

The Hong Kong Institute of Chartered Secretaries

Submission:

Consultation Paper on Review of the ESG Reporting Guide and Related Listing Rules

By Email only: response@hkex.com.hk

**Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
8/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong**

Dear Sirs

Consultation Paper on Review of the ESG Reporting Guide and Related Listing Rules (Consultation Paper)

Terms and expressions used in this Submission shall have the meanings under the Consultation Paper unless the context requires otherwise.

About HKICS

The Hong Kong Institute of Chartered Secretaries (Institute) is an independent professional institute representing Chartered Secretaries and Chartered Governance Professionals as governance professionals in Hong Kong and Mainland China with over 6,000 members and 3,200 students. The Institute originates from The Institute of Chartered Secretaries and Administrators (ICSA) in the United Kingdom with 9 divisions and over 30,000 members and 10,000 students internationally. The Institute is also a Founder Member of Corporate Secretaries International Association Limited (CSIA), an international organisation comprising 14 national member organisations to promote good governance globally.

Overall Support

Our Institute expresses our overall support for the proposed changes to the Environmental, Social and Governance Reporting Guide (ESG Guide) and related Listing Rules as set forth under the Consultation Paper subject to the further observations set out under this Submission from the practical governance implementation perspective. However, we need to add that in relation to the implementation of the proposals in relation to a listed issuer, there could well be timing and/or resources driven issues. At the initial stage, HKEX may desire to retain flexibility and work towards the desired outcome over time, and each of our responses should be read accordingly.

Further Observations

At the outset, we emphasize that ESG is about how a company makes its money in a sustainable manner for the longer term. It is not a philanthropic process. As such, we are pleased, following soft consultation discussions with HKEX, to agree with the underlying rationale for proposing the proposals under the Consultation Paper. That is, dealing with ESG related issues should form part of risk management because it impacts the long-term business viability/sustainability of an issuer. It is therefore a matter which the board should have oversight from the risk management perspective.

The proposals are consistent with the Institute’s research report with KPMG China and CLP Holdings Limited entitled ‘ESG: A view from the top’ published in September 2018¹ where we assert that *‘as a value proposition, the ability of a business to deal with Environmental, Social and Governance (ESG) concerns material to it has a significant impact on its long-term sustainability. Indeed, ESG issues are becoming increasingly important among investors and the broader society. However, companies are moving at different speeds to address ESG concerns material to them in their core business processes. This is influenced by a number of factors, including the board’s ESG knowledge, a focus on short-termism, and the availability of ESG tracking.’*

Accordingly, subject to timing and/or resources driven issue which may require some retention of flexibility towards the desired goals, we agree that:

¹ https://www.hkics.org.hk/media/publication/attachment/PUBLICATION_A_2420_ESG_Survey_Report_EN.PDF

- (1) An ESG report should not be considered a good one where it contains disclosures that are not material to the issuer's business. It is therefore imperative for an issuer to disclose its materiality assessment process in the formation of the ESG report, including the process for the selection of material ESG factors with a description of the process and results from engagement with relevant stakeholders, if any.**
- (2) Issuers may seek independent assurance to strengthen the credibility of ESG information disclosed; and where such assurance is obtained, the issuer should describe the level, scope and processes adopted for assurance clearly in the ESG report. However, we emphasize that external assurance should only be undertaken for those non-financial risks identified as material and deemed necessary by the board as part of the overall risk management process. This could be further explained under the rule amendments and/or the related FAQs.**
- (3) Additionally, our Institute believes in the importance for a company to adopt an integrated approach for its ESG reporting to its business strategy. It may be useful to mention that an issuer consider adopting integrated reporting to relate to its business strategy under any proposed rule amendments and/or the related ESG Guide FAQs.**

Questions Raised

As noted, in relation to the implementation of the proposals in relation to a listed issuer, there could well be timing and/or resources driven issues. At the initial stage, HKEX may desire to retain flexibility and work towards the desired outcome over time, and each of our responses should be read accordingly.

Question 1: Do you agree with our proposal to amend MB Rule 13.91 and GEM Rule 17.103 to shorten the time required to publish an 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?

We have Member views that as non-financial independent assurance is relatively new to the market place, it would be a practical governance challenge to comply with the shortened time frame for those listed issuers seeking independent assurance. Further, by squeezing financial report and non-financial report timings together, at least initially, there could be some give-and-take in the preparation of the ESG report from an otherwise more considered report adopting appropriate international standards, including, for example, GRI, IIRC.

