



羅兵咸永道

Dear Sirs

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

PricewaterhouseCoopers welcomes the opportunity to respond to this consultation.

We commend the Stock Exchange of Hong Kong Limited on its efforts and are generally supportive of the consultation. As business advisors and auditors to many leading companies, we support initiatives to drive improved corporate reporting. We have invested in well over a decade of research into the information needs of preparers and investors, which clearly shows an increasing demand for greater transparency on how companies are addressing sustainability matters, including environmental, social and governance (“ESG”) factors and climate-related risks and opportunities.

While regulation alone is unlikely to precipitate fundamental improvements in reporting, commitment and challenge by stakeholders will be needed to bring real improvement. We believe that regulation has a key role to play in establishing the key principles of good quality reporting.

We consider the proposals in the consultation paper will be helpful in achieving stronger ESG reporting across Hong Kong listed companies, and responding to growing demand from investors. These requirements will also help to further align Hong Kong market practices with global trends such as green finance, and solidifying Hong Kong’s position as an international financial market.

We have provided our comments and responses with regards to the proposals in the attachment. If you would like to discuss any matters further, please do not hesitate to contact Sammie Leung at [REDACTED] or via email: [REDACTED].

Yours faithfully,

[REDACTED]

Enclosure

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.

We generally agree with the proposal, as investors rely on both financial and ESG information to make informed decisions. However, with the other changes proposed in the consultation paper, such as upgrading the disclosure obligation of the Social KPIs and the analysis of climate-related risks, mandating a shortened ESG reporting timeframe in 2020 could impose excessive pressure for some issuers. We suggest to give issuers an option to publish their ESG information three months after their Annual Report with a comply or explain approach, or, to allow a later implementation date of this change, say in 2021.

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 agree with the proposal, as it allows flexibility on the format of the ESG report.

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, as it emphasises the significance of ESG disclosure.

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 proposal, as it provides stronger transparency on the Board's involvement in overseeing ESG-related issues.

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.

We agree with the proposal, as it facilitates a meaningful involvement of the Board in driving business-integrated ESG performance.

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.

We agree with the proposal, as reporting principles such as materiality and quantitative are crucial to the quality of ESG information.

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 agree with this proposal, in particular, an explanation of the rationale of selection of materials issues is key.

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.

<p>(a) We agree with the proposal, as disclosure of standards and methodologies would allow greater transparency for assessing the quality of the ESG report.</p> <p>(b) We generally agree with proposal, as KPI targets could be expressed in directional statement or quantitative descriptions (with reasons explained in paragraphs 89 and 91 of the consultation paper) .</p>

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.

<p>We agree with the proposal, as it provides transparency over the coverage of the ESG information.</p>
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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 proposal, as climate-related issues are important to many investors. Also, it is in line with global leading practices such as the TCFD recommendations.

It may be helpful to provide clarity on how the climate-related issues should be disclosed. For instance, the timeframe of the analysis, and nature of climate-related issues (e.g. transition risks such as innovation or policy change) are expected.

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.

We agree with the proposal, it may be helpful to clarify that consistent with paragraphs 89 and 91 of the Consultation Paper targets may be expressed by way of directional statements or quantitative descriptions.

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 agree with this proposal, as it would improve transparency. Also, it is in line with global leading practices.

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 agree with this proposal, as it would improve transparency. Also, it is in line with global leading practices.

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 with this proposal, as it would improve transparency.

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 this proposal, as it would improve transparency. Also, it is in line with global leading practices.

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 this proposal, as it would improve transparency and also in line with global leading practices.

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.

We agree with this proposal, as it would improve transparency and also in line with global leading practices.

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 with the proposal, as external assurance can help improve the credibility of information and readers' confidence in the ESG information.

We observed a mix of independent "assurance" and "verification" in ESG reports published by issuers and the market needs clarity on their differences.

We observed some assurance reports of ESG information were prepared "based on", "with reference to" or "against the criteria of" internationally recognised auditing standards, such as ISAE 3000 (Revised), and the assurance reports did not state which independence, ethical and quality control frameworks were complied with when performing the assurance work. Also, there were assurance reports prepared by non-accountants who are outside the existing monitoring regime of the local professional regulatory body. We believe such practices create confusion to the market.

In addition to the specific scope (such as data sets), the level (limited assurance or reasonable assurance) of assurance and the assurance process applied, we also suggest that the auditing standards adopted and the relevant auditing qualifications of the assurance provider should be clearly disclosed in the assurance report of ESG information.

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