



## Hong Kong Investment Funds Association

( company incorporated with limited liability 有限責任公司 )

Room 701, 7/F, Hong Kong House, 17-19 Wellington Street, Central, HK.

Tel: (852) 2537 9912 Fax: (852) 2877 8827, 2877 2368

Website: <http://www.hkifa.org.hk> E-mail: [hkifa@hkifa.org.hk](mailto:hkifa@hkifa.org.hk)

July 18, 2019

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

Dear Sir/Madam

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

On behalf of the Hong Kong Investment Funds Association (Appendix 1 for the backgrounder), I wish to express our strong support to the HKEX for introducing changes to the Environmental, Social and Governance (“ESG”) Reporting Guide and related Listing Rules.

We are in full support of the proposals outlined in the Proposal, in particular, we believe that there are two key proposals which will go a long way in enhancing the robustness and effectiveness of the regime, namely:

- the introduction of the Mandatory Disclosure Requirements requiring a Statement from the Board regarding the key elements (oversight, the process and review); and
- the amendment of the Reporting Principle on “Materiality” to make it clear that materiality of ESG issues is to be determined by the board...

By putting the onus on the Boards and putting them front and centre on this subject, the HKEX will make it clear that this is no longer a subject that can be just relegated to a department or a team. The tone has to be set at the top; and it is incumbent upon the Board and the Management to take a key role in ensuring that ESG considerations are fully integrated into the issuer’s strategic, risk management and operational framework. Also, the Board and Management should not just list out all the risks, which would not be meaningful. They should go through a thoughtful deliberation process to analyse the risks, to identify the key ones, and to come up with measures to manage and address them.

Investors would require disclosures to show that the Board and management have taken an active role in materiality assessment. And this would include inter alia, what process and criteria has the issuer adopted to identify, select and engage key stakeholder groups; what process has been undertaken to analyse and select material ESG factors, what are the reasons why certain factors have been selected and what are the implications of these factors to the business in terms of risks and opportunities, and what are the follow up action points.

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In addition, while the CP seems to focus on issuers that have already been listed, we believe that the relevant requirements should also apply to listing applicants. We understand that the reporting requirements pre-IPO and post are different; but we believe that the relevant ones should be embedded into the lifecycle since inception so that the listing applicants are fully geared up for this from day one.

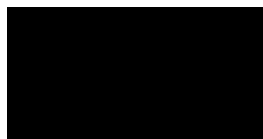
Meanwhile, we note that issuers indicate that the new requirements would pose challenges; as they may not have the requisite infrastructure and resources to meet these requirements readily. But we wish to point out that to attract managers/analysts coverage, these requirements are no longer "nice to have", but are part and parcel of the managers' analysis and review framework.

To support the issuers, we would exhort the Government to develop a comprehensive program on capacity building and to earmark a percentage of the Budget for this purpose – to provide training and embark on other initiatives to build capacity for different parties in the value chain, from asset owners and asset managers to issuers; and from NGOs to investors. And this would dovetail with the Government's strategy to develop Hong Kong as a Sustainable finance hub.

We would very much welcome the opportunity to engage in further discussions with the HKEX and the authorities to discuss how to take this cause further; and to lend support on capacity building and other related initiatives.

If you have any queries or need further information, please don't hesitate to contact me on 2537 9912 or [hkifa@hkifa.org.hk](mailto:hkifa@hkifa.org.hk).

Yours sincerely,



Sally Wong  
Chief Executive Officer

c.c. Mr. Chan Mo Po, Paul, GBM, GBS, MH, JP, Financial Secretary  
Mr. James Lau, Jr., JP, Secretary for Financial Services & the Treasury  
Mr Ashley Alder, JP, Chief Executive Officer, Securities and Futures Commission  
Ms Julia Leung, SBS, Deputy Chief Executive Officer and Executive Director  
(Intermediaries), Securities and Futures Commission

## 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.

From investors' perspective, the ESG report should be published at the same time as the financial statements as investors evaluate material ESG issues together with the information made available in the statements. The two are inter-related and should be read together rather than separately.

We understand that these requirements may pose challenges to issuers, especially SMEs, as some may not have the requisite resources and infrastructure.

However, as these information are no longer just "nice to have", but an integral part of the information that investors require to analyse the companies, the discussion should be what needs to be done to enable issuers to meet these requirements, i.e. "how" rather than "why".

