



17 September 2015

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

Dear Sir/Madam,

BEC Submission
Consultation Paper - Review of the Environmental, Social and Governance Reporting Guide

Views from Business Environment Council Limited
商界環保協會有限公司

Over the last two decades, Business Environment Council Limited 商界環保協會有限公司 ("BEC") has taken a leading role in advocating the business case for environmental excellence in Hong Kong. Our members are committed to actively engaging with regulators in Hong Kong such as Hong Kong Exchanges and Clearing Limited ("HKEx") on a range of issues relating to the environment and sustainability.

BEC is an independent charitable membership organisation comprised of approximately 200 member companies ranging from major holding companies to small and medium-sized enterprises in Hong Kong. For more information on BEC, please visit www.bec.org.hk.

BEC has carefully reviewed and discussed the proposed changes to the ESG Guide with the BEC ESG Advisory Group and our broader membership. Views expressed in this submission are those of BEC, and are based on consultation with our members, but may not necessarily correlate with the positions of individual members.

I. Introduction

BEC and our members welcome the "Consultation Paper on the Review of the Environmental, Social and Governance Reporting Guide" (the "Consultation Document") issued by HKEx in July 2015 and appreciates the opportunity to comment on the proposed changes and future development of the ESG Reporting Guide for listed companies in Hong Kong.

On 2 April 2012, BEC submitted its response to HKEx's Public Consultation on "Review of the Environmental, Social and Governance Reporting Guide." As set forth in that response, we support HKEx in encouraging greater levels of ESG disclosure amongst issuers. We have a collective responsibility and a shared interest in seeing listed companies measure and disclose how sustainable their businesses are.

At BEC we recognise the value of ESG disclosure that a focus on sustainability helps their companies manage their social and environmental impacts, improve operating efficiency and natural resource stewardship, and it remains a vital component of discourse with shareholders, employees, and other key stakeholders.

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This consultation paper comes at a critical juncture in the evolution of ESG reporting, with various groups calling for more disclosure and for disclosures that are comparable across companies and that are more relevant for investment decision making.

The launch of programmes such as the Sustainable Stock Exchanges Initiative along with demands of investors and other stakeholders has led to policy makers and stock exchanges accelerating their efforts in this area. We believe Hong Kong should keep pace with these rising levels of international best practice in all aspects of ESG disclosure. However, the majority of listed companies in Hong Kong are still not reporting their performance. We therefore continue to support the efforts of HKEx in encouraging more widespread and standardised ESG reporting amongst issuers.

II. Executive Summary

Stock exchanges play a pivotal role in bringing companies and investors together. Their efficacy is based on trust: trust in the regulator; trust in companies; and trust in the policies that govern all parties. This trust is indispensable for the functioning of the markets.

They can play an influential role in promoting high quality sustainability reporting through listing rules and voluntary sustainability indices.

However, the diverse nature of requirements associated with the different frameworks (GRI, IIRC, SASB, HKEx etc.) is leading to interpretation and implementation difficulties and ultimately disclosure fatigue for companies operating in different markets. The benefits associated with a harmonized global approach have long been evident in financial reporting, as reflected by the efforts of policymakers to create convergence of international financial reporting standards. BEC supports any effort towards similar convergence in ESG reporting standards. We therefore applaud HKEx's efforts at promoting a more harmonized approach to sustainability reporting by referencing International voluntary standards and reflecting global regulatory trends. This added consistency and comparability will add value to ESG disclosures for investors and other stakeholders.

We strongly believe that by incorporating clear ESG disclosure requirements into their listing rules, stock exchanges can create powerful incentives for issuers to measure and publicly disclose their ESG performance. However, BEC is acutely aware that many stock exchanges have previously expressed concerns that imposing stringent listing requirements could discourage future listings. However, it is clear to us that voluntary mechanisms have served their purpose in raising broad market awareness of ESG reporting. With voluntary disclosures flatlining at around 34.1% - 46.4%¹, regulators must step in and require some form of mandatory disclosure.

