



中華人民共和國香港特別行政區立法會
LEGISLATIVE COUNCIL
OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION
OF THE PEOPLE'S REPUBLIC OF CHINA

梁繼昌議員 **Hon Kenneth Leung**

15 September 2015

Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
12/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Dear Sir/Madam,

Re: Consultation Paper on Review of the ESG Reporting Guide

I am writing to respond to the above consultation paper published by Hong Kong Exchanges and Clearing Limited in July 2015. I am generally supportive to the proposed changes in making a progress towards ESG reporting, but I do have other concerns regarding the specifics in the consultation paper.

Please refer to the enclosed "Comments on Consultation Paper on the Review of the Environmental, Social and Governance Reporting Guide" for further details.



Kenneth Leung
Member of the Legislative Council



COMMENTS ON CONSULTATION PAPER ON THE REVIEW OF THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

1. The Hong Kong Exchanges and Clearing Limited (HKEx) published a consultation paper in July 2015 on the proposed revision of its environmental, social and governance (ESG) reporting guide. The Office of Hon. Kenneth Leung welcomes such progress in Hong Kong's ESG reporting guide. It recognizes the value-enhancing benefits of ESG reporting and its importance in the global capital markets. We are pleased to have the opportunity to give comments regarding the six major amendments proposed by HKEx.

Proposed amendments to Main Board Rule 13.91

Question 1

2. We agree with the 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 their annual or ESG reports.
3. We call for attention to the possible “do not comply but just explain” scenario. Under the approach “comply or explain”, issuers may deliberately choose to “explain” only in a brief and general form which is unsatisfactory. HKEx should provide detailed instructions about how explanations should be given in an accurate, comprehensive and timely manner. A proper explanation should also indicate when the issuer expects to conform. For instance, The UK Corporate Governance Code¹ sets out principles on how to give clear and meaningful explanations. This could ensure the quality of explanation and the effectiveness of the “comply or explain” approach.

Question 2

4. We agree with the 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.

¹ Published by the Financial Reporting Council in September 2014, all listed companies incorporated in the United Kingdom are required under section LR 9.8.6R of the UK Listing Rules to report on how they have applied the Code in their annual report and accounts.

Question 3

5. We agree with the 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 as discussed in paragraph 91; 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.

Revamping the introductory section of the Guide

Question 4

6. We agree with the proposal to revise the introductory section of the Guide into four areas, and with the wording set out in Appendix II.

Question 5

7. We agree with the proposed wording of the Reporting Principles in the introductory section of the Guide, and with the wording set out in Appendix II.
8. We have further comments regarding the proposed "Reporting Principles": (i) Materiality; (ii) Quantitative; (iii) Balance; and (iv) Consistency. Under paragraph 98 in the Guide, these principles are broad concepts and are subject to issuers' interpretations. However, clear definitions are important for issuers to truly understand the requirements and ensure consistency. We suggest the Guide to provide well defined principles by referring to leading international guidelines. As these "Reporting principles" are largely based on The Global Reporting Initiative's Sustainability Report Guidelines (GRI Guidelines) - the world's most widely used standard for sustainability reporting, it could make reference to the comprehensive definitions that already exist under the GRI's framework, or adapt them to the situation in Hong Kong with the provision of clear definitions.
9. Under the new proposal, issuers are not required to "comply or explain" each of the reporting principles. They are however essential in maintaining the quality throughout the report. For example, the principle "Materiality" makes sure that issuers identify and prioritize ESG issues according to their business and stakeholder's concerns, hence preventing "tick-box" responses. It is important for issuers to explain how they have provided and presented information under these principles at the introductory session, we suggest to set "Reporting Principles" at

“comply or explain” level

Question 6

10. We agree with the proposed wording in the Guide linking it to Appendix 16, and with the wording set out in Appendix II.

Re-arranging the General Disclosures and KPIs into two Subject Areas (from four in the current Guide)

Question 7

11. We 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.
12. Although the re-arrangement has a better alignment with international guidelines, the Guide does not provide definitions for each KPI. The inconsistencies between the definitions of KPIs may pose administrative burden on issuers who report on multiple guidelines. Issuers may also employ unrecognized methodologies which may lower the quality and credibility of their reports. To provide a clearer guide and promote consistency, the Guide should refer to the comprehensive definitions for KPIs that already exist under the GRI’s framework.

Question 8

13. We agree with the proposal to change the heading “Workplace Quality” to “Employment and Labour Standards”.

Upgrading the General Disclosures under each of the Aspects

Question 9

14. We agree with the proposal to upgrade the General Disclosures for each Aspect of the ESG Guide to “comply or explain”.
15. There is a global trend in tightening the disclosure level of ESG information. Mandatory requirements have emerged in China, Singapore and the United States. With higher levels of disclosure obligation at the legislative and stock exchange level, it is justifiable that the disclosure level of ESG reporting in Hong Kong shall continue to evolve and improve. At this stage, imposing mandatory disclosure obligation is not recommended due to insufficient experience generally on data

collection, analysis and reporting. However, we suggest that a time frame towards mandatory reporting should be developed. It could encourage issuers to gain ESG reporting experience at the earliest opportunity.

Question 10

16. We agree with the proposed amendments to 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.

Upgrading the KPIs in Subject Area A. Environmental

Question 11

17. We agree with the proposal to revise Aspect A1 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.

Question 12

18. We agree with the proposal to upgrade to “comply or explain” the current KPIs B1.3 and B1.6, re-numbered KPIs A1.3 and A1.6.

Question 13

19. We agree with the proposal to upgrade to “comply or explain” the KPIs under the current Aspect B2, re-numbered Aspect A2.

Question 14

20. We agree with the proposal to upgrade to “comply or explain” the current KPI B3.1, re-numbered KPI A3.1.

21. We have further comments on the disclosure level of Subject Area B. Social. Although the new proposal retains all KPIs under Subject Area B at recommended disclosure level, we suggest to raise disclosure level for certain KPIs. These may include issues with higher concern from the society, which require higher transparency and better communication with the stakeholders. Suggested aspects include “Labour Standards” (child and forced labour), “Product Responsibility” and “Anti-corruption”. A schedule to raise disclosure level of all KPIs should also be incorporated into the time frame mentioned in paragraph 15.

Gender Disclosure

Question 15

22. We agree with the proposal to incorporate gender disclosure in Subject Area B under the sub-heading “Employment and Labour Standards”.