

## 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 believe this is a good move for HKEX to send a clear message to the market that the ESG report is not an add-on but comprises information that is critical to the business which needs to be considered alongside financial information in evaluating business value.

We think it is important for HKEX to help create an environment that promotes an integrated view of business. The market would benefit by having a broader range of updated information available to make more informed decisions.

For companies, ESG updates need to become a much more integral part of business strategy and less of an isolated process. This proposed change would get companies to take a step forward. Moving forward they should explore how to develop more holistic reports which reflect an integrated thinking that considers the triple bottom line impacts.

### 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 agree and think this goes along with the trend of going paperless while ensuring the report remains publicly available.

## 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.

In our view, currently a major challenge to enhancing the market's reporting quality is a lack of mandatory disclosure requirements which can give a certain level of pressure to companies to take reporting more seriously. ESG governance, reporting principles and reporting boundary are critical elements of reporting as without such information, it is difficult for stakeholders to evaluate the extent the ESG report is presenting fair statements and for them to make proper assessments.

We agree to the approach of mandatory disclosures which is similar to GRI. The corresponding requirements of HKEX's ESG Guide are however much less comprehensive. We do not believe the proposed change would place a significant compliance burden on companies. With the investment community's attention on ESG information keeps on rising, reporting needs to evolve to meet heightened expectations.

For Hong Kong to retain international competitiveness, we further support raising the disclosure requirements to a level closer to GRI considering the needs of global investors and that the vast majority of the world's largest companies are using the more demanding GRI framework to report (The KPMG Survey of Corporate Responsibility Reporting 2017).

### 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 agree that companies should explicitly spell out how the board is involved in ESG for greater transparency over the governance of and attention to ESG issues.

On top of that, we concur with the FSDC's recommendation to more clearly elaborate the link between the Corporate Governance Code and the ESG Guide to enable E, S and G to be considered and addressed in a more coherent and holistic manner (FSDC, Environmental, Social and Governance (ESG) Strategy for Hong Kong, 2018). ESG issues should not be separated from but integrated in the overall risk management and oversight.

In respect of the proposed elements to be contained in the board's statement, we think they should be much more specific on what is to be included in the statement to guide companies what exactly to disclose to avoid resulting in boilerplate disclosures that do not help stakeholders' understanding. For example, for (a) it may be worded to more specifically ask whether and how the board oversee ESG issues. TCFD's recommendations on governance disclosure serve as a sound reference where a list of items are suggested for companies to discuss when describing the board's oversight of climate-related risks and opportunities. For (c), the companies may be asked to discuss in particular whether, how and how frequently the board reviews progress, for instance.

We strongly feel that there should be greater emphasis in the Guide on 'how' companies are implementing their ESG approach and governance (i.e. not just what the policies, roles and responsibilities are) in order for stakeholders to properly assess the management effectiveness.



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.

It is noted in the consultation paper that this proposal was made to provide more guidance on what should be disclosed in the board statement. While we consider this information as much needed to give context for detailed reporting on individual ESG issues in the ESG report, we do not think it serves as guidance to support the disclosure of the elements outlined in point 4 above because point 4 relates to the board's role and ESG governance, while the information asked for in this note is connected to the company's ESG strategy. We are of the view that they should be separately addressed. Moreover, setting this out in a note may confuse the companies as to whether this disclosure is an MDR.

Besides requiring separate disclosures on the ESG management approach, strategy, priorities and goals/targets and the relation to the business, we recommend that the Guide provides more guidance on what is expected to be disclosed with regard to each of these items. The GRI Standards contain guidance on what should be included when compiling the information on ESG strategy which companies can follow to provide information that may be more relevant and useful for stakeholders' understanding.

### 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.

As explained in our response to question 3, we consider the adoption of reporting principles as crucial and support the introduction of an MDR.

However, we suggest the expected disclosures under MDR be specified as clearly as possible so that companies could ensure their reporting meets the requirements. Particularly, we think further guidance would be helpful to explain the kind of disclosure expected for describing the application of the "balance" principle; and for "consistency", for instance, whether a negative statement is required in circumstances where there has been no change to the methods or KPIs used, or any relevant factors affecting a meaningful comparison over time.

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 largely agree with the amendments but would like to add a comment on the proposal that "materiality of ESG issues is to be determined by the board".

We consider the typical role of the board involves providing strategic direction, advice and oversight. The materiality assessment process, on the other hand, is an operational technical methodology which we think may be better performed by the company. We agree in principle that the board should take responsibility of the monitoring of the determination of materiality of ESG issues, but the board should be given the discretion to determine how the objective can be achieved and who should perform the materiality assessment. We think prescribing that the board is responsible for determining the materiality of ESG issues may be interpreted that the board is required to do a materiality assessment. HKEX may consider changing the wording to clarifying the board should, for example, sign off on the material issues.

