

## 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.

Bringing ESG reporting timeframes in line with a listed company's Annual Report filing timeframe will ensure the ESG-related information is timely and can be used alongside the financial information to make relevant and timely decisions. It is important to reinforce the need to integrate ESG considerations into core business activities and risk management. The reporting of ESG-related strategies, material risks and metrics would ideally be integrated with the issuer's ordinary business reporting, so clearly linking these and bringing the two timeframes in line is welcome.

### 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.

Communication of the ESG report, and any ESG related information, to shareholders is vital. We encourage issuers to do this proactively, regardless of the channel or medium of dissemination. Electronic filing, where text and information are searchable, is preferred for ease of analysis, record-keeping and storage.

## 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 are supportive of greater Board oversight and better disclosure of material ESG issues and how these are managed. In particular we are supportive of disclosure aligned with the Taskforce on Climate-related Financial Disclosure (TCFD).

### 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.

As a general principle, we believe a strong governance structure is important for the issuer's identification, evaluation and management of its ESG issues. This requires clear leadership, ownership and tone from the top - i.e. the Board.

(a) We believe that material ESG issues play a central and critical role to an issuer's short, medium and long-term performance. Given the Board's responsibilities include, but are not limited to (per Hong Kong Stock Exchange's Corporate Governance Code Appendix 14):

(i) leading, directing and supervising the issuer's affairs to enable the long term success of the issuer (Principle A.1)

(ii) setting strategic objectives with appropriate focus on value creation and risk management (Principle C.2)

We therefore expect the Board to have oversight of ESG issues that are material to the business, and provide relevant disclosures to confirm this is the case.

The Board should also disclose if they do NOT currently have oversight of any material ESG issues, explaining why not (e.g. delegated and rationale for doing so; Board members require more training to effectively oversee ESG issues; etc), and any remedial steps they plan to take.

(b) The process used to identify, evaluate and manage material ESG issues should be logical, reasonable and consistent. We agree this should be transparently communicated to allow for scrutiny. Increasing transparency of the process also allows for comparison against industry standards, alignment of expectations between issuers and investors, and demonstrate consistency over time, and promote progression.

It is important that the issuer is able to articulate clearly WHY an ESG issue is material to the business, its associated risks and how these are being managed.

We encourage issuers to reference and make use of international standards and guidelines in identifying material issues.

(c) We believe that the Board's review of progress made against ESG-related goals and targets is an inherent part of its oversight of material ESG issues and its responsibilities outlined in (a) above. We recognise that not all issuers will have goals and targets related to their material ESG topics, however we would encourage Boards to commit to goals and targets that are specific, measureable, ambitious and time-bound – and review these regularly to help them measure and manage their material ESG issues over time.

The Board should also disclose if they do NOT currently have goals/targets relating to material ESG issues, and/or if they do NOT have a process to review progress made against any ESG-related goals/targets. They should also explain why not, and any remedial steps they plan to take.

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.

The proposed note can help clarify HKEx's expectations of the Board statement with respect to the issuer's current ESG management approach, strategy, priorities and goals/targets, and their relations to the issuer's businesses.

We would also like to propose that HKEx includes guidance on what is expected of issuers when preparing the Board statement, and notes/FAQs to help issuers prepare the Board statement.

Whilst the Board statement may be high-level in nature, issuers should ensure that they provide sufficient details in the body text of the ESG report.

### 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.

Currently there are no requirements to demonstrate that the 4 Reporting Principles have been satisfied. An introduction of an MDR would ensure these are satisfied and communicated to users of the ESG report, and help investors better understand how the issuer is managing ESG issues.

Apart from Materiality and Quantitative, issuers should also disclose how they have applied the Balance and Consistency principles, where possible.

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 that material ESG issues should be determined by the Board. While we recognise that the Board may also be supported by executive management and any delegated ESG committees or working groups, it has the ultimate responsibility and accountability in determining and signing off on the entity's material ESG issues. This should be clearly articulated in the disclosures.

We encourage issuers to follow best-practice in stakeholder engagement. Issuers may consider using internationally recognised standards.

