

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 agree HKEX should require issuers to publish the ESG report at the same time as their financial statements - in addition we believe HKEX should allow other internationally recognised ESG reporting frameworks, such as Global Reporting Initiative Standards ("GRI"), the International Integrated Reporting Framework ("IIRF") and the Sustainability Accounting Standards Board ("SASB") standards to be used as an alternative to the HKEX ESG Reporting Guide. If a company reports under IIRF for example they will already publish financial and non-financial accounts simultaneously. Disclosure regimes in the UK and France for example require companies to disclose ESG policies and indicators detailing carbon and other GHG emissions. Both countries also require ESG disclosures in annual reports and it is credited with improving the integration of ESG disclosure and financial reporting.

We know already that 60% of issuers sampled in the Exchange ESG Review report incorporate ESG factors into their annual report already (see footnote 57 in HKEX <https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Consultation-Paper/cp201905.pdf?la=en>).

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.

Printed formats of the ESG report does not contribute to additional tangible value for the ESG reporting itself and instead contributes to an unnecessary environmental footprint.

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.

We agree with HKEX proposals to amend the Guide and introduce MDR with regards to the board's role, Reporting Principles and reporting boundaries.

Governance structure:

We agree it is important for the board to have oversight of ESG issues and that they should be involved in identifying, evaluating and managing ESG-related issues. Investors do expect the board to have oversight of the companies ESG strategy, how material issues are handled and responsiveness of the company to issues identified.

However, we believe integrating both financial and non-financial performance requires leadership and support from both the Board and senior management also, and this should be outlined in the HKEX ESG guide. Senior management play a central role in integrating sustainability into the business strategy, overseeing implementation across the business and communicating to investors. At a working level in larger companies, investor relations, finance functions and CSR or sustainability divisions will need to align to ensure the quality and consistency of information reported. Therefore, in addition to emphasising the board roles, HKEX should describe the management’s role.

Reporting Principles:

We agree there is a lack of disclosure on how reporting principles are applied in the issuers' reports and support the MDR requiring an explanation regarding this. This would help investors better understand how the issuer is managing ESG issues. However, HKEX should go further and request issuers to release year on year performance results on how they are managing these issues disclosed. For example, the issuer should state material topics (e.g. safety), outline their strategic priorities, outline the change (has strategic priority been achieved - Yes, No, On-track, Off-track) and progress in X reporting year.

Reporting boundaries:

Investors need a clear statement from issuers showcasing reporting boundaries and we agree issuers should disclose the process used to identify the specific entities or operations that are included in the ESG report. In addition, issuers should state their process used to EXCLUDE entities and operations also - we are not suggesting they list the entities excluded, just the process and method for exclusion.

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.

For reasons reflected above in Q3, and because sustainability is a board-level risk. Investors need to trust a company's board before making or recommending an investment, and transparency into the board's considerations and management of ESG impacts can help promote that trust. The three steps listed above will improve board oversight and this is central to investor confidence in an organisations future performance. Directors have an essential role to play in defining the company's critical stakeholders and overseeing how risk management practices and strategy meets the needs of broader stakeholders as a way to drive shareholder value.

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.

Yes, for reasons noted in Q3 and Q4. Beyond the disclosure strategy outlined above, boards are in a unique position to connect sustainability with corporate purpose and strategy. Therefore, beyond the disclosure strategy requested of the board, the board should work to understand how sustainability is tied to business value. The board should work with management to go beyond material ESG risks to define the broader universe of risks and the stakeholders involved to determine what should be measured and disclosed too. In order to put this into practice the board might establish a standing board agenda item on sustainability for example so sustainability risks are discussed frequently.

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.

Yes, for reasons noted in Q3.
We agree there is a lack of disclosure on how reporting principles are applied in the issuers' reports and support the MDR requiring an explanation regarding this. This would help investors better understand how the issuer is managing ESG issues. However, HKEX should go further and request issuers to release year on year performance results on how they are managing these issues disclosed. For example, the issuer should state material topics (e.g. safety), outline their strategic priorities, outline the change (has strategic priority been achieved - Yes, No, On-track, Off-track). and progress in X reporting year.

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.

We believe integrating both financial and non-financial performance requires leadership and support from both the board and senior management also - management should identify the material issues and the board has a role to play in challenging an appropriate level of rigor and attention to the needs of a broader universe of stakeholders, critical to driving shareholder values, that enable prioritisation of and allocation of resources to ESG matters that are material to the business.

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.

