

## 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.

More timely information will benefit investors and lead to improved ESG information. The ESG report should be issued concurrently with the annual report, or as soon afterwards as possible.
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### 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.

There is no need for paper reports because electronic reports are easily and widely accessible for investors. In fact, we believe that electronic reports should be encouraged because this is more environmentally friendly, which fits ESG.
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## 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 approve of MDR because it will make ESG reporting easier to compare across companies. As long as the MDR are designed thoughtfully, the burden on listed companies should be small.

As the MDR evolves, we envision the ability to declare mandatory disclosures within sectors. For example, coal mining companies (as determined by a classification system such as GICS) would have mandatory greenhouse gas emissions disclosures.

### 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.

The process of evaluating materiality is the most important element from our viewpoint. We also agree with the other two elements, but our focus would be on the evaluation process. To ensure that the statement is thorough, we would suggest that a responsible person should be named to be in charge of this statement.

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.

We have no objection to this proposal although it would not be our highest priority. We would mainly look at the ESG report instead of the broad statement. Regarding the items mentioned in the question, we would be interested especially in how their ESG concerns would affect the sustainability of their businesses.

### 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 we mentioned previously, consistent application of reporting principles will make it easier for investors to compare the ESG performance of various companies. An explanation of how the company has applied Reporting Principles can be one way to standardize it.

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 agree with this proposal. Additionally, it is worth emphasizing that as investors we are mainly interested in how the ESG issues would affect the company's business, so materiality should be determined with this in mind.

We would also suggest providing broad guidelines to issuers as to what makes an issue material or not.

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.

Yes, because quantitative disclosure is necessary in order for investors to come to informed conclusions about the sufficiency and accuracy of ESG reporting. Qualitative disclosure only is insufficient because it fails to give insight into how seriously the company views ESG issues.

As more quantitative data is generated, it will eventually be possible for us to use data science methods to create insights into company performance.

#### 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, this must be included. Otherwise, investors will not know what business units the ESG report is referring to.

## 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.

Climate-related issues will increase in importance in the future, and requiring disclosure here is a good first step. However, we are uncertain if climate issues will apply to all companies, so we think that a comply-or-explain approach would be fine here.

### 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 believe that companies should have the flexibility to choose and set their own targets. These targets should be made publicly available to investors so that the investors can invest responsibly, especially regarding their ESG mandates.

This is only necessary for the environmental KPIs that the company considers material. Otherwise, there is the risk of excessive boilerplate 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.

We agree and have no further comment on this point.

## **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 with "comply or explain". Recommended disclosures are insufficient and moving to "comply or explain" will meet international standards of disclosure. In any case, the additional work required should be minimal.

## 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, otherwise the employment figures will be meaningless. We prefer to see a breakdown by nature of employment so as to increase comparability across companies within an industry. It may also be worth considering additional classification for contract employees.

### 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.

Overall we approve, but we believe that this metric could be useful for some industries. For the industries where this is relevant, it should definitely be required.

At a future date, consideration could be given to requiring specific industries or sectors to report this KPI information on a mandatory basis.

## 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.

ESG ratings take into account the entire supply chain, so introducing KPIs targeting the entire supply chain would be good. Our concern here is that for smaller companies, the cost of getting this information may be high, or that other parties along the supply chain may not be willing to give them this information. Therefore, at least in the initial implementation phase, we think it would be easier to have a gradual phased implementation or ability to opt-out with an explanation.

## 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.

We are not against this proposal, but it would not be one of our highest priorities in the context of ESG investing. In most cases, if directors and staff corruption is a serious concern, we would be wary of investing in the company.

## 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 have no objection to companies seeking external assurance on their ESG reporting. However, we foresee a potential problem for smaller companies: if independent assurance becomes generally accepted, they would be pressured into getting assurance even if this is not cost effective for them. Therefore, it would be helpful to emphasize that this is strictly optional.

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