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Hong Kong Exchanges and Clearing Limited (the **Exchange**)
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8 Connaught Place
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18 July 2019

Dear Sirs

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

Thank you for the opportunity to respond to this paper. Our responses to the questionnaire are attached in the requested format and we are happy to say that we support all of the Exchange's proposals.

We have supported the Exchange's ESG Reporting Guide from its initial inception in 2012 as recommended best practice; the consultation in 2015 to place it on a "comply or explain" basis; and now in 2019 with the introduction of mandatory disclosure requirements and a formal materiality assessment. This incremental approach has worked to build broad awareness of the need for ESG reporting among Hong Kong listed issuers but save in a few specific instances, has generally resulted in disclosure which lacks financial relevance and materiality to investors.

As the Exchange recognizes, regulation and expectations around ESG have rapidly evolved beyond companies simply managing their reputational risk or engaging in corporate social responsibility activities. From an investor perspective, it is necessary for us to consider ESG issues in the context of assessing the financial, operational and regulatory risk of a company. Increasingly, ESG is becoming the lens through which we assess the broader sustainability profile of a company and how it manages the interests of all its stakeholders.



This review is timely and important to ensure that Hong Kong's disclosure regime remains fit for purpose and consistent with international best practice. We agree with the emphasis on governance and materiality as important pre-conditions to good ESG disclosure; however, what remains notably absent is accountability - specifically, a direct way for shareholders to hold Board to account for the quality of ESG disclosure. For this reason, we advocate instituting an annual non-binding vote for shareholders to "approve" the ESG report. We envisage this will work in a similar way to the vote on the annual report and accounts and will allow shareholders to express feedback on the quality of ESG reporting. In markets which have enabled shareholder voting on the remuneration report, notably Australia, companies have been incentivized to proactively engage with their shareholders. This vote could lead to a similar dynamic in Hong Kong of encouraging greater dialogue between Boards and shareholders on ESG reporting matters and therefore promote greater investor stewardship consistent with the Principles of Responsible Ownership.

We agree with a focus on climate-related disclosure as an urgent environmental concern, which aligns well with the stated priorities of the Securities and Futures Commission and the China Securities Regulatory Commission. However, the climate aspects of the ESG Reporting Guide do not appear to reflect this priority - Aspect A4 is relatively high level and provides minimal guidance for companies seeking to undertake more comprehensive climate reporting. We recommend that the Exchange explicitly adopt and direct companies towards the framework established by the Task Force on Climate-related Financial Disclosures (**TCFD**) which has gained broad industry acceptance. This would advance climate reporting in Hong Kong beyond that contemplated by Aspect A4 and would better enable comparability of Hong Kong listed companies with other TCFD reporters around the world.

We also highlight supply chain risk as a critical social risk for many Asian listed companies. The new KPIs on supply chain management are a positive step as the disclosure presented on this issue is often generalized and boilerplate in nature. However, it lacks specificity, particularly around the process by which a company's supply chain verified through formal auditing. Companies should provide disclosure around their auditing process, including its scope, frequency, high level summary of results and remedial action taken to address identified deficiencies. Over time, and with better disclosure, this should evolve into quantifiable targets around raw material intensity, labour conditions, fair wages and other specific priorities.



Finally, we support the alignment of the timeframe for the publication of the ESG report in line with the annual report. It is clear that genuinely relevant ESG reporting cannot occur without significant collaboration and reference to traditional financial reporting. We express no view at this stage on whether the format should be in one or two reports but directionally the overall approach of integrating financial and non-financial reporting is right and the Exchange can set out its expectations to issuers in this regard.

We continue to support the Exchange's commitment to better and more comprehensive ESG reporting by Hong Kong listed companies and we would be pleased to discuss any aspect of our response with you in more detail.

Yours faithfully



Jenn-Hui Tan
Global Head of Stewardship and Sustainable Investing

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.

This time horizon is already achieved by many corporates globally. Investors evaluate material ESG issues together with financial issues holistically and it is clear that if corporate ESG reporting is to be financially relevant, it should be done concurrently with financial reporting.

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.

Electronic copies of ESG reports is sufficient for our purposes.
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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.

Mandating these provisions will provide investors with more transparency and consistency when analysing the ESG strategies of issuers.
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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 governance of ESG is fundamental in analysing an issuer's commitment to long term sustainability. This obligation should also be reflected and reinforced in the HKEx Corporate Governance Code and Corporate Governance Report.
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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 views.

As above. We have a concern that the new disclosure could end up being boilerplate - consider whether additional guidance is suitable to encourage Boards to make this more meaningful and company-specific.

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.

Issuers should also be provided guidance and then required to disclose how they have applied and/or considered international sustainability reporting standards such as GRI, SASB, TCFD or Integrated Reporting in their ESG reporting.

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.

Materiality assessments are key to identifying the primary ESG issues impacting a company's development over the long term. We welcome companies engaging their stakeholders in the process, both at the initial selection stage and at periodic intervals to ensure that these issues remain relevant.

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.

We acknowledge that mandating disclosure of quantitative targets may prove counter-productive to the goal of having meaningful targets at this stage. However, directional statements of intent can only provide so much value and quantitative and comparable assessment of progress is necessary for genuine ESG research integration

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.

Issuers should be required to provide justification for the exclusion of specific entities or operations from the scope of their ESG report. The Exchange should monitor these boundaries to ensure that issuers are complying with the spirit of the reporting guide.

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.

We agree with the focus on climate change however we do not think that Aspect A4 reflects the urgency, impact and policy consensus of this issue. We recommend that the Exchange adopt the TCFD reporting framework.

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.

The Exchange should clarify its expectation that these targets be quantitative in nature (regardless of whether they are publicly disclosed). The Exchange should also consider providing a degree of standardisation around measurement to ensure future comparability and consistency.

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.

These proposals are in line with international standards and TCFD recommendations.

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.

Social KPIs are not less important and in some cases more important than Environmental KPIs for some issuers.

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.

Full and part time staff should be treated with equal standing. Of particular relevance for certain issuers are sub-contracted services where workers are categorised as "self-employed" yet only perform services for that 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.

Disclosure of the 3 year track record will help in the review of safety practices and highlight significant changes in this important KPI. For issuers in high personal risk industries, disclosure of injuries leading to in-patient hospitalisation should also be required.

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.

We agree with the focus on supply chain management but consider these KPIs insufficiently specific. We encourage specific disclosure of supplier audits - in terms of scope, frequency, outcomes (as they relate to the company's own supply chain KPIs) and remedial actions.

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.

Anti-corruption training is essential to create a healthy corporate culture and ethical best practices. Companies should disclose their anti-bribery and anti-corruption policies. This needs to link to the Corporate Governance Code.

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 agree this should be voluntary; but where sought and obtained, it can lend greater credibility to an issuer's ESG disclosure. Where issuers have not sought verification, some explanation of the processes they have undertaken to collect the relevant data may be helpful to strengthen overall credibility of ESG information disclosed.

- End -