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.

The current time-frame is indeed too long. However, whilst we agree that the time-frame needs to be shortened, it doesn't go far enough to ensure timely disclosure. ESG reporting shouldn't just be in timely fashion post annual report, but should ideally also be quarterly, provided alongside quarterly earnings, especially for larger companies. Bearing in mind that more rigorous disclosure can constitute a burden for entities with lesser resources, perhaps a graded reporting structure should be used, with quarterly reporting for larger entities, especially if considered systemically important, graduated down to a comply or explain approach for smaller ones. Per point 4. of the HKEX Executive summary and background to the proposed amendments "ESG risks present financial, operational and compliance risks to companies. That is, ESG is no longer merely a corporate social responsibility or a reputational issue. It affects businesses, and failure to manage these risks carefully may bring about real financial impacts on the company." The nature of ESG therefore should not be treated any differently to any other factors historically considered as financial/operational/compliance risks and, in line with TCFD, so that ESG factor impacts are quantified and incorporated into issuers' financial analyses ergo our proposal of the quarterly provision.
Provision of the ESG report at other times and as proposed, risks delay to stakeholders of imperative, timely ESG analysis and the prolonging of afore-mentioned risks to the company.
Provision of material reports at staggered times increases risk of potential for manipulation of reports and omissions of key data - submission of all analyses at the same time eases cross-referencing of data for stakeholders, enhancing transparency and lessens the potential for omissions, misrepresentations and helps to make better sense of the financial analysis in timely fashion.
The quarterly requirement also ensures industry consistency: 'within four months' drags out reporting to a third of the financial year with companies reporting for the same period at potentially considerably different times and so puts into question the timely comparability of data with industry peers.

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.

Proposal is reasonable and in line with procedure adopted by other key institutions e.g CFA Standards which allow provision of information in short-form, but require that clients/investors are directed to where the full version is retained.
By no longer providing printed form of ESG report to all clients, issuers are adopting environmentally friendly practices.

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.

Proposal lends itself to ensuring greater transparency, consistency, comparability of reporting, by including all material factors and should therefore ensure reports are fair, accurate and complete.

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.

We agree with the rationales set out in points 82-84. Proposals also contribute to overcome problems outlined in background point 26 - Current reporting level, especially ensuring that reporting isn't a 'box-ticking' approach. It increases transparency and ensures good governance. Without a strong 'G', the 'E' and 'S' can't be implemented well. Disclosure should also extend to: the makeup of the board, individual responsibilities, attendance record, potential conflicts of interest with any part of the issuer's supply-chain and procedures in place, including steps taken by the board in the event that the issuer doesn't meet goals and targets.

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.

Again, this proposal lends itself to greater transparency and good governance. Accountability needs to be at board level too.

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.

Ensures all material factors are disclosed and taken into consideration, that material omissions are not made and that there is a clear explanation of how assumptions and therefore reports, have been arrived at. This allows for greater transparency and comparability with industry peers.

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.

No: re board defining materiality and ergo criteria for selection of material ESG factors - this should be done by relevant industry regulator for consistency and prevent potential manipulation / misunderstanding, given per point 78. "Materiality - Some issuers have purportedly reported on a majority of the requirements/recommendations in the ESG Guide resulting in the report losing focus on critical issues. Others have reportedly identified Aspects that are material to them but omitted to explain how they arrived at that conclusion.
Quantitative - We note that not all of the issuers provide information on the standards, methodologies, assumptions and/or calculation tools used, or source of conversion factors used in respect of their emissions/energy consumption factors. Without this information, it is difficult for investors to assess and compare data, either on a year-onyear basis or amongst peer companies."

Whilst it can be argued that a board is usually qualified to oversee such, given, per the proposals in this report that board rigour is also being reviewed, and where conflicts may exist, it shouldn't be an initial recommendation that it is for the board to determine materiality.

"Materiality is the threshold at which ESG issues determined by the board are sufficiently important to investors and other stakeholders that they should be reported." "other stakeholders" would invariably include the rest of civil society who may not directly hold shares in a given company, but care none-the-less/are impacted by the actions of said company. It should therefore be for the regulator of any given industry to define what materiality means, with mandatory onus on the board to prove their compliance.

Materiality should extend beyond company level to any factor of systemic importance, therefore not appropriate for a board to determine.

Taking into account point 62a - reporting boundaries, "the issuer should consider which of its entities and operations should be included in the ESG report" can lend itself to subjectivity and can also allow for manipulation of what is considered an essential entity; less transparency on this if an entity is sitting within an SPV or convoluted ownership structure is at play.

Consideration also given to the fact that an element of green-washing still exists in the marketing of products and services. No room should therefore be given for the potential 'loop-holed' definitions of what constitutes material, by non-regulating bodies.

Yes: issuer stakeholder disclosure and stakeholder engagement

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 these proposals should be included to enhance transparency and express clearly how figures have been derived, making disclosures more qualitative/meaningful. Disclosures should be both qualitative and quantitative in nature - they go hand in hand.

<u>Reporting Boundary</u>

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.

Ensures no omissions and provides a historic guide of consistency going forward and cross-referencing with financial statements in the case of entitites no longer mentioned, if e.g divested from. Informs stakeholders of ESG impact of solely those entities considered material to an issuer's ESG reporting process, maintaining relevance and is essential in contextualising an entity's activities, impact and will act as a further check for investors, as to all relevant information having been disclosed elsewhere in reports. Otherwise institute comply or explain approach.

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.

