

[REDACTED]

TO: Hong Kong Exchanges and Clearing Limited  
FROM: [REDACTED]  
CONTACT: [REDACTED]  
DATE: July 15, 2019  
SUBJECT: Consultation Paper on Review of the ESG Reporting Guide and Related Listing Rules

Summary of [REDACTED]'s response is below:

Q#	Topic	[REDACTED] Response
	<b>Timeframe for publication of ESG Report</b>	
1	Amend Main Board Listing Rule	Yes
2	Printed Form of ESG Reports	Yes
	<b>Introducing Mandatory Disclosures</b>	
3	Introduce Mandatory Disclosure Requirements (MDR)	Yes
4	MDR: requiring statement from the board	Yes
5	MDR: Board statement to include management approach to ESG	Yes
	<b>Reporting Principles</b>	
6	MDR: Disclosure of how issuer applied the Reporting Principles	Yes
7	Amend reporting principles on "materiality"	Yes
8	Amend reporting principles on "quantitative"	Yes
	<b>Reporting Boundary</b>	
9	MDR: Explanation of report's ESG boundary	Yes
	<b>Climate Change</b>	
10	New Aspect A4 requirement	Yes
	<b>Targets</b>	
11	Amendment for environmental KPIs to require targets	Yes
	<b>GHG Emissions</b>	
12	Amendment for environmental KPIs on Scope 1 and 2	Yes
	<b>Upgrading the Disclosure Obligation of the Social KPI</b>	
13	Upgrade social disclosure obligation of all Social KPIs?	Yes
	<b>Employment Type</b>	
14	Revision to clarify "employment types"	No
	<b>Rates of Fatalities</b>	
15	Amend KPI on fatalities to require disclosures on work related fatalities	Yes
	<b>Supply Chain Management</b>	
16	New Supply Chain KPIs	Yes
	<b>Anti-corruption</b>	
17	New KPI for anti-corruption	Yes
	<b>Encouraging Independent Assurance</b>	
18	Revision on independent assurance wording	Yes



## 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/2016Present/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 support a shorter timeline because we believe that on the overall, financial and non-financial reporting should be done together anyway. However, whether a company issues a report purely for compliance or for wider transparency, it should be done thoroughly and at the highest level possible. A change of one month is not going to create the illusion of alignment between financial and non-financial reporting where there is fundamentally none. Most companies struggle to meet the deadline anyway and this is a function of poor resourcing, lack of strategy and many other things. However, why should there be a separation/ difference for GEM vs Main Board listing ?

### 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 printing and there should be more environmentally-friendly means pursued, alongside using other formats (online, microsite, apps, etc) that are suited to a company's communications approaches.





## 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.

The proposed MDRs for Governance Structure are not onerous and the directors are also responsible for the Business Review section of the Director’s Report. There is no reason this information should not be publicly available.

### 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.

This MDR does not need to be separate from other mandatory disclosures on Corporate Governance and ERM so long as the relevant information about ESG issues is explicitly stated. Furthermore, we recommend that the Corporate Governance Code should carry the same endorsement of the ESG accountability, perhaps even go as far as recommending which Committee could take ownership.

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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 view:

If the Board genuinely embeds ESG into its decision-making and review, then there is no reason why this should be an onerous ask. By including the ask of this board statement, the HKEX will send a message that this is not to be taken lightly, that transparency is paramount and builds the much-needed embedding of sustainability at the highest level of a company's leadership structure.

### 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

In principle, we support anything that compels companies to be more transparent. However, we recognise that if this MDR is going to be enforced, the HKEX needs to define what they expect to see for each of the principles: Materiality ( there is extensive explanation on this given it is by itself already a key feature of this consultation) , but for " quantitative", "balance" and "consistency", the HKEX will have to explain what it wants to see; is this MDR is to mean anything. We understand that the HKEX is never prescriptive, so we remain uncertain on how this is going to be enforced with true value and impact.

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.

In principle, yes. However, companies should also be allowed ; but companies should also be allowed to refer to disclosures in previous reports if there have been no change from year to year i.e. no need to rehash the same old stuff year after year. Also, no need to implement new materiality assessments every year and unnecessarily spend resources in doing so. It takes more than one financial year to truly implement changes to/ across all 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.

Yes. The HKEX should just bear in mind that most companies will perhaps struggle with this in the first few years.

### 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.

Boundary identification has become one of the most disregarded (unthought of), persistently a point of confusion and answered largely only on the basis of convenience (available data) for companies. It is not easy to determine and there are significant variations among issuers. If the board is going to take more accountability and ownership, then there should be a more straightforward criteria for what is within the scope and boundaries of the report. This leads to better data comparability, relevance, etc.



## 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.

Similar to the boundary question, if the board is going to take more accountability and ownership of ESG, then the board will eventually have to deal with climate-related risk .

### 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.

In principle, we support greater transparency and a drive to better manage ESG issues and impacts. However, this is something that the HKEX should truly reflect on. Targets are very industry/ operations specific and we are not certain if it is the HKEX ' s role to promote target-setting ( it seems not and should remain so). The danger here is that companies, especially new reporters/ issuers, will fall into a trap of window-dressing targets for the sake of compliance, which defeats the purpose of this inclusion. Perhaps the HKEX should reflect on why / for what purpose would it encourage this KPI. There is no need to show alignment with frameworks like CDP, TCFD or DJSI – they all already ask for this.



## 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.

This is already the defacto practice. It would be good to clarify.



## 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.

Yes. However, we caution that for Product Responsibility KPIs -they may not be generally applicable to all issuers. HKEX may consider adding wording to encourage issuers to identify and disclose relevant KPIs for this topic.



## 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 would like to see an amendment to this but not in reiterating full and part-time staff (The term "staff" is not currently mentioned in the KPI). If the HKEX wishes to better align with GRI, then it should provide a better definition of "workforce". From there, it should state the inclusion of both Employees (for which the relevant categories are "Permanent" and "Temporary") as well "Other workers" who are not by definition in a direct employment relationship with the issuer.

### 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.

HKEX should consider issuing additional guidance on methodologies for Aspect B1 Employment and Aspect B2 Health & Safety. Issuers should follow relevant industry-specific standards or the methodology to be specified by HKEX to report this KPI. For consideration is the inclusion of near miss and injuries data.

### 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. These KPIs seem universally relevant and appropriate. The HKEX should be aware that new issuers / reporters may require guidance to better understand the expectations of this disclosure.

### 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 this aligns with GRI disclosure on this topic.





## 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.

HKEX should reiterate that it is the assurer who should describe the level, scope and process adopted. This information should be published by the issuer. Such assurance should be from qualified provider, that adopts recognised international standards etc. The level and scope of the assurance should be determined by the Board and disclosed in the final report. The assurer can explain the processes that they have adopted. The more robust and clear this opinion can become, the more value it will afford readers and address the weaknesses in ESG data that are so widely commented upon.

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