



香港上市公司商會
THE CHAMBER OF HONG KONG LISTED COMPANIES

September 11, 2015

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

Dear Sirs,

Re: Consultation Paper on Review of the ESG Reporting Guide

The Chamber of Hong Kong Listed Companies (CHKLC) is pleased to respond to the consultation on “Review of the Environmental, Social and Governance Reporting Guide”. Before we answer the questions contained in the consultation paper individually, we would like to state our overall position with regard to the proposal of changing some of the existing requirements from “recommended disclosures” to “comply or explain”.

Overall position

The Chamber is always cautious of “comply or explain” requirements because of the implications it brings to compliance. Although not mandatory as code provisions, from experience, “comply or explain” requirements still impose a high responsibility on issuers to comply due to peer pressure if they do not want to be seen as below-standard. These requirements therefore shall not be taken lightly and are only for matters where such an approach is necessary and where the benefits of this approach far outweigh the costs incurred. *However, we do not see this is the case for ESG disclosure, particularly the quantitative KPI disclosure under the Environmental subject area.*

CHKLC advocates responsible and sustainable business practices. We encourage our members to commit to good ESG practices that are suitable for their own business goals and growth strategies. To this end, we have organised a series of ESG related seminars to help members implement and report their ESG measures and we prepare to continue to do so.

But, we do not underestimate the challenges faced by many issuers in collecting ESG-related data, environmental in particular, especially when it involves business operations in more than one location, including the Mainland China, for example.

As pointed out in your consultation paper, compliance should be in spirit, not just “box-ticking”. If a high number of issuers are uncomfortable about disclosing environmental KPIs, introducing a “comply or explain” requirement may only result in non-compliance or sub-standard disclosure.



- Environment KPIs not relevant for all industries

Certain industries are more environmentally sensitive, for example, power and energy, public transportation, chemicals, etc. There is a strong incentive, and much higher value to be attained, for these types of companies to monitor their environmental impact scientifically and meticulously, in response to stringent regulatory requirements and investment market scrutiny. For them, monitoring and disclosing their environmental impact is a business imperative and they would have little problem to report on the environment KPIs as proposed. In fact, many of these companies are reporting voluntarily and they will continue to do so regardless of the new “comply or explain” requirement. Besides, these companies tend to be single-industry which makes it easier to collect and report data.

But the same cannot be said for companies that are either in non-sensitive sectors or operate in multiple-businesses and multiple-markets. These companies are “low polluters” and do not face the same vigorous regulatory and market scrutiny. They also would have much difficulty in coordinating data collection if they run a large network of operation. To require them to disclose the environment KPIs (albeit on a “comply or explain” basis but in reality little option but complying) would yield no additional benefits and would be very burdensome. The required management time and resources could otherwise be spent on managing the business, monitoring risks, etc. to achieve long term value growth.

- Data disclosed amongst companies not on comparable basis

Your consultation paper stated that companies do not need to follow “hard and fast rules” when complying with the requirements. Although this provides flexibility, what we can foresee is there will be no comparable basis of the data between reporting companies, in terms of areas, scope, definition, methodology of data collection, etc. For investors or analysts who wish to do a market-wide analysis or comparison of performances between companies, these data may not be very helpful, and this calls into question the usefulness of the whole exercise.

- Quantitative KPIs disclosure not international norm

Based on the information provided in your consultation paper, even in other international markets, the requirements for ESG reporting are not as high and wide as those currently proposed for Hong Kong. For example, in Mainland China, only entities that discharge certain key pollutants are required to disclose information on their emissions, such as concentration and total volume. In the EU, the 2014 Directive required only large listed companies with more than 500 employees to disclose their policies, risks and results in ESG-related matters, and there is no mention of quantitative disclosure. In Australia, companies need only to disclose material exposure to ESG-related risks and how they are being managed; and only companies that meet certain thresholds in respect of their emissions, energy production and consumption need to report on such information. Likewise, in the U.S., disclosures are on expenditures on environmental controls and pending environment litigation as well as impact of climate change

on their business; besides, only companies with large source of emissions face disclosure obligations on greenhouse gases, and such requirements are not even imposed by the SEC or exchanges, but under a very specific Greenhouse Gas Reporting Rule from the Environmental Protection Agency.

