

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/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Consultation-Paper/cp201905.pdf>.

Where there is insufficient space provided for your comments, please attach additional pages.

Timeframe for Publication of ESG Reports

1. Do you agree with our proposal to amend Main Board Listing Rule 13.91 and GEM Listing Rule 17.103 to shorten the time required to publish an environmental, social and governance (“ESG”) report from three months after the publication of the annual report to within four months for Main Board issuers or three months for GEM issuers from the financial year-end date?

Yes

No

Please give reasons for your views.

We are of the view that the quality of report depends heavily upon the resources spent in the course of report preparation. It is not difficult to name a number of quality reports of Main Board issuers that have been published in a separate manner four months after their financial year-end date, for instance, The Wharf (Holdings) Limited (Stock code: 0004), Hang Seng Bank Limited (Stock code: 0011), Sun Hung Kai Properties Limited (Stock code: 0016), Hang Lung Properties Limited (Stock code: 0101) and Lenovo Group Limited (Stock code: 0992), where all of them are the constituents of Hang Seng Corporate Sustainability Index.

Preparation of annual report itself should have taken up a large proportion of the time and effort of senior management. There is no denying that the proposal to publish an ESG report to align with the publication timeframe of the annual report would, in principal, undermine the resources for ESG report preparation and possibly result in a deterioration in report quality. The impact would be more significant for companies with smaller market capitalization where resources would be relatively limited. It is advisable to make it a recommended best practice instead of a mandatory requirement.

Printed Form of ESG Reports

2. Do you agree with our proposal to amend the Listing Rules and the Guide to clarify that issuers are not required to provide printed form of the ESG report to shareholders unless responding to specific requests, but are required to notify shareholders that the ESG report has been published on the Exchange's and the issuer's websites?

Yes

No

Please give reasons for your views.

We are of the view that printed form of ESG report is not necessary as electronic format is an easily accessible and environmentally friendly approach to publish ESG report.

Introducing Mandatory Disclosure Requirements

General

3. Do you agree with our proposal to amend the Guide to introduce Mandatory Disclosure Requirements (“MDR”)?

Yes

No

Please give reasons for your views.

As the awareness and concern over ESG governance, underlying reporting principles and reporting boundary among investors and stakeholders are on the rise, the introduction of MDR can allow a more comprehensive understanding of the issuer's effort and dedication to manage ESG related risks and opportunities within the defined scope under the board's oversight.

Governance Structure

4. If your response to Question 3 is positive, do you agree with our proposal to introduce an MDR requiring a statement from the board containing the following elements:

(a) a disclosure of the board's oversight of ESG issues?

(b) the process used to identify, evaluate and manage material ESG-related issues (including risks to the issuer's businesses); and

(c) how the board reviews progress made against ESG-related goals and targets?

Yes

No

Please give reasons for your views.

We believe that the proposal would enhance the awareness and involvement of the board to provide oversights of the ESG strategy and carry out governance responsibilities to support management in achieving relevant strategies and objectives, which is deemed to be critical to effective ESG management. The statement will increase transparency and allow stakeholders to assess and evaluate the issuer's practice and approach.

Yet, it appears that the HKEX has not set out clear and detailed reference and/or guidance on how to execute the proper procedures to identify, evaluate and manage ESG-related risks and opportunities appropriately, for both the management and the board respectively. The proposal has left the depth and extensiveness on the disclosure statement unprovided.

In addition, we are of the view that the HKEX should make it a mandatory requirement for the issuer to set up an ESG Committee, similar to the other Committees required by listing rules, with clear terms of reference, explaining its role and the authority delegated to it by the board by including them on the Exchange's website and the issuer's website, in an effort to ensure effective governance and management over ESG issues.

5. Do you agree with our proposal to set out in a note that the board statement should include information on the issuer's current ESG management approach, strategy, priorities and goals/targets and an explanation of how they relate to the issuer's businesses?

Yes

No

Please give reasons for your views.

The proposal would allow investors and stakeholders to access the issuer's commitment and effort in ESG matters and the quality of its ESG governance. Yet, clearer guidances aided with examples are strongly recommended to enhance the overall reporting quality of issuers.

Reporting Principles

6. Do you agree with our proposal to amend the Guide to introduce an MDR requiring disclosure of an explanation on how the issuer has applied the Reporting Principles in the preparation of the ESG report?

Yes

No

Please give reasons for your views.

We are of the view that additional explanation on how the Reporting Principles are applied may not benefit the readers as the contents would likely be lengthy and repetitive.

Alternatively, it is recommended to consider requiring a confirmation statement endorsed by the board, following the "comply or explain" provision, to indicate the issuer's compliance with the Reporting Principles. In the event of failure to apply the Reporting Principles, the issuer should provide explanation with considered reasons.

7. Do you agree with our proposal to amend the Reporting Principle on "materiality" to make it clear that materiality of ESG issues is to be determined by the board and that the issuer must disclose a description of significant stakeholders identified, the process and results of the issuer's stakeholder engagement (if any), and the criteria for the selection of material ESG factors?

Yes

No

Please give reasons for your views.

Increasing transparency would allow investors and stakeholders to have a more comprehensive understanding to facilitate informed decisions.

8. Do you agree with our proposal to amend the Reporting Principle on “quantitative” to:

- (a) require disclosure of information on the standards, methodologies, assumptions and/or calculation tools used, and source of the conversion factors used for the reporting of emissions/energy consumption (where applicable); and
- (b) clarify that while key performance indicators (“KPIs”) for historical data must be measurable, targets may be expressed by way of directional statements or quantitative descriptions?

Yes

No

Please give reasons for your views.

