

18th September 2015

Sent by Email and by Post

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

Dear Sirs / Madams,

Re: Consultation Paper on Review of the ESG Reporting Guide

The Hong Kong Society of Financial Analysts (HK SFA) is pleased to comment on the consultation concerning review of the ESG reporting guide.

We state our comments to the specific questions set out on P.20 - P.29 of the captioned consultation paper as follows;

Question 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?

- It is the global trend for listed companies to compile data and information on environment, social responsibilities and governance. As a leading international finance center, we agree that Hong Kong should follow the global best practices. However, we believe the “comply or explain” requirement should be applied in tier form. Smaller listed companies in terms of market capitalization can either be exempted from the requirement or given a longer grace period for implementation. While producing ESG report is a good corporate conduct, it also involves tremendous efforts especially for smaller companies.

Question 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 as discussed in paragraphs 86 and 90?

- Yes, we concur that the two reports should cover the same period so as to allow investors for easy reference and comparison.

Question 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 as discussed in paragraph 91;

- In our opinion, ESG report should be presented in the annual report for easy reference and to be given the same level of prominence. A separate report should be made easily accessible on company site.

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 as discussed in paragraph 92?

- We believe the ESG report should be published as part of the issuer’s annual report after a grace period given for establishing systems and controls over the process of producing the report.

Question 4: Do you agree with our proposal to revise the introductory section of the Guide into four areas as discussed in paragraphs 94 and 95, and with the wording set out in Appendix II?

- We agree the breakdown will provide clear guidelines on the reporting obligations and engage directors of the company in overseeing the ESG policies. Such guidelines are important if ESG report is craved into a norm for the industry.

Question 5: Do you agree with the proposed wording of the Reporting Principles in the introductory section of the Guide as discussed in paragraphs 96 and 97, and with the wording set out in Appendix II?

- Agree. The proposed wording should give more clarity on the reporting requirement.

Question 6: Do you agree with the proposed wording in the Guide linking it to Appendix 16 as discussed in paragraph 98, and with the wording set out in Appendix II?

- We have reservation about making ESG reporting mandatory. The HKEx should consider breaking down the levels of reporting in accordance with market capitalization or the nature of the issuers' business. Investor education is also needed to address the concern of additional costs accrued to the smaller listed companies which choose to comply.

In addition, if it is made mandatory, there should be sufficient time given to companies allocating time and resources in setting up a data collection system and to hire qualified personnel to help with the reporting process and the final report. For instance, if it is concluded to implement the new Guide starting on 1 January 2016, some of these companies may not be able to set up a new system in time to collect the data, particularly the required figures for environmental KPIs.

Question 7: Do you agree with the proposal to re-arrange the Guide into two Subject Areas (A. Environmental and B. Social) and re-categorize "Workplace Quality", "Operating Practices" and "Community Involvement" under Subject Area B as discussed in paragraph 99?

- The new Subject arrangement consists of two broad Subject Areas, namely Environment and Social, which may be easier for companies to comply and promote ESG Reporting. However, the new Guide does not have detailed explanation of the reasons on classifying the original "Workplace Quality" and "Operating Practice" as "Social". The public views "Social" as more of recording the Company's external involvement than otherwise, while "Workplace Quality" and "Operating Practices" are used for internal operations. So, it will be too general for simply putting "Workplace Quality" and "Operating Practices" under the Subject Area "Social".

Question 8: Do you agree with the proposal to change the heading "Workplace Quality" to "Employment and Labour Standards" as discussed in paragraphs 100 and 101?

- Generally, the change will increase clarity on the reporting criteria of the issuers and be in-line with international guidelines. However, the new heading "Employment and Labour Standards" may not be able to truly reflect some KPIs (e.g. Development & Training) and is too specific related to the work environment.

Question 9: Do you agree with our proposal to upgrade the General Disclosures for each Aspect of the ESG Guide to "comply or explain"?

- It is good to upgrade the ESG Reporting requirements to align with the international trend. However, for lack of resources, most small and medium companies will focus their priorities on business performance than reporting. Also, they may encounter difficulties in data collection and analysis. Smaller companies may be allowed to upgrade their reporting after some grace period e.g. 3 years. One can revisit the length of the grace period for smaller companies after several years of implementation rather than fixing it today.

Question 10: Do you 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, as discussed in paragraphs 103 to 104?

- Agree.

Question 11: Do you agree with our 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, as discussed in paragraphs 109 to 114, and 117 to 118?

- See answer on question 9

Question 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, as discussed in paragraph 119?

- See answer on question 9.

Question 13: Do you agree with our proposal to upgrade to “comply or explain” the KPIs under the current Aspect B2, re-numbered Aspect A2 as discussed in paragraphs 120 to 122?

- See answer on question 9.

Question 14: Do you agree with our proposal to upgrade to “comply or explain” the current KPI B3.1, re-numbered KPI A3.1, as discussed in paragraphs 123 to 125?

- See answer on question 9.

Question 15: Do you agree with our proposal to incorporate gender disclosure in Subject Area B under the sub-heading “Employment and Labour Standards”?

- Agree.

We appreciate the opportunity to comment on the subject consultation. We trust you find our comments constructive and useful.

Yours sincerely,
For and on behalf of
The Hong Kong Society of Financial Analysts

Frederick Tsang, CFA
President and Chair, Advocacy Committee

Jimmy Jim, CFA
Chair, Advocacy Committee