To take this forward, we would advocate the Government to take a holistic approach by coming up with a comprehensive program, and allocate a percentage of the budget for ESG capacity building across the whole value chain - this would tie in with the government strategy to develop HK as a sustainable finance hub.

### 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.

Printed reports are not necessary. What is most important is that issuers can in a timely fashion inform investors the availability of the reports, which are readily downloadable; and searchable for key words and issues.

Also, this is in line with the "green" approach, and is a right move to reduce unnecessary usage of natural resources.

## 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.

<p>We are in full support, as more and more fund managers/asset owners integrate ESG into the investment process, this has become an integral part of the factors to be considered for making informed investment decisions.</p>
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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.

(1) This Statement is an important tool to improve corporate transparency and enables investors and other stakeholder groups to assess the involvement and engagement of the Board in this important subject. The Board's oversight is key to ensuring full integration of ESG consideration into the strategic planning, risk and operational management of the company.

(2) Apart from the Board's involvement and consideration of ESG issues, the role and involvement of the Management is equally important and should be stressed and included in the HKEX ESG Guide.

(3) It is important that measures should be put in place to ensure that this won't become a "boiler plate" text. There should be at least documentary evidence (e.g. Board minutes) to substantiate that the Board is not only involved, but has conducted a rigorous and thorough deliberation process. Ideally, the Statement from the Board should explain what are the key ESG issues that the Board has identified, how do they come up with these material issues, the process involved, the rationales, and the proposed action points to address these issues - for risk mitigation and for capitalising on opportunities.

Also, the HKEX may consider amending Appendix 14 (Governance Report) mandating disclosure of how SD is integrated into risk management and the Board's terms of reference.

For issuers that don't think they can single out 2-3 key ESG issues, they can come up with a longer list, but need to explain why they don't think they can identify the key ones.

For issuers that don't think that ESG issues are material to their businesses at all, they can provide a statement to that effect, and explain why they think so.

If the assessment for a year is different from previous ones, issuers should highlight the differences and the reasons for the differences.

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.

See answers provided for Q4. This is important to instill rigour into the issuer's deliberation process and to prevent this from being a "tick-the-box" exercise.

### 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.

Would be helpful if the HKEX can provide more guidance on how to adequately explain the application of the Reporting Principles. For instance, the application of international standards such as GRI and SASB

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.

We are in full support of this proposal.

Disclosures about stakeholder engagement and selection criteria of material ESG factors, which some see as an issue that should be addressed separately is important because it justifies issuers' focus on certain material ESG issues.

In addition, when evaluating materiality, issuers should take a long-term view, and also consider the impacts to external stakeholders and the ecosystem. It can help investors better assess the systemic and longer-term risks that would arise from these impacts.

HKEX may consider including wordings such as the International Accounting Standards Board's definition of "material" information which could, if omitted or mistated, influence the economic decisions of readers relying on the financial statements.



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.

In general, targets should be quantitative to be meaningful to facilitate measurement and comparability, which remains a challenge.

Although HKEX has tied disclosure requirements to a number of international guidelines as a reference for issuers, it is still up to individual companies to decide how they calculate KPIs and which method they use. Some believe that the HKEX should go further by setting specific methodologies for measuring emissions/energy consumption (at a minimum) so that companies use the same method. Ultimately, investors use this information to make informed investment decisions; and lack of comparability across firms is one of the greatest barriers to the use of ESG information in investment decision making today.

We are mindful that there maybe issues that do not lend themselves to quantification. For such cases, a comply-or-explain approach can be adopted, i.e. issuers should explain their targets with quantative descriptions, but are allowed to fall back on directional statement if they can explain why.

#### 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.

In general, members opine that it is important for issuers to be specific about the reporting boundary and explain how the included entities and operations are impacted by different ESG issues. Some believe that the HKEX should go further by setting minimum boundaries for inclusion, such as a percentage of assets or turnover.

A full list maybe too lengthy and not necessarily helpful. An exclusion list (above a certain threshold of assets or turnover) will be useful for due diligence purposes and can enhance transparency. This list will show those which have NOT been included in the report and the reason for non-inclusion.

## 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 are in full support of the introduction of a New Aspect of Climate Change and encourage issuers to review and assess the impact of risks that arise from Climate change.

