

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.

We attach great importance in disclosure of material non-financial information in the same discipline as far as possible as the disclosure of financial information. We support this proposal as it will encourage reporting on environmental and social aspects of the issuer’s business in a structural and timely manner.

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.

For the reason as set out in paragraph 90 of the Consultation Paper.

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.

We agree to 3(i) but disagree to 3(ii).

In order to present investors and other stakeholders with a holistic and comprehensive view of the issuer’s performance, the financial and non-financial information (including ESG report) should be published at the same time irrespective the information is presented in the annual report, in a separate report, or on the issuer’s website.

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.

We agree with the proposal to revise the introductory section of the Guide into four areas. However, under the section of ESG strategy and reporting, it should be noted that for multi-national companies with large capitalisation, it is common to delegate the responsibility of formulating the ESG strategy and reviewing the ESG report to a board committee such as the Sustainability Committee. By the same token, the review of ESG risk management and internal control systems is usually delegated to the Audit Committee or Risk Committee of the board. Therefore, it is worth maintaining the flexibility of delegation to board committee(s) for such tasks as it has in the current ESG Reporting Guide.

Accordingly, we suggest maintaining this flexibility of delegation. The following suggested revisions to paragraphs 8 and 9 of the Proposed New Guide are for HKEx's consideration:

paragraph 8: Add the words "but it may delegate the tasks of formulating the ESG strategy and reviewing the ESG report to a board committee" at the end after the word "reporting".

paragraph 9: Add the words "but it may delegate the task of assessing ESG-related risks to a board committee" at the end of the first sentence after the word "place". Add the words "or the delegated board committee" after the word "board" in the second sentence.

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.

We agree with the proposed wording of the proposed four Reporting Principles namely; materiality, quantitative, balance and consistency. However, we strongly believe that reliability should be added as the 5th Reporting Principle. Reliability of information is always an important principle that issuers should uphold so that investors and other stakeholders can rely on the information disclosed in the ESG report to form an informed view on the ESG matters which may have financial or other implications. Some may see little overlapping of the principle of reliability in the four Principles proposed in the Consultation Paper. This does not matter since it is difficult and not necessary to draw a clear line differentiating the four proposed Principles. The principle of reliability, which focuses on the robust process to ensure that the disclosed information can be relied on, definitely deserves greater emphasis to be named on its own as a Reporting Principle. The following is suggested wording for the 5th Principle of Reliability for HKEx's consideration:

Reliability: The ESG report should be free from material error. The issuer should have robust internal control and reporting systems in place to ensure that there is effective leadership and decision-making regarding the preparation and presentation of the ESG report. Maintaining an audit trail when preparing the ESG report helps senior management review the report and exercise judgment in deciding whether information is sufficiently reliable to be included.

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. Paragraph 12 in the proposed New Guide 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.

We note there is a cross reference to Appendix 14 of the Main Board Listing Rules on corporate governance in order to cover the acronym “G” in the name of the ESG Reporting Guide. Should the name of the new Guide be renamed as ES Reporting Guide to reflect the contents of the Guide?

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.

For the reason as set out in paragraph 101 of the Consultation Paper.

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 issuer, as they could very legitimately vary across sectors, company size and jurisdictions in which they operate in. Establishing materiality helps issuers 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.

It would read 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.

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.

It is also recommended that there is a more concerted approach or coordination with other relevant government-related initiatives in these areas, such as 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.

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.

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.

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.

For the reasons as set out in paragraphs 121 and 122 of the Consultation Paper.

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.

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.

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.

For the reasons as set out in paragraphs 128 to 132 of the Consultation Paper.

- End -