



NORGES BANK
INVESTMENT MANAGEMENT

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

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Response to the consultation on Review of the ESG Reporting Guide

Norges Bank Investment Management ("NBIM") commends the Hong Kong Stock Exchange (the "Exchange") for seeking public comment on proposed changes to the ESG Guide that aim to strengthen ESG disclosure requirements and enable issuers to formulate policies, measure relevant data, monitor progress and report to investors and other stakeholders on their work in these areas.

NBIM is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global ("GPF"). At 30 June 2015, the fund was invested in assets of 6,896 billion kroner (6,800 billion HKD) of which approximately 165 billion HKD was invested in equity of more than 550 Hong Kong listed companies. We appreciate the opportunity to respond to the Exchange's consultation paper of July 2015 on Review of the Environmental, Social and Governance Reporting Guide (the "consultation paper").

We support strong corporate governance and sustainability standards and practises at national and market level, as well as adherence to recognised international standards. We consider the UN Global Compact, the OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Enterprises to be important points of reference for best practise for all the markets in which we invest.

With this in mind, NBIM has previously responded to the Exchange's consultations, such as on weighted voting rights in 2014, the ESG Guide in 2012 and on new listing rules for mineral and exploration companies in 2009.

We share the belief that managing ESG performance and reporting may be material

NBIM is a financial investor and diversifies its investments across a large number of markets and securities. NBIM expects companies to manage its material sustainability challenges and opportunities. How companies manage such risks and capitalise on opportunities, may drive long-term returns for the companies and for us as a shareholder.



The availability and quality of company data, as well as transparency on what companies regard as material sustainability issues and how these are managed, is necessary. Such information is beneficial for investors such as NBIM in the analysis of the potential ESG implications on companies' economic performance and prospects. In general, we have found that the availability of non-financial data can be strengthened.

The comply or explain approach

The comply-or-explain model gives companies the option to comply with requirements or explain why they take a different approach. ESG is an area where things are less well defined. The model allows individual companies to report in accordance with their particular situation. We welcome the flexibility the comply-or-explain model allows, boilerplate reporting should be avoided and companies should be encouraged to explain rather than required to strict compliance.

The success of the ESG reporting regime may, in part be determined by transparency and consistency in companies' disclosure. Such reporting should outline assessments made to establish background and context for priorities, as well as provide a clear rationale for any action taken. It should be outlined what companies deem as material in terms of financial or operational relevance. Deviation from a particular requirement should be explained.

The role of the board

We are supportive of the new guide aligning the board's overall responsibility of the ESG strategy and reporting with the board's responsibility concerning the corporate governance code. Boards should seek to understand, and capitalise on opportunities arising from, material ESG issues. The current guide includes wording on ESG opportunities in point 18 and we recommend the Exchange bring similar wording forward to the new guide.

Timing of ESG reporting

Increased transparency and ESG reporting may help investors when assessing company boards and management and their long-term strategies. Such transparency can also be useful for shareholders when casting their votes at general shareholder meetings. We would recommend requiring ESG reporting ahead of the annual general meeting to ensure that recent and valuable information be available to shareholders as they vote on board elections, and, as relevant, other agenda topics.

Attached is our response to the 15 specific questions set out in the consultation paper.

Yours sincerely


William Ambrose
Global Head of Ownership Strategies


Runa Urheim
Senior Analyst

APPENDIX NBIM response to the 15 specific 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, we agree with the proposal.

Comment: The success of the model will however be determined in part by how transparent companies are reporting on ESG issues and how investors and other stakeholders interpret the disclosed information. Given the flexibility of the model, NBIM would also like to see the Guide encouraging complying companies to explain their strategies, policies and activities in such a way that it provide valuable information. Other market, national and international reporting standards should be considered to assure consistency of information across markets.

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 agree with the proposal.

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?*

No, we do not agree with the proposal.

Comment: We agree with the proposal that the ESG reporting may be presented in the annual report, in a separate report, or on the issuer’s website. In the case of reporting in the annual report or on the issuer’s website, the Guide should encourage companies to present the information in such a way that it will be easy for the readers of the information to access all relevant information.

It is our recommendation that the ESG reporting be published at the same time as the publication of the annual report. Firstly, because the information in the ESG reporting is

interrelated with the information given in the annual report, secondly simultaneous publication means better transparency and higher quality benefitting investors and other stakeholder, and thirdly, publication as late as three months after the annual report means information may be as much as seven months old, and as such, be of limited relevance. Moreover, ESG reporting that focus on information deemed material should be made available to the market at the same time as the financial reporting.

Additionally, information provided in the ESG reporting should be available ahead of the annual shareholder meeting for shareholders when analysing the companies and making their voting decisions.

We therefore encourage the Exchange to consider changing to a reporting regime where ESG information has simultaneous publication with the annual report and ensure that this falls well ahead of the annual general meeting.

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?

Yes, we agree with the proposal.

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?

Yes, we agree with the proposal.

Comment: We agree with the suggested four reporting principles based upon materiality, quantitative, balance and consistency. We are supportive of the revision to align them with international guidelines to promote consistency across market.

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?

Yes, we agree with the proposal.

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 as discussed in paragraph 99?

Yes, we agree with the proposal.

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?

Yes, we agree with the proposal.

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

Yes, we agree with the proposal.

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?

Yes, we agree with the proposal.

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?

Yes, we agree with the proposal.

Comment: This requirement aligns with other markets' requirements and would promote consistency of disclosure across markets and within industries.

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?

Yes, we agree with the proposal.

Comment: Disclosure on hazardous waste is a requirement in a number of industries. Consistency with the EU and the US markets should be beneficial to investors.

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?

Yes, we agree with the proposal.

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?

Yes, we agree with the proposal.

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, we agree with the proposal.