

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.

Yes we agree with the shortening of the reporting period because this will encourage an ‘integrated reporting’ frame of mind. That is, the senior management team that is working on what to report to investors in the annual report should be thinking about these material, non-financial ESG issues at the very same time, and as an integrated aspect of performance (both financial and non-financial issues considered together).

Once listed companies have established their ESG reporting framework it should be a case of updating issues in respect of material risk. As the approach to ESG reporting is based on materiality determined by the board, the board should have already ensured a robust framework to ensure the timeliness of information in order for directors to be able to discharge their own fiduciary duty.

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.

We support the amendment to clarify that issuers are not required to provide a printed version of the ESG report. While we're in favour of printable PDFs (not printed reports), our preference is for issuers to disclose ESG information on a dynamic, easy-to-navigate, and fully interactive website. Many investors tell us that they simply cannot find an issuer's disclosures and critical information. This approach also allows issuers to update information as and when required in a more cost-effective manner.

We recently conducted a study on elements contributing towards effective on-line communications, and the results showed that 48% of the top 50 Heng Seng Index Companies have insufficient or no ESG information at all.

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.

We agree with the proposal to introduce mandatory disclosure requirements. Based on our observations a number of companies have market leading disclosure practices, but a majority do not. The change to mandatory disclosure will ensure that ESG risks are, hopefully discussed at board level.

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 mandated disclosure of the board’s oversight of ESG issues. Given that the requirement relates only to material issues, they should have already be discussed by the board. The requirement should simply involve disclosure of what is already occurring. If such material issues do not receive adequate oversight by the board the requirement may encourage better practices by boards.

Evidence that the board has considered and vetted ESG risks and been involved in ESG reporting is a huge positive for a company’s reputation with investors. Furthermore, the board should know that publishing an honest and open discussion of material risks and opportunities helps inform investors that the company and its board are serious about risk management and know where to focus their time. Writing more about sensitive or difficult issues can be a plus rather than a minus.

Our observations to date are that a significant number of ESG reports are perfunctory in nature and fail to satisfy investors that ESG is strategic issue related to risk management. There does tend to be a focus in many reports on philanthropy which is not what ESG risk management is about.

Issuers who do manage their ESG risks well will have no problems with respect to disclosing the governance structures around ESG risk management.

From an investment perceptive materiality assessment is key to quality and useful disclosure and can provide insights as to board quality. Not only should a discussion on materiality be disclosed, we also recommend the discussion also include a requirement to describe how ESG risk management is incorporated into overall long-term strategy. Such an approach should encourage issuers to see ESG risk management as strategic issues as opposed to being considered a compliance issue. Monitoring of how material ESG risk is managed is essential to long term sustainable performance of issuers. Boards should already be receiving such information. We support the requirement for more transparency related to goals and targets. This will also allow investors to make peer comparisons when making investment decisions.

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 stated above we believe it is of utmost importance for the board statement to combine discussion around ESG management, long-term strategy, priorities and goals/targets including discussion relating to the issuers business, purpose and values. Without such an approach to disclosures will continue to be perfunctory in nature and divorced from corporate strategy. We would like to see more guidance around how the board statement could be made more meaningful and avoid perfunctory disclosures that provide minimal information for investors.

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.

Yes we support this proposal as it will provide users of the ESG report an understanding of the processes used by the board.
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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.

Yes. Materiality must be determined by management and the board. Management and the board have access to the information to be able to determine what is material in terms of ESG risk. It is important for investors and other stakeholders to understand the criteria for selection and process used to determine material ESG risks. We would also like to see further guidance provided with respect to the use of international reporting standards. The consultation paper refers to the Global Reporting Initiative (GRI) and TCFD. Other useful global initiatives are the Sustainability Accounting Standards Board (SASB) (particularly helpful for materiality tests) and Integrated Reporting. These initiatives can provide a helpful framework for directors, senior executives and divisional heads to discuss the most significant sustainability challenges facing a company.

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 we support the proposal to amend the Reporting Principle to quantitative. Often for material ESG risks quantitative measures indicate how well the risk is being managed and enables comparisons to be made with peer companies. Directional statements can also be informative.

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.

Yes disclosure must be made regarding the issuer’s reporting boundaries as it is important for investors and other users of the ESG report to understand what has been excluded and why.

We suggest the following be included in MDR:

1. The number of entities in the group excluded
2. Information as to the significance of the excluded entities including the following information on excluded entities:
 - a. Sales as a percentage of total group sales
 - b. Assets as a percentage of total group assets
 - c. A statement as to significance of operations

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 support a move to a requirement to adopt the TCFD framework but accept the implementation of this framework takes time. The first aspect of TCFD is the governance of the risk of climate change. As a first step we suggest that in addition to requiring disclosure of targets the board should be required to report its view on exposure to climate change risk and the governance of that risk ie which board committee has oversight of climate change risk if considered material by the board. We believe that for companies which have assessed climate change as a material risk reporting in line with the TCFD framework should be a requirement within three years to ensure consistency with other international markets.

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.

<p>We are cautiously supportive of this approach. Our concern is that issuers will only report on KPI's in Chapter 13 and not others that may provide more useful and comparative information to users of the report, including investors.</p>
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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.

We are supportive of a requirement to disclose both Scope 1 and Scope 2 emissions.

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.

We are supportive of the upgrading of disclosures of social KPI’s to “comply or explain” however, as for environmental risk exposure a materiality test should be applied.

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.

We agree this additional disclosure is useful for investors and other stakeholders in providing a better understanding of the makeup of the work force and changes over time. We also believe that issuers should be required to disclose how they use contractors.

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 support more transparency around disclosure of fatalities, but this must also include fatalities relating to contractors and not just employees. To exclude contractor fatalities may paint a misleading picture for users of the ESG report. In fact, we believe all safety statistics should be required to include contractors. There should also be disclosure of what the issuer does to ensure that contractors operate within the safety parameters set by the issuer.

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.

Yes, we are supportive of this enhanced approach to disclosure of supply chain risks. Specifically in regard to social risks, we would like to see Hong Kong join other countries by introducing legislation to include reporting on Modern Slavery in the supply chain, such as in the UK, France and more recently Australia.

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.

Yes we are supportive of this approach as by just having a policy does not demonstrate that it has been communicated throughout the organisation.

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.

Yes we do support this approach but we do feel that the board itself should drive such independent assurance. The board should not simply rely on information from management regarding the management of material risks and seek where it deems appropriate independent assurance relating to data in the same way as an external audit provides independent assurance for shareholders on the financial statements

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