

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 are supportive of this proposal.

ESG issues can have both a short and long term material impact on a business, which can affect investors and their shareholder voting decisions. Aligning the release of the Annual and ESG reports improves the timeliness and value of the ESG data being produced. It also reinforces the importance that Boards and shareholders consider ESG factors as part of their overall operational analysis.

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. This meets the information disclosure needs of shareholders while reducing the overall costs, both financial and environmental, from printing out physical copies.

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 the shift towards mandatory disclosure of information that outlines how an issuers' Board is identifying and managing ESG risks. It represents an important step towards greater transparency and a recognition of the seriousness of ESG risks for issuers.

Mandatory disclosure requirements also improve the consistency of data by ensuring investors can compare submissions from a useful cross section of firms. This helps in their interpretation of results and analysis.

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.

Yes, we agree. Board accountability for ESG risks will be integral to ensuring that issuers properly identify and manage ESG risks.

Another question that could be added is whether companies link Board/Senior Executive compensation to non-financial targets and performance. This can help provide an incentive for decision makers to effectively account for ESG risk.

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.

Yes. This provides important context as to how an issuers' Board approaches ESG issues and how they plan to mitigate associated risks.

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.

This will help the data quality and enhance the consistency in the reporting style adopted.

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, we agree with this proposal.

In its requirement we would encourage HKEX to ensure that issuers include information on the base factors that are material to the business. Providing this guidance to the issuers would help standardise disclosure in alignment with other jurisdictions who already have this requirement. This would help make data more comparable for investors and thus make it more relevant and useful.

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 agree. As a global financial market data company we know one of the issues of utmost importance to our customers is the ability to compare data across multiple jurisdictions. Investors rely on quantitative data points as the basis of their analysis.

By requiring the information outlined in 8a, HKEX is helping to ensure that investors have the information they need to effectively compare data from different sources. This helps identify the issuers that are following best practice and encourages those who aren't to pursue standardized methodologies in collecting the required information.

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, we agree. This will provide investors with a better understanding of the scope of the ESG report and would follow best practice for ESG disclosure globally.

We believe HKEX should also consider requesting more detail regarding reporting boundaries for the measures in scope. For example, they could include measurements related to coverage percentage (global or regional) so that investors can determine the depth of data based on employees, revenue and production units.

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.

Yes, we agree.

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.

Yes, we agree. This information is important as many investors are interested to know how efficiently the company is using resources and attempting to reduce their environmental impact in comparison with the reported KPIs of their peers.

We would encourage HKEX to go further and require issuers include specific targets for what time period companies are setting as objectives and whether they are science based. This would align Hong Kong with E.U legislation and global trends in this space.

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.

Yes, we agree.

HKEX should consider adding a requirement regarding Scope 3 emissions where relevant. This would bring it in line with the E.U and the direction other jurisdictions are moving regarding ESG disclosure.

We would also ask that HKEX emphasize the importance of the completeness of the data being provided on Scope 1 and Scope 2 emissions. For example, 50% of a company's operations must be included. This would ensure that the data being provided according to this requirement is aligned with other jurisdictions.

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.

The implementation of mandatory requirements related to corporate governance and environmental risks is an essential step in ensuring issuers' effectively manage ESG risks.

The process of making environmental disclosure mandatory provides a window to move issuers towards greater focus on social risks to their business as well. We would encourage HKEX to implement mandatory requirements for Social KPIs during the current revision process of the ESG requirements. This would bring it in line with requirements in other jurisdictions (e.g. the E.U) and ensure that issuers properly take these risks into account.

Social data measures of a company's commitment towards providing high-quality employment benefits and job conditions. It reflects a company's capacity to increase its workforce loyalty and productivity by distributing rewarding and fair employment benefits, and by focusing on long-term employment growth and stability. This will help investors in making decisions.

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.

Yes, this is a common requirement in other jurisdictions and provides an important piece of data about a company's employment practices.

We would recommend that contractor staff also be included under 'employment types'. Contractors staff consist of people that perform work for the entity and are not on the entity's payroll but are hired through a staffing agency.

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.

Yes we agree.

We further recommend HKEX consider including health and safety KPI like "number of injuries", "total injury rate" and "lost time injury rate for both employees" and "contractors expanding a disclosure for "rate of injuries". This captures other injuries that may demonstrate risks faced by the issuers' work force.

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 risk affects a wide range of stakeholders from customer to investors. To mitigate this, companies should have a proper selection process of suppliers or sourcing partners based on social and environmental criteria.

Companies should be encouraged to publish a separate 'supplier code of conduct', which should contain practices on identification and monitoring of ESG risks and actions against the breach of those criteria.

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.

Yes, we agree.

We would encourage HKEX to change the language from "may" to "should" seek independent assurance to strengthen the credibility of the ESG information being disclosed. Firms should be encouraged to verify and validate the data they have collected. Auditor or the Audit Firm name can be mentioned within an opinion statement.

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