In light of investors and stakeholders at large requiring information as to how business operations are impacting the climate, the need for meaningful and relevant KPIs are necessary. Again this allows for the required transparency and aligns itself with TCFD, but also extends to easier comparability. There should be a degree of guided expectations from industry regulators as to what these meaningful KPIs should be, to enhance comparability and ensure all necessary measures are captured. 10a is significant in allowing companies scope to present the measures they are individually taking towards mitigating climate impact risk and for those measures to be reviewed and used to perhaps create a more meaningful set of industry-wide procedures going forward; patterns should form of procedures that are reasonable and manageable for both small and large firms alike hence allowing room for meaningful understanding of measures taken but also of realistic expectation management in climate-mitigation efforts.

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.

Provides quantifiable measure of KPIs and their progress, in light of company operations and the physical risks they pose, therefore providing to all stakeholders, measurable and comparable measures of individual company efforts, allowing for a pragmatic assessment of ESG policy effectiveness and eventual asset values relative to their peers. The absence of targets makes measures less meaningful and also undermines the urgency of the climate crisis we face, risking a massive shortfall in efforts which, clearly and given empirical evidence, we cannot afford.
Targets are also essential in contextualising efforts per firm size and allows greater scrutiny of unattained targets and processes. A 2% reduction in e.g water wastage would look like 2 different actual amounts depending on whether the firm is large or small, therefore firms need individual targets that are meaningful, substantial enough and realistic to their size (perhaps therefore graduated target bands), to ensure they have meaning, otherwise investors risk viewing meaningless numbers over time.
As set out in rationale 101, we also believe that targets will lead to companies performing better over time, given ease of comparability and better risk management of their operations.
Whilst focus and implementation of GHG emission disclosures thus far focus solely on Scope 1 and Scope 2, Scope 3 should be included too so we are not at risk of underestimating the cost and risk of these significant emissions ensuring measurements and disclosures are truly complete.

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.

But should also include disclosure of Scope 3 emissions given these relate even more imperatively to a company's activities and we therefore see no viable reason for their omission from disclosures. Like Scope 2, they are indirect emissions from regular operational course of business, the fact Scope 3 is classified as 'other' shouldn't preclude them from being included, but on the contrary, given their substantial impact, should very much be included. They would also include impact of a company's supply chain and therefore enhances the responsibility of a company to ensure that all activities, internal and external, encourage good ESG practices, working closely with their supply chain to ensure all involved are guided to best practices, held to account if not and ensure no double-counting of disclosures. Accountability is key to tackling the climate crisis

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.

When considering ESG and whilst there is great focus on the 'E', the social factors and associated risks of a company's operations are also material to its reputation and profitability. These factors fall into the realm of ethics and whilst perhaps more difficult to quantify, one must start somewhere and there is need to ensure greater accountability and transparency of a company's social responsibility. Many stakeholders and especially millenials want to ensure that the services they use and products they buy, are not the result of communities or individuals having been disadvantaged. Companies also have a responsibility to ensure that all, and especially the more vulnerable communities within which they base their operations, are not worse off for their presence and that laws and regulations pertaining to e.g labour safety, working hours, pay, are upheld. A 'comply or explain' framework is indeed imperative.

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.

It could be argued that whether a company uses full or part-time contracts in the context of social KPI disclosures, isn't the most relevant detail as some communities and individuals for personal reasons may well prefer the flexibility of part-time vs full-time employment and one type of employment maybe more prevalent in some communities over others. However the report should go one step further to make this amendment more meaningful by also and more importantly disclosing:
- the lowest wage being currently paid to any part-time employee on an hourly basis, to make reporting more meaningful and contribute to better social and ethical practices.
- employee turnover to depict a picture of how well staff are considered and with an explanation of reasons behind turnover to substantiate a company's governance practices, if e.g a company is undertaking bad practices by consistently letting people go prior to the end of their probation period; in some cases turnover maybe due to seasonality in some industries

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.

We agree with the rationale presented in paragraph 118. The report would be disingenuous if it didn't include the cause of fatalities to ensure that any causal patterns are observed and swiftly remedied/eliminated through sound policies to ensure nonrecurrence and therefore work towards providing investors and stakeholders with key assurances of employee safety.

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.

Companies should indeed take responsibility for the well-being and integrity of their supply chain. The larger the company, the bigger this responsibility in ensuring that its supplychain is promoting positive ESG practices and by extention, sustainability. Where any part of the supply chain is failing on it's social and environmental obligations, the issuer would then have the opportunity to engage with its partners to remedy this.

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.

Important to understand how directors and staff are trained and that an issuer is embracing its responsibility to ensure, to the best of its ability that its associates are being adequately trained and directed to act in an ethical and non-corrupt capacity. Focus should also be on ensuring that training is reviewed regularly and updated if necessary to ensure capture of current anti-corruption regulations and that there is solid infrastructure at an issuing entity of how anti-corruption measures are implemented throught the firm, training aside, and how penalties are communicated and enforced if a director or staff member act in a corrupt capacity, how situations entailing corruption are handled.
Proposal should additionally seek to require disclosure of how whistleblowing of unsavoury situations or inappropriate staff members are handled and how whistleblowers are protected, to exactly ensure a healthy corporate and ethical culture within the firm.

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.

Third-party assurance should be a requirement. Not doing so allows for reporting loop-holes to be found and used, thus the potential for reporting manipulation exists, undermining a report's credibility. To maintain reporting credibility and assure its integrity, self-certified reporting shouldn't be allowed. Scope of the proposal revision should also include the nature and length of relationship between the issuer and third-party assurer.

- End -