

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 agree with the amendment of timeline so that investors can get more timely releases of ESG information, as long as the quality of the report and data are not compromised. As such, we would suggest HKEX to provide more support in forms of capacity building to the listed companies to facilitate a smoother transition.

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 form of ESG reports are not necessary for our analysis, and the proposed amendment can also reduce paper consumption, which is good for the environment.

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.

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 support this MDR because it would help improve the board involvement on ESG strategy planning, which is essential for companies to move from "Compliance-driven" to "Strategy-driven" on ESG matters.

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.

Same response as Q4.

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.

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.

In addition, we think the discussion of materiality of issues should also make it clear on what time period the board believes the given issue is or could be material (For example, an issue that is not material under 3 year time horizon, could be very material in 10+ year time horizon). We suggest HKEX to ask companies to indicate how these material factors could impact the business, i.e. which driver of value, with scenarios and quantification if possible.

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.

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 addition, we recommend HKEX to encourage companies to ideally report across their entire business/operations (e.g. not just for HK, not just for head office, etc).

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 this proposal because we think climate change is a long-term issue that will affect the businesses across different industries. The mandatory disclosure of this Aspect would encourage the board and management of companies to consider the climate-related risks. As an investor, we are looking into building the company's climate change exposure into our valuation and investment strategies, so the new Aspect would be helpful.

In addition, we encourage HKEX to make reference to the TCFD framework as the best practice disclosure framework for Aspect A4 and encourage companies to report in line with it.

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 think HKEX could also require a "time-bound" environmental targets, which makes the disclosure more meaningful for investors.

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.

HKEX should also encourage companies to report on Scope 3 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.

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.

In addition, we recommend there should be a employment types called "Contractors" so investors can better assess the supply chain-related risks of the issuers.

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.

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.

While we have no objection for HKEx to introduce these KPIs, we think these KPIs could be further enhanced by disclosing more than just supply chain related practices. For example, the below additional KPIs would be helpful for investor to better assess the risks in the supply chain:

- Disclose the proportion of suppliers certified to any relevant sustainability standard;
- Describe escalation and remediation process when environmental or human rights violations are identified in the supply chain, and the frequency of non-compliance identified in most recent year

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.

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.

In our experience, many investors in Asia remain very skeptical about the accuracy and truth of Asian companies' ESG disclosures. We think assurance would help strengthen the credibility of disclosure, especially the other proposals in the Consultation Paper will significantly increase the volume of disclosure.

- End -