We are of the view that the proposal to disclose information on the standards, methodologies, assumptions and/or calculation tools used, and source of the conversion factors used for the reporting of emissions/energy consumption will enhance the comparability of the data provided by different issuers within the same industry that allows fair and objective benchmarking and comparison. For the proposal to clarify that targets may be expressed by way of directional statements or quantitative descriptions, we believe that it will allow greater flexibility for issuers due to the fact that not every target can be expressed in a quantitative manner.

Reporting Boundary

9. Do you agree with our proposal to amend the Guide to include an MDR requiring an explanation of the ESG report’s reporting boundary, disclosing the process used to identify the specific entities or operations that are included in the ESG report?

Yes

No

Please give reasons for your views.

The proposal would allow a clear understanding of the procedure and rationale to define the reporting boundary. A well-defined reporting scope would rule out the possibility of misleading readers in which some of the reports may have excluded poor-performing entities or operations from the ESG report without explanation.

It is advisable to update the "How to Prepare an ESG Report" to provide a clear guidance on appropriate process to identify the reporting boundary.

Introducing Aspect on Climate Change and Revising the Environmental KPIs

Climate Change

10. Do you agree with our proposal to introduce a new Aspect A4 requiring:
- (a) disclosure of policies on measures to identify and mitigate the significant climate-related issues which have impacted, and those which may impact the issuer; and
 - (b) a KPI requiring a description of the significant climate-related issues which have impacted, and those which may impact the issuer, and the actions taken to manage them?

Yes

No

Please give reasons for your views.

The new KPI will better align the Guide with TCFD and other international reporting standards.

Targets

11. Do you agree with our proposal to amend the Environmental KPIs to require disclosure of a description of targets set regarding emissions, energy use and water efficiency, waste reduction, etc. and steps taken to achieve them?

Yes

No

Please give reasons for your views.

It will facilitate peer benchmarking and hence drive issuers to improve performance and devote continuously.

GHG Emissions

12. Do you agree with our proposal to revise an Environmental KPI to require disclosure of Scope 1 and Scope 2 greenhouse gas (“GHG”) emissions?

Yes

No

Please give reasons for your views.

A detailed breakdown will allow investors and stakeholders to have a more comprehensive understanding and analysis of the issuer's environmental performance.

Upgrading the Disclosure Obligation of the Social KPIs

13. Do you agree with our proposal to upgrade the disclosure obligation of all Social KPIs to “comply or explain”?

Yes

No

Please give reasons for your views.

Social KPIs are often omitted by issuers. Upgrading to "comply or explain" will ensure a more comprehensive disclosure of information which would be consistent with international reporting standards.

It is recommended that detailed explanation and guidance, similar to "Appendix 2: Reporting Guidance on Environmental KPIs", shall be provided to standardize the calculation methodologies and/or articulate relevant definitions, in particular, for KPI B1.1, B1.2, B3.1, B3.2 and B5.1 so as to address the issue of confusion about the definition of certain KPIs to enhance data comparability across issuers.

For instance, as to the "total workforce by employment type" under KPI B1.1, in the event that an issuer incorporates "total workforce by employment category" as part of their disclosure, how each "employment category" is defined should be disclosed simultaneously to allow a clearer picture of its workforce composition. Similarly, the definition of employee category is advised to be disclosed for KPI B3.2.

With regard to KPI B1.2, the formula for calculating the turnover rate should be provided as a reference. Taking "employee turnover rate by gender" as an example. It seems that the following calculation methods have been observed :

1. Number of employees of a particular gender separated / Total number of employees separated x 100%
2. Number of employees of a particular gender separated / Total number of workforce as of the financial year-end date x 100%
3. Number of employees of a particular gender separated / Average number of workforce (i.e. beginning + ending number of staff / 2) x 100%

The variations in calculation methods will likely give rise to difficulties in making comparison and benchmarking. The differences in calculation formulas have also been found for KPI B3.1.

For KPI B5.1, the definition of supplier to be included in the calculation shall be clarified as some issuers may include one-off suppliers in their calculation while some may exclude this category of suppliers in their calculation.

Revising the Social KPIs

Employment Types

14. Do you agree with our proposal to revise a KPI to clarify “employment types” should include “full- and part-time” staff?

Yes

No

Please give reasons for your views.

The proposal to revision will enhance clarity and reduce misunderstanding of the KPI.

Rate of Fatalities

15. Do you agree with our proposal to amend the KPI on fatalities to require disclosure of the number and rate of work-related fatalities occurred in each of the past three years including the reporting year?

Yes

No

Please give reasons for your views.

The proposal to amendment will allow investors and stakeholders to review the issuer's commitment and performance in maintaining a safe workplace.

Supply Chain Management

16. Do you agree with our proposal to introduce the following new KPIs in respect of supply chain management?

- (a) Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.
- (b) Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.

Yes

No

Please give reasons for your views.

The proposed new KPI will better align the Guide with international reporting standards. It will also allow issuer, investor and stakeholders to analyze issuer's impact and commitment in creating value along the value chain.

Anti-corruption

17. Do you agree with our proposal to introduce a new KPI requiring disclosure of anti-corruption training provided to directors and staff?

Yes

No

Please give reasons for your views.

Combating corruption is essential to sound corporate governance. The proposed new KPI will allow investors and stakeholders to understand the issuer's commitment and effort in this regard.

Encouraging Independent Assurance

18. Do you agree with the proposal to revise the Guide's wording on independence assurance to state that the issuer may seek independent assurance to strengthen the credibility of ESG information disclosed; and where independent assurance is obtained, the issuer should describe the level, scope and processes adopted for assurance clearly in the ESG report?

Yes

No

Please give reasons for your views.

We are of the view that in our pursuit of developing Hong Kong as a green finance hub, independent assurance will strengthen the credibility of the ESG information disclosed and thus enhance public confidence in the quality of information published in the report.

- End -

