongly suggest including more specific KPIs on human rights (such as human trafficking), labor rights (such as collective bargaining) and diversity.

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