

## 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.

An ESG Report should be published the same time as the Annual Report. Publishing both reports at the same time allows stakeholders to have a complete view of a Company's financial and ESG performance. A Company's ESG Report and Annual Report should also have complementary disclosure, for example disclosure on a Company's environmental policies in the Director's Report (as required by the Companies Ordinance) should align with related content in the ESG Report.

### 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 reports often make it challenging for investors and analysts to search for and navigate through the information they need.

Printed reports are also not consistent with the ethos of encouraging an issuer to reduce their environmental impact.

Guidance should be given on how to satisfy the requirement under the proposed new Rule 13.91(4)(C), e.g. whether it would suffice to have that covered in the notification letter to shareholders to be issued under Rule 2.07A upon the publication of the annual report etc., as opposed to a separate notification.

## 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.

Asset owners and investment managers continue to integrate ESG criteria within their investment decisions, resulting in growing demand for consistent and comparable ESG disclosure from investors. Such mandatory disclosure requirements will help to provide this consistency.

### 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.

AIA supports this MDR and disclosure requirements. AIA encourages that this Board Statement be in the form of a Chairman's Statement, now a common feature of many ESG Reports both in Hong Kong and globally.

Given the diversity of ESG issues and processes to address them, ranging from responsible business to environmental sustainability, to avoid lengthy disclosure, the Statement should cover priority material ESG issues only. The Statement should then link to further disclosure in the ESG Report on process to address, identify and manage ESG concerns.

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.

Please see response to Q4 above. An overview of ESG management approaches, strategies, and priorities and goals/targets would result in a lengthy and descriptive statement. AIA recommends that only the most material topics be discussed in the Statement.

### 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, the application of the reporting principle, i.e. preparation process for preparing an ESG Report, is already a requirement for companies producing a report to the Global Reporting Initiative Standards ("GRI Standards").

Disclosure on how an ESG Report is prepared, including process for conducting a materiality assessment, and disclosing reporting boundaries is good practice and provides important context to stakeholders on understanding and assessing the ESG metrics.

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.

AIA supports the Reporting Principle on materiality, including descriptions of significant stakeholders, the stakeholder engagement process, and selection of material ESG factors. However, AIA suggests amending this requirement to accommodate the role of management level ESG Committees appointed by and reporting to the Board on ESG matters.

AIA suggests the following amendment:

"Materiality of the ESG issues is to be determined by the board, or ESG management level committee as appointed by, and reporting to, the Board."

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.

As recommended by ESG reporting frameworks such as the GRI Standards, ESG methodologies and source of conversion factors should be disclosed in an ESG Report. This is particularly important for environmental reporting where Scope 1 and Scope 2 greenhouse gas emissions may vary depending on the emission factors used.

AIA also agrees that targets may be expressed through directional statements or quantitative descriptions to allow for dimensional discussions on how progress is being made against ESG objectives.

#### 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.

Disclosing the boundaries of an ESG Report is essential for stakeholders to understand which subsidiaries and/or business units have been included in the Scope of the Report. This is common practice for preparing an ESG Report under international frameworks such as the GRI.

The HKEx may consider setting a threshold and, apply the "comply or explain requirement" for entities which exceed this threshold to be included in an ESG Report, for example a revenue threshold of 20%. If a subsidiary which meets this threshold is omitted from the issuer's ESG Report, an explanation should be provided as to why this entity has not been included.

## 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 change is often raised as a significant risk affecting the security of the global financial system. AIA supports these requirements and recommends that the Stock Exchange further align with the disclosure recommendations of the Task Force on Climate Related Financial Disclosures (TCFD), including requesting disclosure on governance process to identify, assess and manage climate related risks.

AIA suggests amending disclosure requirement 10.a) as follows:

a) disclosure of governance approaches, including policies and measures to identify and mitigate the significant climate-related risks and opportunities which have impacted, and those which may impact, the issuer;

### 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.

Disclosure of targets allows issuers to demonstrate their progress year on year on ESG Aspects. AIA suggests that targets should be disclosed for material KPIs only, as determined by the issuer's materiality assessment process. For example, disclosure on hazardous waste reduction (HKEx ESG KPI A1.6) will not be material to the financial services sector, and these issuers will not have any targets on such waste.



## 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.

Disclosure of Scope 1 and Scope 2 emissions are fundamental aspects of an issuer's carbon footprint and should be disclosed in the ESG report. The issuer should also be encouraged to report, and provide an accompanying description of their Scope 3 footprint.

## **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.

The Social KPI's, particularly Aspects on Anti-Corruption, Human Resources, and Product Responsibility are increasingly incorporated by investors in their ESG analysis and assessments. Upgrading to "comply or explain" will encourage both transparency and consistency in disclosure on these KPIs.

## 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.

KPI B1.1 does not currently set out a definition of "employment type", which may also be interpreted as employees by contract type, i.e. open ended versus fixed term contracts. This clarification will provide greater consistency in the interpretation of this disclosure.

### 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.

Disclosure on the number of fatalities the best practice for all issuers, however this is likely to be material for certain sectors only.

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.

Supply chain management should not only consider environmental and social risks, but also governance issues, particularly in regard to responsible business and data protection practices in the management of customers and their data.

Please consider the following amendments:

- (a) Description of practices used to identify environmental and social risks, including governance issues relating to anti-corruption, data protection and product responsibility, along the supply chain.

Please also consider providing a definition of 'environmentally preferable products and services'.

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.

Such disclosure helps to communicate the level of engagement of an issuer's senior leaders regarding responsible business practices. Please consider amending the requirement to request disclosure on topics included as part of this training, as well as the frequency of the training provided.

## 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.

ESG Assurance, particularly on environmental KPIs, supports the effectiveness of a company's data collection and ESG management practices. Where independent assurance is commissioned, the company should disclose the level, scope and processes adopted. These disclosures are often included as standard elements of the Auditor's Assurance Statement.

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