HKEX has tied disclosure requirements to a number of international guidelines as a reference for companies, but it's still up to individual companies to decide how they calculate KPIs and which method they use. The purpose of requiring a) and b) above is to improve comparability - which right now in Hong Kong remains a challenge comparing company X to company Y. We believe that the HKEX should go further and set specific methodologies for measuring emissions/energy consumption (at a minimum) so that companies are all using the same method. At the end of the day we want to use this information to make informed investment decisions, lack of comparability across firms is one of the greatest barriers to the use of ESG information in investment decision making today (CFA noted this).

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.

Yes, agree as per response noted in Q3. Investors want ESG information to be complete, consistent, comparable and reliable and including above information would enable investors to make more informed decisions. Beyond what we have outlined already in Q3 the ESG data should be investment grade delivered with:

Accuracy- deploy rigorous data collection systems

Boundaries- aligned to the fiscal year and business ownership model

Comparability - use consistent global standards to facilitate comparability

Data provision - provide raw as well as normalised data

Timely - provide data to coincide with the reporting cycle

Balanced - provide an objective view, including both favourable and unfavorable information.

It's important to stress boundaries here again, because issuers should not only disclose the process used to identify the specific entities or operations that are included in the ESG report but also those excluded as mentioned earlier. Specifically, ESG data should cover 100% of the issuing entity and employ the same principles as financial data. The company has partial ownership of certain subsidiaries (perhaps without operational control), the data should be reported on a percentage ownership basis in order to accurately reflect the proportional exposure the company has to these businesses.

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.

Yes, we agree re Aspect A4. More and more leading financial centres now expect all listed companies and large asset owners to disclose in line with Financial Stability Board Task Force on Climate-related Financial Disclosures ("TCFD"), with the UK the most recent player to commit (not just reference) and set ambitious goals that all listed companies disclose in line with TCFD by 2022. HKEX will play a critical role enabling the flow of information envisioned by the TCFD.

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.

Yes, we agree, however capacity is a challenge for medium and small companies with large companies better positioned to absorb the associated costs of ESG reporting. To avoid this becoming a "box ticking" exercise for small to medium companies we propose HKEX set out a capacity building plan to support so these companies can leverage resources to improve the quality of ESG reporting.

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.

Yes, we agree. While not all companies will have Scope 1 emissions from operations due to the nature of their business, they will have Scope 2 emissions which is indirect energy emissions created by the business purchasing electricity, heating, cooling and steam consumed.

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.

Significant emphasis has been placed on "E" and "G" factors within ESG, however there has been an increased focus on the social dimensions of ESG with a spotlight on human rights and labour standards. At the COP24 UN Climate Conference in Poland, the Just Transition Silesia Declaration was signed by more than 50 countries. Considering the social aspects of the transition towards a low-carbon economy is crucial for gaining social approval for the changes taking place. New investor guidance also called for a just transition to be integrated into the procurement of investment services across all asset classes. The Liechtenstein Initiative (LI) for a Financial Sector Commission on Modern Slavery and Human Trafficking was launched to examine how the financial sector can help end slavery and human trafficking. Environment and Society is interconnected with social KPIs no less important than environmental.

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.

Yes, agree.

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.

Yes, agree - disclosure of the number and rate of work-related fatalities is best practice in many jurisdictions. In addition to disclosing against this KPI, the report should outline how this risk is being managed and make recommendations as to how improvements can be made in respect of each fatality.

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.

Yes we agree to the introduction of the new supply chain KPIs. This will positively encourage issuers to mitigate supply chain risk at source and will work to raise issuers awareness of ESG risks in its procurement practices. Supply chain risk is also a key consideration for investors and issuers should recognize the potential for risks relating to human rights, conflict and corruption that can exist within the supply 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.

Yes, we agree - in addition disclosure of number of staff disciplined or dismissed due to non-compliance with anti-corruption policy/policies should be introduced and disclosure of costs of fines, penalties or settlements in relation to corruption.

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 agree with the proposal. However, HKEX note on pg. 27 (in <https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Consultation-Paper/cp201905.pdf?la=en>) that there is no ESG assurance standard developed. There are standards such as ISAE 3000 and AA1000 used internationally and HKEX should reference these and others. At a minimum, HKEX should require companies to have internal ESG audits: establish strong internal processes, including having these overseen by or under the governance of the board audit committee. HKEX should also outline why companies should seek assurance and the benefits including: increased recognition, trust and credibility, reduced risk and increased value, improved Board and CEO level engagement, strengthened internal reporting and management systems improved stakeholder communication.

In addition, there is a major increase in the practice of sustainability reporting and it has been accompanied by a rise in the assurance of sustainability reports.

End -