

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.

We encourage discussion in the annual report, not a standalone report, in terms of compliance with the listing rules on ESG matters. Integrated reporting reduces the burden on investors to find the ESG data. Recommended Disclosures should be hyperlinked from the annual report to their location, where possible.

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.

We agree that the ESG and financial reporting cycles should be in alignment. It's critical to begin linking financial and extra-financial data in the same documents to lay the foundation for integrated reporting.

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.

(i) The required disclosures from the Listing Rule (the comply or explain provisions) should be included in the annual report if they are mandatory, with supplemental information that can be found elsewhere. This supplementary information should be linked to the ESG disclosures in the annual report and vice versa. The reason for this is the main critique investors have with stand-alone ESG reports: the inconsistency of where companies place specific ESG disclosure items. Often, analysts complain about spending too many hours attempting to locate specific ESG information.

(ii) The reporting cycles should be synced, even if it might take a certain time for the companies to put it in place. If a company has difficulty in implementing this, it can explain the reasons why. This would allow comparing companies on the same basis.

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.

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.

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.

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.

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.

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.

It gives companies some flexibility for unusual circumstances while still mandating disclosure.

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.

Some improvements in the wording to be considered:

Aspect A1. Emissions

115. Specifying which international tools are most accepted would be helpful to issuers. The Exchange should mandate Scope 1-3 emissions reporting by companies on a «comply or explain» basis. When a certain scope is immaterial, the company has the ability to explain that to investors.

116. The FAQ would be helpful to issuers in providing guidance.

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.

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.

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.

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.

Yes, but it should be on a «comply or explain» basis. And it should cover board and management diversity. Gender disclosure is a norm in many markets and helps investors to assess the quality of management and the board.

General Comments:

We believe that the Recommended Disclosures under the **Social category** should be made **mandatory «comply or explain»** and not recommended. If an issuer has real difficulty in reporting on that item or is in the process of setting up processes to capture the data, it can explain those issues to investors. At least the following disclosures should be mandatory:

- ✓ KPI B1.1
- ✓ KPI B1.2
- ✓ KPI B2.2
- ✓ KPI B4
- ✓ KPI B6.1 - KPI B6.5
- ✓ All items in KPI B7
- ✓ KPI B8.2

Furthermore, we believe that all related policies should be hyperlinked where possible.

In the section KPI B7, it would be recommended to make the following modifications:

B7.1a - Add how the outcome of cases affected operations in the recommended Disclosures column.

B7.1b – Add total fines or settlements paid to governments, regulators or individuals during the reporting period as comply or explain.

B7.3 – Payments to governments should be included as a category of disclosure to report against in the Recommended Disclosures category.

(50) Third party assurance

We advocate assurance where feasible and providing tools to issuers on an ongoing basis on how to develop assurance across critical data points of the ESG disclosures mandated or recommended.

- End -