



18 September 2015

By email to: [response@hkex.com.hk](mailto:response@hkex.com.hk)

Corporate Communications Department  
Hong Kong Exchanges and Clearing Limited  
12<sup>th</sup> Floor, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

Dear Sirs

**Consultation Paper: *Review of the Environmental, Social and Governance (ESG) Reporting Guide***

The Institute welcomes and is pleased to have the opportunity to comment on the HKEx proposals to further enhance ESG reporting by companies listed in Hong Kong. The Institute fully supports the stated aims of the initiative which will go further to more closely align Hong Kong corporate reporting and disclosure requirements to trends in other jurisdictions that Hong Kong benchmarks itself against, including Mainland China. The international spread of many businesses and investment portfolios makes it important to have consistency between reporting requirements in Hong Kong and major markets around the world. The Institute is committed to maintain the convergence between Hong Kong and International Financial Reporting Standards that has existed since 2007. For environmental and social reporting the GRI Framework is one of the most commonly adopted frameworks. Therefore the substantial consistency between the KPI's in the HKEx ESG Reporting Guidelines and the data definitions in GRI is welcomed.

The proposals are a logical and measured evolution of ESG reporting and build in a very effective way on the changes to corporate reporting introduced by the new Companies Ordinance in the form of the business review section of the annual directors' report. The experience of HKEx in introducing the initial ESG reporting guidelines and changes to the Corporate Governance Code are also evident in the way the proposals are structured and articulated.

The Institute believes that it is appropriate to focus on raising general obligations and a limited set of environmental KPIs to "comply or explain" as the next step in development of ESG reporting in Hong Kong. This approach provides clarity and will give structure to the work that companies and their advisers will have to undertake to prepare the revised annual directors' report and an ESG report. The proposals are practical and non-prescriptive and give companies considerable flexibility in determining an effective approach to monitoring, managing and reporting ESG risks.





The emphasis on governance and internal systems of reporting and control is a positive step for developing good governance of companies listed in Hong Kong. The Institute supports this direction and recognizes that the accounting profession will have a critical role in ensuring that such positive ambitions are achieved.

Specific answers to the questions set out by the HKEx are attached and should be read in the overall context of the comments set out above.

If you require any clarification on the above comments, please do not hesitate to contact me at [REDACTED].

Yours faithfully,

A large black rectangular redaction box covering the signature of Chris Joy.

Chris Joy  
Executive Director

CJ/dy

## 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.

***Disclosure of compliance or explanation of non-compliance***  
***1) Provides report users with helpful information; and***  
***2) Is necessary to ensure effectiveness of the new provisions.***

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.

***It makes sense to align ESG reporting with the annual report to ensure a more holistic view of company performance is available to stakeholders.***

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.

*The physical location of the ESG report is not a critical issue as long as it is made very clear where the information can be found. Further, with increasing use of the internet leading jurisdictions are moving from having one physical report to having a number of separate reports on sets of information on the internet. The destination suggested by Integrated Reporting is to have a short report as the key document for users with supporting financial statements and ESG data.*

*Ideally in accordance with best practice and recognising the main objective of informing the investor of the holistic performance of the issuer, the ESG report should be published at the same time as the annual report. However, since some companies might find this difficult in the early stages, limiting the potential timing difference is sensible.*

*To facilitate readers finding the ESG information and the extent of compliance with the guidelines:*

- 1) *Rule 13:91 should require the location of the ESG information to be given in the main index to the Annual Report together with whether the ESG report complies with the guidelines.*
- 2) *The HKEx Guidelines should also require the ESG report to have an index which sets out where each item can be found and whether it complies with the guidelines.*

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.

*The proposal seems to be a practical way to introduce companies to ESG reporting requirements.*

*HKEx should also publish notes on the extent to which the Disclosures specified in its Guidelines differ from Disclosures specified the most widely used International Guidelines including GRI. Reasons for doing this:*

- 1) To facilitate both report preparers and readers understand reports produced per the HKEx Guidelines and compare these reports with international best practice.*
- 2) To make it easier for companies which follow an international guideline to ensure they also comply with the HKEx Guidelines.*

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 wording for ‘Materiality’ should be expanded to include ‘Completeness’.*  
*Suggested additional words:*

*The report should include sufficient coverage of material Aspects to reflect their significant economic, environmental and social impacts, and to enable stakeholders to assess the organisation's performance (both financial and non-financial) in the reporting period.*

*Additional wording to go at the start of the definition of Balance:*

*The report should reflect positive and negative aspects of the organisation's performance to enable a reasoned assessment of overall performance.*

*Additional Reporting Principle: ‘Clarity’. Defined as:*  
*The organisation should make information available in a manner that is understandable and accessible to stakeholders using the report.*

*Additional Reporting Principle: “Reliability”. Defined as:*  
*The report is prepared in a way that can be subject to examination and that establishes the quality and materiality of the information.*

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.

*It will be helpful to ensure there is consistency between the HKEx ESG reporting guidelines and ESG reporting requirements from other sources e.g. the Companies Ordinance.*

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.

***This is the logical "next step" in the evolution of ESG reporting in Hong Kong.***

***The guide should, however, clarify that it is not necessary to quantify impacts of non-compliance if they are negligible. This modification will allow organisations with immaterial activity for an Aspect to just report that fact rather than 'non-comply'.***

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 will be helpful to ensure there is consistency between the HKEx ESG reporting guidelines and ESG reporting requirements from other sources e.g. the Companies Ordinance.***

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.

***These two areas are probably the most recognised environmental reporting and measurement requirements among the general public. In choosing which KPIs to prioritise for upgrade these are a logical choice.***

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.

***This is another well recognised environmental reporting and measurement requirements among the general public. In choosing which KPIs to prioritise for upgrade this is a logical choice.***

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.

***This is fundamental area of sustainability reporting and is a clear choice to upgrade to "comply or explain".***

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.

***This is fundamental area of sustainability reporting and is a clear choice to upgrade to "comply or explain". Although in terms of positioning it may serve better as the first Environmental Aspect to report on, as it sets the background for how much of the Emissions and Use of Resources are material and will be reported on.***

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.

*This proposal is aligned with other HKEx initiatives on gender diversity and is a common disclosure in other jurisdictions.*

- End -