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

Submitted via email to: response@hkex.com.hk

Dear Sir/Madam,

RE: CP on Review of the ESG Reporting Guide

BlackRock¹ is pleased to have the opportunity to respond to the Hong Kong Stock Exchange's (HKEx) consultation paper on the Review of the Environmental Social and Governance (ESG) Reporting Guide.

As a fiduciary for our clients, BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We welcome the opportunity to address, and comment on, the issues raised by this consultation and we will continue to contribute to the thinking of the HKEx on any specific issues that may assist in improving the Listing Requirements relating to the ESG Reporting Guide

Executive summary

As a significant long-term global investor acting as a fiduciary on behalf of our clients, we are pleased to provide feedback to further enhance Hong Kong's listed issuers' ESG practices and disclosures. We have reviewed the consultation paper and our responses to the questions are set out in the next section "Responses to questions". Our key comments include:

- BlackRock prefers the incorporation of ESG factors in the annual report but we agree with the HKEx on taking a progressive approach and therefore do not oppose companies producing a separate ESG report or reporting these issues on their websites. For the same reason we also agree with the HKEx to give issuers an extra three months to publish the ESG report but would prefer it to be released as close as possible to the publication of the annual report.
- Both KPIs under Aspect A. Environmental and B. Social should be upgraded to "comply or explain" to afford issuers the flexibility to decide which factors are most relevant and material for them. By proposing to upgrade only KPIs under Aspect A. Environmental the HKEx is implying that environmental factors are more important,

¹ BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

which may not be the case for certain industries such as information technology where social issues such as human capital management are of utmost importance.

We also agree with the acknowledgment in the proposed new ESG Reporting Guide that “Corporate Governance is addressed separately in Appendix 14 of the Main Board Listing Rule”. The fact that the Guide is proposed to be re-arranged into two Subject Areas (A. Environmental and B. Social) further echoes this point. To that end, we think Sustainability Reporting Guide is a more proper name that better suits the Guide’s content and “sustainability factors” a more appropriate term than “ESG factors”. That said, to avoid confusion we still refer to sustainability factors as ESG factors throughout this document.

Responses to questions

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?

Yes. BlackRock expects all listed issuers to disclose all material risks relating to their business, including ESG issues, and provide details of how these risks are managed. This information should provide investors with a better understanding of the risk profile of companies, help investors identify companies with operational excellence, and assist with more constructive engagement on these important long-term investment matters.

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. Reporting ESG matters regarding the same period covered in the annual report facilitates investors to integrate ESG factors into valuation processes together with conventional financial factors. It should also encourage integrated thinking by issuers as they reflect and report on operations, financial performance, and ESG performance regarding the same period.

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; 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?***

BlackRock prefers the incorporation of ESG factors into the annual report as it encourages integrated thinking from the issuers and also facilitates the report users to locate the relevant information. However, we agree with the HKEx on taking a progressive approach and therefore do not oppose companies producing a separate ESG report or reporting these issues on their websites.

For the same reason we also agree with the HKEx proposal to give issuers an extra three months to publish the ESG report but would prefer it to be released as close as possible to the publication of the annual report.

Question 4-8 & 10 (Proposals on Wording Changes)

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?

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?

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?

Question 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 and discussed in paragraph 99?

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? (Wording)

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, Bi, B2, B4, B6 and B7, as discussed in paragraphs 103 to 104?

We mostly agree with the proposed wording changes and re-categorization of different factors under the two newly arranged Subject Areas (A. Environmental and B. Social).

For the Reporting Principles, we suggest to use “objectivity” in place of “balance” based on the elaboration of the principle on page 39 and 40 of the consultation paper². We also suggest the addition of “comparability” as another principle as disclosure is only meaningful when investors and other stakeholders can make comparison on a consistent basis over time as advocated by the principle of “consistency” and across issuers, i.e. “comparability”.

Question 9 & 11-14

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

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?

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?

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?

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?

We agree with the HKEx’s proposal to upgrade the General Disclosures for each Aspect of the ESG Reporting Guide and the KPIs under Aspect A Environmental to “comply or explain”.

² Article 11.(3) of the Proposed New Guide – Balance: The ESG report should provide an unbiased picture of the issuer’s performance. The report should avoid selections, omissions, or presentation formats that may inappropriately influence a decision or judgment by the report reader.

The HKEx proposes to leave the KPIs under Aspect B Social as recommended disclosure due to concerns that “setting the bar too high prematurely” may result in unintended consequences such as less experienced issuers adopting a box-ticking attitude in order to comply and certain issuers beginning to treat non-compliance as a normal practice if a substantial number of issuers were to adopt such an approach.

However, we think these concerns are over-done. Firstly, many of the KPIs are designed as “fill-the-blank” rather than “tick-the-box”. For example, KPI B1.1 asks for the “total workforce by gender, employment type, age group and geographical region”. If this were to be upgraded to “comply or explain”, an issuer will need to either disclose the statistics or explain why it cannot provide them. There is simply no work-around to tick the box without providing the figures. As to the second concern, we don’t think a higher bar will become an incentive for total non-compliance as the whole merit of a “comply or explain” approach is to afford issuers the flexibility to decide which ESG factors are most relevant for them and report such to investors and other stakeholders. By proposing to only upgrade the KPIs under Aspect A Environmental the Exchange is taking away some of the flexibilities and is implying that environmental factors are more important and relevant than social factors, which may not be the case for certain industries such as information technology where social issues such as human capital management are of utmost importance. We believe that expecting issuers to report both environmental and social factors on a comply-or-explain basis will not create excessive workload. As the reporting is based on materiality such issues would already be reported to senior management and the board. The comply-or-explain approach allows issuers to decide which factors are material.

While we understand why the HKEx may be concerned about “setting the bar too high prematurely”, we believe the solution is to provide more support for the issuers by offering more training to guide issuers in the journey of better ESG reporting. BlackRock is happy to support the HKEx in any issuer education programs.

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

Yes. There is increasing evidence suggesting that companies can benefit from a more diversified workforce, especially gender diversity at the board and senior management level. We believe measuring and reporting the level of gender diversity at each employment level is the first step for companies to address this issue.

Conclusion

We appreciate the opportunity to address and comment on the proposed amendments to the ESG Reporting Guide and will continue to contribute to the thinking of the HKEx on any specific issues.

We would welcome any further discussion on any of the points that we have raised.

Yours faithfully,



Pru Bennett

Head of Corporate Governance & Responsible Investment, APAC

