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Our Ref: SN/04

19 July 2019

Mr Charles Li Xiaojia
Chief Executive Officer
Hong Kong Exchanges and Clearing Limited
8/F, Two Exchange Square,
8 Connaught Place, Central,
Hong Kong

Dear Mr. Li,

Re: Consultation Paper on the Review of the Environmental, Social and Governance (ESG) Reporting Guide and Related Listing Rules

The Hong Kong General Chamber of Commerce is pleased to present our views in response to the consultation document of the Hong Kong Exchanges and Clearing Limited ("HKEx") on the Review of the ESG Reporting Guide and Related Listing Rules (the "CP").

The increasing prominence that the investing public attaches to corporate social responsibility is an important consideration that companies must take into account of and, in this regard, we welcome the HKEx's efforts to improve the standards and quality of ESG reporting through this consultation exercise. We also believe that to encourage wider adoption such enhancements should be supplemented by further investments in education and training to promote better understanding of the intentions behind and benefits of ESG reporting.

We hope you will give our comments your due consideration.

Yours sincerely,

[redacted]

Encl.

HKEX Consultation Paper May 2019 *Review of the Environmental, Social and Governance (ESG) Reporting Guide and Related Listing Rules* (the "CP")
<u>Response by the Hong Kong General Chamber of Commerce ("HKGCC")</u>

1. HKGCC welcomes this opportunity to respond to the CP.

2. HKGCC supports the concept that investors should be given as much relevant information as possible to make informed investment decisions. We also recognise that there is a growing acceptance that directors' duties towards the company go beyond short-term maximisation of profits, that it is increasingly important for companies to be seen to be contributing to society in a wider sense, and that investors are taking these contributions into account in making their investment decisions. In this context, ESG reporting has a useful role to play in informing investors' decisions. The key questions raised in the CP are whether there is currently sufficient ESG reporting in Hong Kong, and if not, how to improve ESG reporting. The CP explains why ESG reporting in Hong Kong currently is insufficient, and needs to be improved. For the purpose of this response, we assume that this view is correct. In this paper we therefore focus on how ESG reporting can be improved.

3. We have received strong feedback from our members that the key to achieving higher ESG reporting levels is through education and training, rather than simply increasing regulation - bearing in mind that ESG reporting is still a relatively new concept in Hong Kong. Such education and training is particularly important for SMEs which may be contemplating being listed and be unfamiliar with the ESG requirements, as well as newly-listed companies. HKEx could provide a very valuable role in taking in the lead in such education and training efforts.

4. We would suggest that these efforts should include a focus on (a) why, as a matter of public policy, ESG is considered beneficial as the notion of and awareness on responsible investing becomes increasingly widespread. We suspect that one of the reasons for the "box-ticking" approach amongst some companies that the CP has noted is that they do not fully understand what public policy objective ESG is intended to achieve. Explaining (or re-explaining) the basic policy objective of

ESG reporting would therefore help achieve "buy-in" from the companies concerned; (b) why ESG reporting is not just a matter of compliance (i.e. a burden) but can provide a strategic benefit in the marketplace. Again, a failure to understand the potential strategic advantage in ESG reporting may explain the "box-ticking" approach; and (c) how to produce compliant ESG reports in the most cost-efficient and least burdensome way.

5. Another route for achieving greater ESG reporting is through investors taking the lead in seeking ESG information, rather than merely imposing an obligation on companies to provide it. The Securities and Future Commission's *Principles of Responsible Ownership* state: "Investors should encourage their investee companies to have [ESG policies] and engage with investee companies on significant ESG issues that have the potential to impact on the companies' goodwill, reputation and performance".[1] By focusing on what information investors actually need, rather than making assumptions about what they need, this is a potentially very efficient route to achieving greater ESG reporting than prescribing mandatory ESG reporting obligations. We believe there is scope for joint outreach efforts by HKEx and institutional investors to explain why ESG reporting is important to investors.

6. As an economy which has thrived on its reputation for light-touch regulation, HKEx should consider first whether the objective of increasing ESG reporting can be achieved through the education, training and outreach efforts outlined above, as opposed to making the existing rules more stringent. However, to the extent that the above efforts are insufficient to achieve greater ESG reporting, we agree that increased regulation needs to be considered as an option to achieving this objective.

7. HKGCC believes that two principles should be borne in mind in amending the existing legislation: (a) the regulatory requirement should be the least onerous means of achieving the objective, and (b) equivalent regulations in other

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[1] At p 3.

jurisdictions can be used for reference (albeit not decisive as to what is appropriate for Hong Kong).

8. Assuming these principles are observed, the general feedback we have received from our Members is that most of the CP's proposals, namely those outlined in questions 3 to 13 inclusive, would be acceptable. However, in response to question 1, we believe that the proposed shortening of the time to produce the ESG reports is premature, given that many companies are still coming to grips with ESG reporting, and the production of annual reports is already a time-consuming and resource-intensive task. Similarly, in response to question 2, we do not see any need for companies to be required to notify shareholders of the publication of the ESG report, and this is unduly onerous: interested shareholders can simply check the company's or HKEx's website.

9. For the proposals set out in questions 14 to 17 inclusive, these could pose a challenge especially for smaller issuers, which may take some time to adjust to the new standards. We believe that these requirements are manageable although we would suggest that a grace period be provided to enable conformity. With respect to question 18, we agree that in the absence of a universal standard companies should be given the discretion of deciding whether or not to seek independent assurance for their ESG reports.

HKGCC Secretariat
19 July 2019