These examples, quoted directly from your own consultation paper, suggest that the international trend is still towards qualitative disclosure and analysis. Where quantitative disclosure is deemed necessary, it is applicable only to “high polluters”. We believe this is a more reasonable and measured approach that what is being proposed for Hong Kong.

Conclusion

In view of the above, CHKLC does not, at this point in time, support upgrading environmental KPI disclosure to “comply or explain” and across the board. They should remain as recommended disclosures, just like the KPIs under the Social subject area. Issuers should be allowed to decide if it is in their business or fund raising interests to make the extra effort to disclose the KPIs. We believe this will provide the right balance between regulatory concerns and practical consideration of issuers.

If the Exchange nevertheless insists on “upgrading” any disclosures to “comply or explain”, this should be limited to the General Disclosures for each Aspect of the ESG Guide. This is in tune with practices in other international markets. We believe this information is more readily available to the management, and at the same time, adequate for shareholders to make an informed assessment of the ESG commitment of their companies. If and to the extent that quantitative KPIs are subject to the “comply or explain” regime (which we do not agree as aforesaid), we propose that all insignificant subsidiaries or associated companies of the listed company will be excluded from such disclosure and reporting requirements. Furthermore, given the costs that are involved, in particular, for small and medium sized listed companies, we further propose that the “comply or explain” regime should be implemented in phases applying first to HSI companies which are in the industry with “high polluters” (as the case in Australia and US) and gradually extending to other listed companies when they are ready.

As stated in the consultation paper, the reporting bar should not be set too high and too prematurely if we do not wish to see box-ticking compliance or simply non-compliance. We believe our suggestion will set the bar at the right level for our market at present.

Yours sincerely,

A solid black rectangular box used to redact the signature of Mike Wong.

Mike Wong
Chief Executive Officer

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.

Pls see supplemental sheet. We agree save that “comply or explain” be required only for General Disclosures for each Aspect of the ESG Guide but not KPIs, disclosure of which should remain recommended.

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.

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.

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.

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.

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.

Please see supplemental sheet.

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.

Please see supplemental sheet.

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.

Please see supplemental sheet

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.

Please see supplemental sheet

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.

As long as it is recommended. Issuers can decide whether they wish to disclose this information. But in general, we believe gender is not a persuasive indicator of a company’s performance or success. Employment or promotion should be based on merit. Besides, issuers in different industries may have different demographic profile that is characteristic of their business nature. For example, a construction company will have a much higher percentage of male employees but does not reflect its employment and labour standards are any poorer.

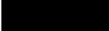
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October 22, 2015



Hong Kong Exchanges and Clearing Limited
11/F, One International Finance Centre
1 Harbour View Street, Central
Hong Kong

Dear 

Thank you for sharing with me the preliminary response to the consultation on Review of the ESG Reporting Guide.

As I understand it, the majority of response is in support of the proposed changes. While we respect the views of others, we still believe that many listed companies, especially the smaller ones, do not see the benefits of reporting on environmental KPIs, nor have the knowledge to do so at present.

In the event that HKEx will go ahead with the proposed changes, the Chamber earnestly hope that the proposed changes be introduced in phases, i.e. the General Disclosures be upgraded to "comply or explain" first, and the Environmental KPI disclosures be upgraded to "comply or explain" one year later, if not longer. During that interval, the HKEx, the Chamber and other market professionals can do extensive education activities for listed companies to get them ready for KPI disclosures.

Rolling out the General Disclosures first also has the benefit of cultivating a better reporting culture. By discussing the policies, company directors would examine their corresponding activities at the same time, and they can utilize the interval between General and KPI disclosures to implement more eco-friendly policies, and introduce better systems of monitoring and capturing data for eventual KPI reporting. This will lead to higher quality disclosure, and is better than rushing the market in which would only result in a high percentage of non-reporting or box-ticking compliance.

We hope you would give our suggestion your favourable consideration.

Yours sincerely



Mike Wong
Chief Executive Officer

