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.

   Shortening the time frame for publishing the ESG report will be beneficial for increasing the relevance of the data, because it can then be used in conjunction with the financial and other information in the issuer's Annual Report. The current "up to seven months" timeframe means information can be too late to be used by many current and potential users of this information. We recommend emphasizing that the ESG report should be published simultaneously with the Annual Report -- while some companies may object that issuing both reports at the same time would be more burdensome, this will greatly enhance the comparability, usefulness and relevance of the information.

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 forms should be minimized to protect/save natural resources. In addition, we see a clear trend of using digital copies of reports, because they are searchable. Last but not least, digital reports can still be printed if needed.

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.

In general, there are disclosure elements that can be considered to be universally material. The disclosure elements covered by the proposed MDR would enhance the completeness, comparability and relevance of the information. At CDP, we believe that improving corporate awareness through measurement and disclosure is essential to the effective management of environmental risk. We note that CDP is an NGO that runs the only global disclosure system for investors, companies and local governments to manage their environmental impacts and that this environmental disclosure platform plays an important role of encouraging companies to disclose as much relevant, accurate data as possible. This process of broad disclosure thereafter allows companies to determine which data is "material" for mainstream financial reporting. The CDSB Framework, which sets out an approach for reporting environmental, climate in mainstream reports, such as annual reports, can then help issuers to integrate such information into their annual reports, in line with the TCFD recommendations.

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.

Governance disclosure ensures corporate transparency and accountability to other stakeholders. Investors and other stakeholders are interested in understanding the role an organization’s board plays in overseeing climate-related issues. At CDP, we have seen a positive correlation between board-level oversight and management responsibility for addressing climate risks and opportunities, and a company's commitment to action. As noted by the Exchange, governance is also a key thematic area of the TCFD recommendations. The TCFD's second status report, released in June 2019, states that of the over 3000 reports reviewe, levels of governance and risk management disclosures were the lowest. As such, including an MDR on governance is a proactive response to addressing gaps in the current state of play.

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.

Including financially material information on ESG matters provides a clearer picture of the organisation. This is also in line with the TCFD recommendations.

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.

In financial statements, it is standard for companies to explain how they have applied requirements. Explanations on why issuers have chosen to report in a certain way will provide essential context to the information. We would also like to note that the principles could be amended by adopting the TCFD's reporting principles, which are based on the IASB Conceptual Framework and are also in line with the CDSB Framework. These are: Principle 1: Disclosures should present relevant information Principle 2: Disclosures should be specific and complete Principle 3: Disclosures should be clear, balanced, and understandable Principle 4: Disclosures should be consistent over time Principle 5: Disclosures should be comparable among organizations within a sector, industry, or portfolio Principle 7: Disclosures should be provided on a timely basis We believe that having a more complete set of principles would support better reporting by issuers.

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.

Disclosure of the process used in determining materiality is essential for the reader to understand why certain information has not been included in the report. In light of the stakeholders who will be reading/using the reports, we recommend encouraging the use of a materiality definition that reflects a financial approach (eg IASB/TCFD/CDSB materiality definition) rather than a multi stakeholder approach.

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 commend the Exchange for recognising the need for more clarity on this very important, but often overlooked issue. a) Requiring the disclosure of standards and methodologies used for the reporting of emissions/energy consumption provides context and enhances comparability and consistency of the data. b) While we recognize that the Exchange has taken into consideration the sensitivity of disclosing quantitative targets in a public document, we suggest that targets should still be required to be specific and measurable, as directional statements in lieu of actual numerical figures could open up opportunities to produce unclear statements that can mislead the reader. If directional statements are allowed, at least specific guidance/standards should be provided to minimize unclear, misleading statements.

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 note that the traditional "Scope 1, 2 and 3" approach used in greenhouse gas accounting is based on the "operational" boundary setting, which differs from the "financial" boundary setting. The financial boundary setting is used in annual reports to report other financial information. Some Scope 1 and all Scope 2 and 3 emissions fall beyond the financial boundary of the undertaking. If ESG information is only reported according to the operational boundary control approach, this can affect the comparability of the information with the rest of the annual report. Information beyond the financial boundary should be reported if material, but it should be disaggregated to differentiate between matters pertaining to the legal entity of a company and what is beyond. This approach to disaggregation is described in the Climate Change Reporting Framework, paragraphs 4.23 – 4.27, available at cdsb.net/climate.

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.

Climate-related issues which have had a material financial impact on the issuer would already be required to be disclosed financially – it is useful to reinforce this requirement. This will also support enhancing corporate risk management.

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.

Companies often report targets, but don't sufficiently describe how they will achieve them. Requiring specific targets and disclosure of the steps taken to achieve them will provide valuable context to 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.

Requirement of Scope 1 and Scope 2 disclosure is a positive step forward. Furthermore, for the majority of sectors, the largest sources of a company's emissions will lie upstream and/or downstream of their core operations. Therefore, we recommend adopting TCFD lanuage that "organizations should provide their Scope 1 and Scope 2 GHG emissions and, if appropriate, Scope 3 GHG emissions and the related risks." We would like to refer to our answer to question 9, noting the need to ensure that this information is reported in a way that is also comparable with other corporate information consolidated according to the financial boundary setting.

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.

Given our areas of expertise, we do not have any comments on this matter.

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.

Given our areas of expertise, we do not have any comments on this matter.

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.

Given our areas of expertise, we do not have any comments on this matter.

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.

CDP has found that supply chain emissions are often 5.5 times greater than a company's direct operations and on average, emissions located in the supply chain are around 4 times as high as those from direct operations. Therefore, KPIs in respect of supply chain management and addressing supply chain emissions are essential. In light of the paramount importance of transparency in the value chain, CDP operates the "CDP Supply Chain Program", which supports large purchasing organisations to drive action across their supply chains by engaging with their suppliers to disclose, measure and act on their climate change/deforestation/water-related risks, take advantage of opportunities and ensure business continuity. Large purchasing organisations are a powerful lever in the transition to a sustainable economy and the number of companies tackling emissions in the supply chain has doubled in a year, according to CDP's Global Supply Chain Report 2018. But despite a high awareness of climate-related risks, this leadership is not yet spurring widescale action down the supply chain, leading to missed opportunities for cutting emissions and costs. Therefore, as signficant portions of the global supply chain network still remain untapped and and we need action at every level of the supply chain to meet the goals of the Paris Agreement, we welcome these new KPIs suggested by the Exchange.

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.

Given our areas of expertise, we do not have any comments on this matter.

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.

While both CDP and CDSB encourages companies to obtain independent external assurance which can greatly improve the quality of information as well as increase the reader's trust in the data, we recognize that this can incure additional costs to the issuer. As noted by the TCFD recommendations, however, disclosures need to be reliable and verifiable in order to be decision-useful and therefore, should be subject to internal governance processes that are the same or substantially similar to those used for financial reporting. This means that companies should be reminded of the value of assurance to improve the quality and reliability of reported information, as well as that even if they do not seek independent assurance, data should be prepared with the same rigour and controls as if it were to be subject to independent assurance.

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