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 agree with the proposal and the rationale put forward by HKEX.

### 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.



We welcome this proposal to ensure companies explain their reporting boundary.

We understand that HKEX do not propose to require disclosure of a list of entities or operations that are excluded from the ESG report considering it may be lengthy and not necessarily helpful to the readers.

From our point of view, these are not sufficiently compelling reasons that justify not disclosing the exclusions. This disclosure is not necessarily lengthy as reference may be made to information in publicly available consolidated financial statements or other documents. It is also valuable for readers to evaluate the extent to which the ESG report captures and presents the overall performance of the organisation (applying the boundary consistent with financial reporting). Such evaluation may not be straightforward with only a list of entities/operations that are included in the report.

We believe the information related to whether any entity included in the organisation's consolidated financial statements is not covered by the ESG report is important for readers, hence the GRI Standards require such disclosure. We also think having this requirement would help companies to consider their rationale, and the appropriateness of it, for determining the reporting boundary. We therefore support further including this disclosure requirement in the Guide.



## 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.

We agree with the proposal and the rationale put forward by HKEX.

Based on our observation that the market in general has not grasped what climate change risks are to their organisation, we would also like to recommend including terms like physical risks and transition risks and guidance and explanation on what they mean to businesses. We note that many people tend to consider the physical side of the climate change impact on businesses and operations, but overlook the transition risks. As the world, China and Hong Kong move towards decarbonisation, companies have to consider how that is going to impact their businesses in aspects such as the asset values, the business model, the viability of their products and services and the supply chain. We believe a lot of useful disclosures and discussion around climate change risks would be missed if this idea is not clearly explained in the Guide.

### 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.

We agree with the proposal and the rationale put forward by HKEX.

## 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.

We agree with the proposal and the rationale put forward by HKEX.

## **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.

We agree to removing any suggestion in the Guide that environmental issues are more important than social ones.

However, we would like to highlight that it is not uncommon for companies to have approached "comply or explain" by ticking all the boxes rather than following the materiality principle to ensure they are in compliance. Thus we suggest upholding the "comply or explain" and "materiality" principles at the same time, without adequate explanation, may potentially confuse the market. Our view is the Guide should stress that companies should identify the Aspects and the related KPIs that are material and report on them. If there is an MDR on the materiality assessment process and results, it should ideally become clear for report readers why certain KPIs are not material and not reported. If companies are clear that they should consider the materiality first and foremost when deciding what to report, they may less likely adopt a tick-box approach to "comply".

As HKEX intends to make all disclosure requirements mandatory/ "comply or explain", we suggest HKEX consider, alternatively, whether it is appropriate and practicable to remove the use of "comply or explain" altogether and embrace the materiality principle instead. It could be helpful for the development of the market over time in terms of promoting advances in the materiality process and less box-ticking.

## 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.

We agree with the proposal.
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### 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.

We agree with the proposal.
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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.

We welcome the proposal to include disclosure requirements that are more around the management approach that addresses how companies are actually identifying and addressing risks in the supply chain.

Anti-

While we appreciate they are good disclosures, we are of the view that too much information is contained in one KPI. (a), for example, asks for the description of i) the risk assessment process; ii) how they are implemented; and iii) the monitoring processes. Each of these is a component of the whole supply chain management system that can involve complex processes and measures. To avoid confusing companies and ensure better quality disclosures, we suggest splitting the requirements into more than two KPIs, and/or specify more clearly what companies should include in their disclosures.

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.

We agree with the proposal and the rationale put forward by HKEX.

## 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.

While we agree with the proposal and intent behind, we would like to add a few thoughts on the necessity of ensuring the quality of assurance at the same time.

The Guide has not defined what independent assurance is. There are globally-accepted assurance standards, for example, the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

We are convinced that it is crucial to provide some kind of definition of independent assurance in the Guide due to quality assurance considerations. Currently the quality of general assurance services varies among service providers in the market as there is limited control and oversight on who is qualified to issue the statement, and based on what standards. It would be helpful to make specific references to some globally-recognised assurance standards in the Guide, or encourage companies to seek assurance that follows globally-recognised standards because with certain standards will then come along with the quality assurance and oversight built in. We believe that to really fulfil the objective of strengthening the credibility of ESG information disclosed in the market will require more than transparency on the details of the assurance (which is now being proposed) to include a framework for managing the quality of the assurance reports. This is important also because the market has yet to become experienced in ESG reporting and assurance, and therefore may not know what they should expect from an assurer.

If HKEX is considering the introduction of an obligatory level of independent ESG disclosure assurance in the future, we recommend providing issuers with more guidance in such areas. This can be achieved by, for example, making specific references to some globally recognised assurance standards in the form of guidance letters and/or FAQs.

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