Having said that we also have Member views that issuers may want to synchronise the publication timeframe of their ESG reports with that of annual reports because the disclosures of non-financial ESG data/information may have relevance/implications to financial disclosures. This may also drive a good discipline for non-financial ESG disclosures, including its timing of publication.

In all, the key may be to provide some flexibility on the issue, with encouragement for synchronised reporting, and the provision of guidance as to how to address the materiality issue under some further regulatory guidance or FAQs. As ESG reporting matures, the matter could be reviewed from time-to-time.

Question 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?

The Institute has time and again supported initiatives to save paper. Notification and communication in general should be via electronic means, and sending a separate paper notification to shareholders is not environmentally friendly and is also cumbersome and costly. In this case, there could also be incorporation of the proposed timing of the issue of the ESG report into the annual report which at least can save some paper and costs and to serve to provide the requisite notice to shareholders on this cumbersome administrative matter which in itself is not environmentally friendly.

General

Question 3: Do you agree with our proposal to amend the Guide to introduce Mandatory Disclosure Requirements?

We agree with the rationales under paragraphs 74 to 93 of the Consultation Paper.

Governance Structure

Question 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?

We agree with the rationales under paragraphs 74 to 93 of the Consultation Paper. It would be useful for HKEX to provide further training and guidance as to the form and substance of the expected disclosure under the rule amendments and/or related FAQs. At the initial stage, HKEX may desire to retain flexibility and work towards the desired outcome over time.

Question 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?

We agree. As noted in the above answer, it would be useful to provide the particular expected format of the statement whether under the rule amendments and/or related FAQs.

Reporting Principles

Question 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?

We agree but at the initial stage, HKEX may desire to retain flexibility and work towards the desired outcome over time. It will assist the directors to incorporate material ESG into their strategy determination as part of risk management, and also enhance stakeholder communication. It would be useful for HKEX to provide further training and guidance as to the form and substance of the expected disclosure under the rule amendments and/or related FAQs.

Question 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?

We agree with the rationales under paragraphs 74 to 93 of the Consultation Paper. It would also be useful to clarify if there needs to be a process to determine materiality and if this has to be part of the board's oversight under the rule amendments and/or related FAQs.

Question 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 KPIs for historical data must be measurable, targets may be expressed by way of directional statements or quantitative descriptions?

We agree with the rationales under paragraphs 74 to 93 of the Consultation Paper.

Reporting Boundary

Question 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?

We agree with the rationales under paragraphs 74 to 93 of the Consultation Paper.

Question 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?

We agree with the rationales under paragraphs 94 to 106 of the Consultation Paper. Given the importance of climate related disclosures, it would be facilitative of the practical governance work if HKEX could provide standards or assumptions to be used for assessing the financial/non-financial impact caused by issues in line with TCFD Recommendations. There should also be business sector specific climate-related issues and datasets. These should provide information as to what investors are looking towards, for example, projected frequency and severity of flooding. These would facilitate investors to understand or assess the true impact on a particular issuer if different issuers measure the issues based on different datasets, standards or assumptions.

Targets

Question 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?

We agree with the rationales under paragraphs 94 to 106 of the Consultation Paper.

GHG Emissions

Question 12: Do you agree with our proposal to revise an Environmental KPI to require disclosure of Scope 1 and Scope 2 GHG emissions?

We agree with the rationales under paragraphs 94 to 106 of the Consultation Paper.

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

We agree with the rationales under paragraphs 107 to 112 of the Consultation Paper.

Employment Types

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

We agree with the rationales under paragraphs 113 to 123 of the Consultation Paper.

Rate of Fatalities

Question 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?

We agree with the rationales under paragraphs 113 to 123 of the Consultation Paper.

Supply Chain Management

Question 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.

To the extent that the proposal relates to material suppliers under supply chain management, we agree with the rationales under paragraphs 113 to 123 of the Consultation Paper.

Anti-corruption

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

We agree with the rationales under paragraphs 113 to 123 of the Consultation Paper.

Question 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?

We agree with the rationales under paragraphs 124 to 128 of the Consultation Paper.

Should you have any questions, please feel free to contact Samantha Suen FCIS FCS(PE), Chief Executive, HKICS or Mohan Datwani FCIS FCS(PE), Senior Director; and Head of Technical and Research, HKICS at [REDACTED] or [REDACTED].

Yours faithfully



David Fu FCIS FCS(PE)

President

The Hong Kong Institute of Chartered Secretaries