

18 July 2019

BY HAND AND BY EMAIL

Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
8th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Dear Sirs,

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

Ernst & Young is pleased to respond in this letter to the request of The Stock Exchange of Hong Kong Limited for feedback on the captioned consultation paper. Terms used in this letter shall have the same meanings as in the consultation paper.

We welcome the Exchange's ongoing efforts to promote the quality of ESG performance and reporting and to ensure the relevant Listing Rules are up to date with investor and stakeholder expectations and international best practice. We agree that it is the right time to emphasise the importance of the governance structure of ESG and the board's leadership role, and to promote the accountability of the board in this area. After having had a couple of years of experience of compiling the ESG report within a longer timeframe, listed issuers should be prepared to move on to aligning the ESG reporting timeframe with that for annual financial reporting.

In general, we consider that the proposals are in the right direction. Set out below are our comments and observations on some of the key proposals.

Governance structure

We agree with the proposal to introduce an MDR requiring a statement from the board about the governance structure of ESG.

Regarding "a disclosure of the board's oversight of ESG issues", it may be clearer if the proposed MDR is worded as "a description of how the board has been overseeing ESG issues". It would also be helpful if the Exchange could provide more guidance and examples in this area, say, in the form of Frequently Asked Questions ("FAQs").

Regarding a statement on "how the board reviews progress made against ESG-related goals and targets", we believe that the Exchange would expect that goals and targets be set for all material aspects only instead of all aspects. It is also unclear whether the board needs to report the

progress made in the ESG Report. The Exchange may wish to clarify its expectation to avoid any misunderstanding in this area.

Reporting principles and boundary

The Exchange proposes to amend the Reporting Principle on “quantitative” to clarify that while KPIs for historical data must be measurable, targets may be expressed by way of directional statements or quantitative descriptions. We note from paragraph 91 of the consultation paper that the Exchange recognises the sensitivity of disclosing quantitative targets in a public document, and understands that issuers may be prone to disclosing a lower, more achievable target if they were required to disclose actual numbers as targets, defeating the purpose of setting meaningful targets. Therefore, the Exchange would suggest that the issuer should endeavour to disclose actual numerical figures where possible, or otherwise use directional statements in relation to the targets set.

Whilst we understand the Exchange’s rationale behind the proposed alternative of allowing targets to be expressed by way of directional statements, any use of directional statements in public documents without the support of underlying numerical targets may undermine the board’s review process and thus the usefulness of the disclosures. For example, an issuer could simply set the yearly reduction of greenhouse gas emissions as a target, and an actual reduction of 0.1% compared to the previous year may arguably imply that the target has been met. We are not sure whether this is what the Exchange and the investors are expecting. The Exchange may wish to clarify that issuers should adopt S.M.A.R.T. goal setting and that any use of directional statements should still be supported with quantitative targets to facilitate a meaningful review by the board.

Environmental KPIs

We agree with the 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. The Exchange should consider clarifying that the quantitative targets are set following a S.M.A.R.T. approach. For the avoidance of doubt, the Exchange should also clarify that if the aspect is not considered material, there is no need for the issuer to disclose the respective targets; otherwise, some office-based businesses may have to set targets for immaterial ESG factors such as a reduction in water consumption or air pollutant emissions.

Social KPIs

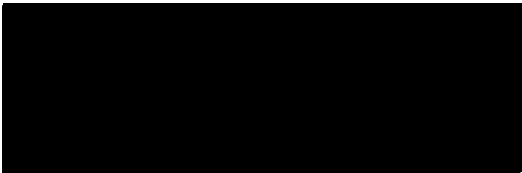
We are not sure of the purpose of clarifying that “employment type” refers specifically to categorising employees into full-time and part-time employees. If it is a matter of entitlement of labour benefits, we suggest issuers to make it clear whether the employees are full-time or dispatched labour. If it is a matter of describing the size of the workforce, a full-time equivalent (or FTE) report instead of the total number of employees may better serve the purpose.

We agree with the proposal to upgrade the disclosure obligation of all Social KPIs to “comply or explain”. However, we are unsure of the usefulness of the KPIs regarding the percentage of staff trained as well as the average training hours completed per employee by gender and employment category (e.g., senior management, middle management). We suggest keeping these as a recommended disclosure.

If the Exchange adopts the proposals, we suggest that the Exchange provides comprehensive FAQs and training to assist issuers in complying with the requirements, with a view to issuing meaningful ESG reports, as done for previous Rule changes.

Should you have any questions on the above comments, please do not hesitate to contact our Climate Change and Sustainability Services Partner in Hong Kong, Mr. Brian Ho, on [REDACTED] or our Professional Practice Partner in Hong Kong, Mr. Paul Hebditch, on [REDACTED].

Yours faithfully,



Certified Public Accountants
Hong Kong