Climate-related issues (e.g. exposure to physical and regulatory impacts) have becoming increasingly relevant for all businesses; and it should be a standing item to be reported on. If the risks are identified as material, issuers should explain them in greater details, especially how they would affect the businesses and the action plans to address them (not just a statement of intent). Re what constitutes "significant", issuers should describe how they define such.

In addition, not only should issuers provide a description of significant climate-related issues, they should also provide historical data of total consumption over the last 3-5 years as a quantitative indicator.

It would be helpful if there are quantifiable requirements that indicate that issuers are doing something in relation to the COP guidelines.

Having said that, we are aware that climate-related issues are likely to be more material to some businesses rather than others. If, after assessment, issuers believe that the impacts are immaterial, they should have the discretion to say so.

But in any events, issuers should explain how they come up with such a decision, what is the process that they have gone through and the reasons underpinning the decisions. Also, it is important to demonstrate that issuers consider long term strategies and disclose transition plans and specific action measures.

TCFD Recommendations have been widely adopted and can serve as a useful framework for issuers to take reference.

## 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.

Investors generally opine that it is pertinent to have quantifiable targets and that there should be action plans that detail specific measures. In addition, companies should consider the impacts of different external contextual factors, including regulations and climate change, when setting targets.

Examples on targets that have been proposed for disclosures: water withdrew and water recycling.

An example of water withdrew would be from water bills: there should be clear records of water bills, which make collection of withdrawal data easy to gather.

Water recycling is less obvious in data collection. However, managers would wish to have recycling rate, even partial ones, so that they can gauge the level of management oversight and environmental strategy.

## 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.

In general, managers believe that disclosure of such data would be useful as they can provide a more accurate risk exposure profile, which can facilitate better risk assessment. They believe that the reporting should start sooner rather than later; as it takes time for the reported data to stabilize. Also, some have suggested that issuers should disclose projections on CHG emissions.

It is noted that not all companies will have Scope 1 emissions from operations due to the nature of their businesses, but all should have Scope 2 emissions which are indirect emissions resulted from purchasing electricity, heating, cooling and steam. For certain industries, Scope 3 is highly significant, and should be included, for example worked related travels.

We appreciate that for some issuers, they do not believe that emissions are material to their businesses. For such companies, they should not be obliged to provide the KPIs as long as they can justify why they do not believe that emissions are material.

## **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.

Full suport. HKEX should also consider increasing disclosure requirements around D&I to be in line with international best practices, e.g. gender gap pay disclosures.

## 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.

The HKEX should encourage issuers to cover in its Disclosure Statement the issue of subcontracted services and workers categorized as "self-employed" yet working only for the reporting company.

### 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.

This KPI is considered best practices in many jurisdictions, although the reporting is only likely to be material for certain high-risk industries.

Reporting of supply chain management standards (see Q16 below) should also require information on workplace fatalities and injuries (e.g. those that involve in-patient hospitalisation) for high-risk industries; as well as actions taken to reduce these risks.

## 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.

Management of supply chain is a good proxy for the quality of risk management. Thus, it is useful to introduce this piece of information.

Reporting should include a definition of environmentally preferable products and services, and the percentage of such products being used.

Disclosures should also show that issuers have considered the impacts of external contextual factors, including regulations and climate change impacts on the supply chain, and what actions are being taken to address relevant supply chain risks.

And there also needs to be disclosures on social impacts, such as any displacement on housing due to building of warehouse for example (and justified/fair compensation) . Quality control on employment of individuals and safety controls throughout the supply chain workflow (e.g. factory conditions, transportation hours, etc.)

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.



The training should ideally be carried out by third parties, and should be of recognised standards.

There probably should be disclosures of frequency and details of internal audits.

More importantly, there should be disclosure of policies on Bribery and Corruption.

## 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.

Theoretically, assurance would be helpful so as to ensure that material ESG information is accurate and reliable.

But the issue is that currently, the quality of assurance varies and it is questionable to what extent can one rely on the outputs.

Maybe the HKEX can highlight the importance of assurance, but there should not be a requirement to prescribe that this should be external - as long as it is conducted independently and there is robust, internal assessment should suffice, e.g. having the board audit committee to have oversight.

Also, the GL should encourage the adoption of internationally accepted standards such as ISAE3000 and AA1000.

End -