

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.

1. The ESG information enables providers of financial capital to understand more about whether the issuer is managing its longer term business risks and opportunities in relation to the ESG issues that are influencing the changing business environment.
2. As we see a potential trend for stock exchanges around the world beginning to incorporate ESG reporting requirements into their listing rules, it is important that Hong Kong is not seen as a laggard in this area. The Voluntary Guide was a good start, but to bring real substantive advantages like ensuring good emerging risk management practices, upgrading some/all of the recommended disclosures to “Comply or Explain” is an important next step that is also in line with the revised Companies Ordinance (Cap622) (“CO”).

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.

This approach will present investors and other stakeholders with a more holistic and comprehensive view of the issuer’s performance, both in terms of financial and non-financial information.

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) 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?

Yes, this helps to provide issuers with the flexibility to issue ESG information in the format(s) and/or channels most appropriate for them.

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 as discussed in paragraph 92?

Yes, it is best practice for the non-financial information to be available at the same time as the financial information in order for investors and other stakeholders to have that more holistic and comprehensive view of the issuer's performance. However, it is acknowledged that issuers may need time to build or develop their ESG reporting systems and processes before being able to adopt this best practice.

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.

1. The proposed restructuring makes the guide easier to follow and understand. Complementing ESG discussions in the Business Review section of the Directors' Report is a valuable section to have in linking back to relevant parts of the existing reporting requirements.
2. Another linkage area to strengthen is the relationship between ESG reporting and the management and reporting of business risk. Having the appropriate ESG management policies and systems (as included in the ESG reporting) would help to identify emerging ESG-related risks and opportunities for the business. The current proposed clause 9 under ESG strategy and reporting touches on this, but it might be useful to make more direct mutual references with Appendix 14 of the Main Board Rules, Section C: Accountability and Audit, particularly C.2.3. (a), which for example addresses the “issuer’s ability to respond to changes in its business and the external environment.”

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.

1. The reporting principles are important to ensuring the objectives of reporting are met. They provide guidance on the spirit of how the report should be prepared and what characteristics it should have to show that such spirit is upheld.
2. It is encouraging to see some alignment with the reporting principles of the GRI framework which is the world’s most widely used reporting framework.
3. Although the principle of “Reliability”, which is included in the GRI, should also be included to ensure that the reported ESG data and information are reliable in quality. However, it is acknowledged that it may take time for the medium to small enterprises to build the capability to ensure reliability and so it is suggested that HKEx consider including this principle in a few years’ time.
4. It should be noted that since the principle of “Materiality” may be challenging for small to mid-Cap companies who may not have the internal resource or expertise and for holding companies/conglomerates due to the multi sector nature of their businesses, perhaps HKEx could make reference to the BEC Handbook: Understanding Materiality for Environmental, Social and Governance Reporting, which provides sector-based guidance on what ESG matters are most material for different sectors in Hong Kong.

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.

The linkage to Appendix 16 of the Main Board Listing Rules is mutually reinforcing. The proposed clause 12 helps provide more gravitas to the purpose of the ESG reporting, while the ESG Guide provides more detailed guidance for issuers to fulfil the Appendix 16 requirements in case issuers may find that helpful.

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.

1. The proposed restructuring helps to realign with terminology used by international guidelines such as GRI as well as the ESG acronym itself.
2. To ensure that the "G" of the "ESG" is addressed in this ESG guide, it is imperative that the proposed clause 4 does continue to include the current proposed statement that "Corporate Governance is addressed separately in Appendix 14 of the Main Board Listing Rules."

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.

1. The proposed renaming brings it closer to terminology used by international guidelines such as GRI, which currently labels that category as “Labour Practices & Decent Work”.
2. In fact, it is recommended that the HKEx monitor international sustainability-related initiatives such as the UN Sustainable Development Goals (SDGs) as a way to think about how the government may want to proceed in meeting such goals and hence how HKEx can support both the government and listed companies to meet the desired goals.

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.

The direction that HKEx is taking by upgrading the disclosure requirements of all of the General Disclosures to “comply or explain” is fully supported. This provides flexibility in deciding which aspects to report on, particularly those that are most material to the company, as they could very legitimately vary across sectors, company size and jurisdictions in which they operate in. Establishing materiality helps companies to focus on issues that are most significant to their operations and are aligned with their business strategies moving forward.

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.

1. The proposed restructuring helps to realign with terminology used by international guidelines such as GRI as well as the ESG acronym itself.
2. Although it would be better if renumbered A3 is renumbered further to A1, while the renumbered A1 and A2 are hence renumbered to A2 and A3 respectively. This is because the renumbered A3 provides the general context that is important to understanding why the issuer has/has not identified the emission and waste as material.

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.

1. Carbon and air emissions as well as waste generation are/will be increasingly legislated over time anyway. This will help companies understand and prepare for managing these emerging risks and expectations from suppliers, customers and regulators.
2. It is also recommended that there is a more concerted approach or coordination with other relevant government-related initiatives in these areas, such providing advice to issuers to follow the guidelines for reporting GHG emissions in Hong Kong as developed by the Environmental Protection Department (“EPD”) of the HKSAR Government.

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.

1. Since hazardous waste is typically associated with potentially more significant health and safety impacts, it is more likely to be regulated in a number of countries, particularly since there is an international treaty, the Basel Convention which is designed to minimize the amount and toxicity of wastes generated and reduce the movements of hazardous waste between nations. Hence, these numbers should be reported anyway as part of legal compliance for relevant sectors.
2. If it is not relevant to the sector or company, the “Comply or Explain” approach gives issuers the flexibility to explain that these aspects are not material and are therefore not being reported.
3. However, since there is currently no legal definition in Hong Kong nor an official industry standard on the reporting of hazardous wastes, it would be helpful to stipulate the definition of hazardous waste as it may differ between countries and so one of the practical ways for providing a definition is to use international conventions like the Basel Convention and adopt their relevant definition(s).

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.

1. The use of resources, like energy and water, is typically associated with some relevant operational cost and/or local-specific regulations or policies and so for resource-intensive sectors, these aspects should already be monitored and managed as part of their daily operations anyway.
2. Again, if it is not relevant to the sector or company, the “Comply or Explain” approach gives issuers the flexibility to explain that these aspects are not material and are therefore not being reported.

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.

1. This KPI actually provides context to the other Environmental KPIs in that it requests the issuer to identify its significant impacts on the environment and resources, as well as how it is managing them.
2. In fact, it is recommended that the renumbered Aspect A3, as well as KPI A3.1 be moved up to become A1 and KPI A1.1 respectively to provide a logical sequence for Subject Area A disclosures.
3. Again, if it is not relevant to the sector or company, the “Comply or Explain” approach gives issuers the flexibility to explain that these aspects are not material and are therefore not being reported.

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.

Inclusion of gender will be consistent and aligned with most international ESG reporting standards (e.g. GRI and DJSI), as well as some regulations in other jurisdictions including the UK, Australia and Canada.

Our General Comments

Generally supportive of the draft Comply or Explain proposal, even if none of the comments we provide are incorporated.

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