Finally, we also agree that issuers should be required to disclose the process for the selection of material ESG factors, including but not limited to a description of the process and results of the issuer's 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.

We agree that the disclosure of information relating to the standards, methodologies, calculation tools, and conversion factors used will allow for closer scrutiny of the issuer’s ESG report against peers and industry best practices. It will also enable investors and other users to compare the issuer’s report against prior years and against peers more easily.

Key performance indicators (KPIs) should be measurable and be as closely linked to the material ESG issues as possible. When setting targets, whether quantitative or qualitative, we expect issuers to be specific, measurable, ambitious and time-bound. Although directional statements can be a good starting point to help issuers frame their thinking and align with their medium to long-term strategy, we would expect to see specific and ambitious targets beyond generic, open-ended statements. Issuers should regularly review their targets against industry peers as well as international standards (e.g. science-based targets for greenhouse gas emissions) to ensure they remain meaningful and relevant.

### 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.

We agree that it is important for investors to clearly understand the scope of the ESG report. Issuers should disclose the process used to identify specific entities or operations that are included in the ESG report, and the criteria for any inclusions and exclusions (e.g. assets acquired/disposed of during the year).

## 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.

Whilst we agree the introduction of climate-related issues to issuers is a move in the right direction, we believe that the language used in this Aspect could be more aligned with existing, internationally-recognised standards such as TCFD, which is already supported by HKEx, the SFC and HKMA. Issuers should consider climate-related risks (both physical risks and transitional risks), opportunities and their financial impacts, as described in the TCFD recommendations.

We appreciate that different issuers will have different levels of readiness in its assessment of climate-related issues, and have different levels of disclosures. We would encourage HKEx to provide issuers with guidance and/ or design a pilot for companies to improve understanding of TCFD recommendations.

### 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 note HKEx's proposed amendments of KPIs A1.5, A1.6, A2.3 and A2.4, replacing the issuer's description of initiatives and results achieved for the various environmental issues, with a description of targets set and steps taken to achieve them.

We agree that the amendments could encourage issuers to be more proactive in managing the risks associated with these environmental issues, since quantitative targets are more specific and focussed than initiatives. We believe that specific targets, linked to material ESG issues, will provide a focus for issuers, and drive them to progress. We agree with the HKEX's rationale that specific targets would "drive issuers to scrutinise and refine their strategies and systems".

## 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 the proposal for issuers to disclose Scope 1 and 2 emissions, and would encourage issuers to consider providing a qualitative description and where appropriate quantitative disclosure of material Scope 3 emissions as specified by the GHG Protocol. If the GHG Protocol is not used, additional details of e.g. data collection methodology, any assumptions, and the conversion factors used should be disclosed.

## **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 that disclosure of KPIs linked to material social issues is appropriate. We would suggest reference to ILO core standards and the UN Guiding Principles on Business and Human Rights.

## 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 the split between full and part time staff. Issuers should also disclose the boundaries, i.e. who is included and excluded from the reported figures, and the rationale.

This KPI should go further and include contractors, who are particularly important for sectors such as property construction, infrastructure, and industrials.

### 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 this amendment as it provides a picture of the issuers’ track record. Again, we would recommend that direct employees and contractors are included in the scope.

## 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.

Supply chain management is important for any business. Any ESG risks that may have a material impact on the issuers' operations and performance should be identified as part of their ordinary risk assessment processes and risk management strategies.

## 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 that bribery and corruption are material risks for any business and support disclosures of the anti-corruption training.

## 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 HKEX that independent assurance strengthens the credibility and reliability of the ESG information disclosed. We expect issuers to report accurate ESG information, as they would for financial information. This can include internal review/audit and sign off, as well as independent assurance. Independent assurance should be considered by the Board – for some companies it will be more important than for others. We would also support the disclosure of the scope etc of any assurance.

However, we are also aware that external independent assurance could be too burdensome for companies that have limited resources, especially mid/small caps, and as a result, increase the likelihood that they see ESG as a tick box exercise.

End -