Research clearly shows that regulation in this area leads to more disclosure than voluntary mechanisms. A recent benchmarking study² ranking the world's stock exchanges based on the ESG disclosure practices of their listed companies, found that each of the top ten ranked stock exchanges all share one thing in common; they are all "located in jurisdictions with prescriptive, mandatory ESG disclosure policies".

A "Comply or Explain" model of mandatory disclosure allows flexibility so as not to impose an undue burden on issuers, and should address any concerns from HKEx in regards to disincentivise future listings. Whilst, at the same time allowing the exchange to mirror the rising global trend towards stricter regulation around ESG disclosures.

Whilst recognising this will be beyond the means of many small to medium sized cap companies, and would not be practical for many first time reporters, BEC recognises the value of third party assurance

¹ A thorough review by BEC of all listed companies on the Hong Kong Exchange in August 2015 found 34.17% disclosing ESG information. A Bloomberg study in April 2015 based on a random sample of Issuers found 46.4% reported on ESG.

² CorporateKnights Capital, "Measuring Sustainability Disclosure. Ranking the World's Stock Exchanges 2015" (2015)



in helping to prevent any 'tick-boxing' practices in the compilation of the reports. External assurance provides external stakeholders including investor's confidence in the credibility, reliability and relevance of the reported performance data. HKEx should promote third party assurance as best practice within the Guide and use its position to drive the development of an accepted approach to assurance in Hong Kong.

It was noted that the consequence of failing to meet the stipulations outlined in the revised HKEx ESG Guide were not stated within the consultation paper. We strongly encourage HKEx to layout within the new Guide the already established clear system of penalties for non-compliance with the listing rules along with any "grace periods" that might be applied, this will act as a further incentive for issuers to respond and act upon the proposed changes in a prompt manner.

Ultimately, meaningful reform, necessary to increase the level and quality of ESG disclosure by listed companies in Hong Kong will require decisive action by HKEx and the Hong Kong Securities and Futures Commission to direct the reporting behaviour of their listed entities. We therefore urge HKEx to take a strong and active leadership position on these issues and bring Hong Kong in-line with rising international standards, by following through with the outlined amendments to the listing rules.

III. Public Consultation 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 their ESG reports?*

YES - At BEC, we believe that decision making and policy formulation are strengthened as a result of enhanced corporate transparency and reporting. The additional information that is fed into the market enables both providers of financial capital and the companies themselves to take more long term considered and informed actions.

Voluntary mechanisms such as the previous Guide have served their purpose. However, it seems evident that the levels of voluntary disclosure have now flatlined. It is important that HKEx follow other regulators such as Australia, the EU, Taiwan and the UK, and move towards mandatory disclosures in order to close the gap. We feel that upgrading some/all of the recommended disclosures to "Comply or Explain" is an important next step that is also in line with the revised Companies Ordinance (Cap622) ("CO").

We do feel however that HKEx should go further by strengthening the connection between the revised Guide and other risk management listing rules.

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 - BEC agrees with the views of HKEx that it is appropriate for the ESG Report and Annual Report to cover the same period. We too feel that this approach will present investors and other stakeholders with a more holistic and comprehensive view of the issuer's performance, both in terms of financial and non-financial information.

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?

YES – At BEC we agree with the view of HKEx, that such an approach will give issuers the flexibility to issue ESG reports in the form that most suits their own circumstances. We feel that the physical location of the ESG report is not a critical issue as long as the issuer makes it very clear where the information can be found.

In order to facilitate readers finding the ESG information and the extent of compliance with the Guidelines, the HKEx Guidelines should also require the ESG report to have an index which sets out where each item can be found and whether it complies with the Guidelines.

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?

YES – We support HKEx in taking the necessary steps to minimise the time gap between companies' financial and sustainability reporting cycles. Closing this gap significantly increases the actionability of corporate sustainability information and performance data by the companies and institutional investors.

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 - The view of BEC is that the proposed restructuring provides much needed guidance to issuers in how to pull together their Report, and should make the Guide easier to follow and understand. We also feel that adding in guidance on how to complete the Business Review section of the Directors' Report will aid companies in responding to the changes in the CO particularly for those companies that have not reported on ESG matters previously.

