

18 Jul 2019
Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
8/F, Two Exchange Square
8 Connaught Place
Central Hong Kong

Sent by Email and by Post

Dear Sirs/Madams,

Re: Consultation Paper on Review of the ESG Reporting Guide and Related Listing Rules

To realize the vision to be Hong Kong's leading investment professional body, HKSFA is committed to serving the investor protection and improving the market transparency. We believe that the trend is definitely going towards greater disclosure requirements from stakeholders.

For the captioned paper, our specific response is as stated in the appendix attached.

Thank you for your attention.

Yours sincerely,
For the on behalf of
The Hong Kong Society of Financial Analysts

Charles Chui, CFA
Co-chair, Advocacy Committee

Claudius Tsang, CFA
Co-chair, Advocacy Committee



Appendix

Question 1: Do you agree with our proposal to amend MB Rule 13.91 and GEM Rule 17.103 to shorten the time required to publish an 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?

Answer: Yes, we agree to amend MB Rule 13.91 and GEM Rule 17.103 to shorten the time required to publish an ESG report.

Question 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?

Answer: Yes, we agree to amend the Listing Rules and the Guide to clarify that the issuers are not required to provide printed form of the ESG report to shareholders, but are required to notify shareholders that the ESG report has been published on the Exchange's and the issuer's websites.

General

Question 3: Do you agree with our proposal to amend the Guide to introduce Mandatory Disclosure Requirements?

Answer: We agree to amend the governance structure by introducing Mandatory Disclosure Requirements as the involvement of the board and the dialogue from board level to all shareholders are crucial for the successful implementation of ESG disclosure of the company.

Governance Structure

Question 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?

Answer: Yes

(b) the process used to identify, evaluate and manage material ESG-related issues (including risks to the issuer's businesses); and

Answer: Yes.

(c) how the board reviews progress made against ESG-related goals and targets?

Answer: Yes

Question 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?



Answer: We agree to amend the Guide to include an MDR requiring an explanation of the ESG report’s reporting boundary. However, considering the challenge that might be faced by different corporates with distinctive business natures, it might be practical to set a gradual timeline for the issuers to include their a.) current ESG management approach, strategy, priorities and b.) goals/targets and c.) an explanation of how they relate to the issuer’s businesses. All of which require proper strategies following the board’s involvement mentioned at Q4.

Reporting Principles

Question 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?

Answer: Potentially yes, if there is more guidance to choose from how the issuers want to report their ESG. Recognizing there are no professional qualifications for ESG reports, more guidance and samples should be provided.

Question 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?

Answer: Yes.

Question 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 KPIs for historical data must be measurable, targets may be expressed by way of directional statements or quantitative descriptions?

Answer: Yes.

Reporting Boundary

Question 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?

Answer: We think these should be defined and negotiated by a committee of HKEX.

Climate Change



Question 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

Answer: Yes.

- (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?

- (c)

Answer: Yes.

In terms of Climate Change-the issuers might require more information and guidance from HKEX for them to follow; international frameworks are advised such as TCFD, CDSB etc.

Targets

Question 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?

Answer: Yes, but it differs for different business categories. In terms of Environmental aspect-the issuers might require more information and guidance from HKEX for them to follow; international frameworks are advised such as TCFD, CDSB etc.

GHG Emissions

Question 12: Do you agree with our proposal to revise an Environmental KPI to require disclosure of Scope 1 and Scope 2 GHG emissions?

Answer: It would be in public interest, but difficult to quantify for a reporting personnel. The KPIs may differ for different business categories.

Question 13: Do you agree with our proposal to upgrade the disclosure obligation of all Social KPIs to “comply or explain”?

Answer: Yes

Employment Types

Question 14: Do you agree with our proposal to revise a KPI to clarify “employment types” should include “full-and part-time” staff?

Answer: Yes

Rate of Fatalities

Question 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?

Answer: We agree the 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. This is the basic health and safety data and the ultimate measure of a company's ESG compliance.

Supply Chain Management

Question 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?

Answer: Yes. The KPIs will give management a clear framework in this matter and will be ESG positive in our opinion.

Anti-corruption

Question 17: Do you agree with our proposal to introduce a new KPI requiring disclosure of anti-corruption training provided to directors and staff?

Answer: Yes. Regulatory and investor focus on AML/ anti-corruption has rightfully been on the rise. Related training will ultimately be beneficial to companies and their shareholders.

Question 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?

Answer: We agree to revise the Guide's wording on Independence assurance. But there is a concern that those independent assurance firms are not regulated.