To make it easier for companies which follow an international Guideline to ensure they also comply with the HKEx Guidelines, HKEx should also publish notes on the extent to which the Disclosures specified in its Guidelines differ from Disclosures specified in the most widely used International Guidelines including GRI and SASB.

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 - An increasing number of competing international voluntary standards and guidance as well as a proliferation of national level approaches, is leading to interpretation and implementation difficulties for multinational companies.

The addition of the principles brings the Guide in-line with those of the GRI framework which is the world's most widely used reporting framework. This should address some of the issues of local frameworks overlapping with international standards, and provide much needed guidance to issuers in how to pull together their Report.

However, the principal of "Materiality" whilst integral to the ESG reporting process is a complex principle to understand and put into practice especially for small to mid-Cap companies who may not have the internal resource or expertise and for holding companies/conglomerates due to the multi sector nature of their businesses. Even for experienced issuers, the materiality and scope/boundaries set out by the Guide and GRI G4 (from which it is based) remain too broad to be practical. Without a clear Guideline on relevance/control, issuers would be obliged to over-report, needlessly, with potential waste of resources, and without clear benefits to performance. More guidance is therefore needed for the process of defining materiality in content. Reference could be made within the revised Guide to the BEC Handbook: Understanding Materiality for Environmental, Social and Governance

Reporting.

We felt that the principle of 'Materiality' should be expanded to include 'Completeness' and 'Clarity'. Issuers should be advised to include sufficient coverage of material Aspects in their report to reflect their significant economic, environmental and social impacts, and to enable stakeholders to assess the organisation's performance in the reporting period. This information should be made available in a format and manner that is understandable and accessible to the stakeholders using the report.

In order to aid clarity for issuers, additional wording should be included at the start of the definition of the principle "Balance": "The report should reflect positive and negative aspects of the organisation's performance to enable a reasoned assessment of overall performance."

The principle of "Reliability", which is included in the GRI G4, should also be included to ensure that the reported ESG data and information are reliable in quality. However, it is acknowledged that it may take time for the medium to small enterprises to build the capability to ensure reliability and so it is suggested that HKEx consider including this principle in a few years' time.

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 proposed wording, noting that it provides the needed clarity required for issuers on the differing but complementing nature of the information required to fulfill the requirements of the Guide and the CO.

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 – At BEC we agree that by adopting a more consistent approach and similar terminology, as used by international Guidelines such as GRI G4 and the new CO, may help with the "disclosure fatigue" experienced by some issuers who have to report on multiple Guidelines. This will also aid with comparability of reports and performance across regions, therefore meeting the needs of rating agencies, globally diversified investors and other stakeholders.

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 – As per our response to Question 7.

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 support the direction that HKEx is taking by upgrading the disclosure requirements of all of the General Disclosures to "comply or explain". We welcome that the HKEx has allowed for flexibility in deciding on which aspects to report on, particularly emphasising the need to report on aspects that are material to the company and its stakeholders. We continue to support this thinking as it allows companies to focus on issues that are significant to their operations and are aligned with their business.

We feel that more guidance should be including on what constitutes "Compliance" and what represents a sufficient/acceptable "Explanation". The Guide should therefore be modified such that it

is not necessary to quantify impacts if they are negligible. This modification will allow organisations with immaterial activity for an Aspect to just report that fact rather than 'non-comply'.

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 aligning the language with that used in the relevant provisions of the CO for consistency and to avoid confusion to the issuers.

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 – In a recent survey by CorporateKnights, Greenhouse Gas (“GHG”) emissions are the most highly reported ESG metric globally, therefore a move towards increasing disclosure requirements is in-line with this global trend. This high level of disclosure can be linked to increasing regulations requiring many sectors to disclose their emissions data such as Mainland China, UK, USA and Singapore. The Hong Kong SAR Government currently encourages companies to voluntarily disclose their carbon footprint.³

For A1.4 (previously B1.4) Last year, the Government published the Blueprint for Sustainable Use of Resources, which sets out our strategy for waste management for the coming ten years. The blueprint sets a target of reducing waste by 40% in a decade. Considering the Government’s plans and Hong Kong’s chronic waste capacity problem, BEC supports the HKEx proposal of upgrading A1.4 (previously B1.4) to “Comply or Explain”.

In order to aid comparability across and within sectors, our members would suggest that HKEx advise issuers to follow the Guidelines for reporting GHG emissions in Hong Kong as developed by the Environmental Protection Department (“EPD”) of the HKSAR Government⁴. This will provide more guidance to companies on how they should measure their emissions, particularly Scope 3 indirect emissions, which we recognise many companies will find challenging.

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 – As per our response to question nine (9), we welcome the flexibility the “Comply or Explain” approach gives to issuers in determining whether hazardous waste represents a material issue for their business and therefore whether it should be included or not in their ESG disclosure.

However, we would like to seek clarification from HKEx in relation to disclosure of hazardous waste (current KPIs B1.3 and B1.6, re-numbered A1.3 and A1.6), in order for issuers to report more clearly on this indicator. There is currently no legal definition in Hong Kong nor an accepted industry standard on the reporting of hazardous wastes unlike other environmental parameters. The terminology used in Hong Kong is “chemical waste management”. This definition problem becomes particularly acute in countries without a formalised legal framework on waste and environmental protection. Given waste streams can be generated anywhere in the world this could create problems considering the

³ The Carbon Footprint Repository for Listed Companies in Hong Kong: <http://www.carbon-footprint.hk/>

⁴ http://www.epd.gov.hk/epd/english/climate_change/ca_Guidelines.html

expansive supply chain of most countries. We would therefore advise that HKEx adopts the definitions used under the Basel Convention⁵ of which both Hong Kong and Mainland China have ratified.

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 - As per our response to question nine (9) we welcome the flexibility the “Comply or Explain” approach gives to issuers, in determining whether these KPI’s represent a material issue for their business and therefore whether they should be included or not in their ESG disclosure.

The depletion of natural resources and its links to climate change are a growing concern globally and regionally. Energy and Water are particularly important issues regionally especially in the Mainland, and pose serious risks to business. Revising the KPI’s under this Aspect to “Comply or Explain” is in line with international Guidelines and regulations for example Australia, Singapore and for some listed companies in the Mainland.

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 – As per our response to question nine (9) we welcome the flexibility the “Comply or Explain” approach gives to issuers, in determining whether these KPI’s represent a material issue for their business and therefore whether they should be included or not in their ESG disclosure. This KPI is complementary to the other Environmental KPI’s and provides opportunities to issuers to give context to their environmental data by including a narrative, describing how they have considered the environmental impact of their activities and what measures they have put in place to reduce or mitigate this impact. Such is important information for disclosure to their stakeholders.

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 – Inclusion of gender into the Guide will be consistent with most international ESG reporting standards (e.g. GRI and DJSI) and is consistent with regulations in other jurisdictions including the UK, Australia and Canada.

Gender diversity was included in the Corporate Governance Code in 2013, however only at the board level. Despite this introduction only 11% of directors in Hong Kong are female and this level has remained unchanged for the last five years.⁶ We agree with HKEx that disclosure of gender data at every level of employment will have the added benefit of helping companies identify potential barriers to female advancement as well as create a pipeline for women to move up the corporate ladder to more senior positions.

We acknowledge and commend HKEx’s work in providing substantial amount of training to issuers in disclosing their ESG performance, and will through BEC Institute of Environmental Education continue to provide assistance with these efforts.

BEC welcomes the opportunity of further engagement and continuing to work with HKEx in continually improving the quality and quantity of ESG disclosure in Hong Kong. If there are any questions or

⁵ <http://www.basel.int/Home/tabid/2202/Default.aspx>

⁶ 30% Club HK: <http://30percentclub.org.hk/about/fag>



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concerns in regards to the content of this submission please contact our Chief Executive Officer, Ms. Agnes Li, at [REDACTED] or [REDACTED].

Yours sincerely,



Prof John Chai

Chairman

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