

ENERGY-USE STRATEGY ADVISORS

advising energy users since 1992

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Hong Kong Exchanges and Clearing Limited
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Submission on the Consultation Paper on Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules

Energy-use Strategy Advisors is a Hong Kong based firm advising mid to large companies, listed and private, on matters related to the formation and improvement of their energy-use strategy, and on the creation of greater value from their unique energy-use ecosystem.

Our parent company, Contech Enterprises Limited, has been advising energy users since 1992.

Question 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. Both issuers and investors are better served if this data can be included in their decisions without any longer delay than that which is allowed for the presentation of the annual report.

Question 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.

Question 3:

Do you agree with our proposal to amend the Guide to introduce Mandatory Disclosure Requirements (MDR)?

Yes. Mandatory disclosure is an important factor towards investors being able to make their decisions from a level playing field.

Question 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. These three elements will provide a robust foundation for accountability with respect to ESG oversight.

Question 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. These forward looking statements provide investors with information that historical-data reports simply cannot. Based on our experience, including an explanation of how ESG management approach, strategy, priorities, and targets relate to the issuer's business will provide an equally valuable indicator to investors of how well the issuer has mastered ESG integration.

Question 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. Without this, investors could be left unsure as to relationship between the Reporting Principles and the ESG report.

Question 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. Although asking the board to "determine" materiality might expecting a technical competence better left to practitioners.

Question 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. Although "directional statements or quantitative description" might be deemed inadequate within a few short years, it is a reasonable next step in HKEx issuers' ESG journey.

Question 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. Without clarity as to reporting boundaries, the value of any ESG report is compromised.

Question 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. Climate disruption has the potential to upend every company's planning. Investors need to know how well an issuer is preparing for this challenge.

Question 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. While "targets set" may provide minimal investible information, "steps taken to achieve them" will inform investors deeply.

Question 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. And issuers also should be encouraged to demonstrate their competence with respect to Scope 3 GHG emissions.

Question 13:

Do you agree with our proposal to upgrade the disclosure obligation of all Social KPIs to "comply or explain"?

Null response. This is outside our domain expertise.

Question 14

Do you agree with our proposal to revise a KPI to clarify "employment types" should include "full- and part-time" staff?

Null response. This is outside our domain expertise.

Question 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?

Null response. This is outside our domain expertise.

Question 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.

No. While Energy-use Strategy Advisors fully supports part a), and its promotion of transparency, Energy-use Strategy Advisors does not agree with b). Issuers should be free to make their own choices as to whether they should or should not select suppliers based on suppliers' promotion of environmentally "preferable" products and services, just as they should be free to choose energy efficient or energy inefficient options, and, similarly, clean energy or dirty energy options.

Question 17:

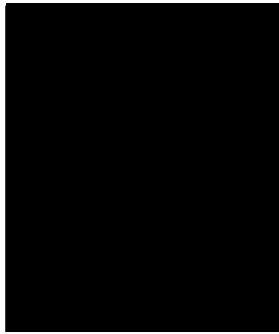
Do you agree with our proposal to introduce a new KPI requiring disclosure of anti-corruption training provided to directors and staff?

Null response. This is outside our domain expertise.

Question 18:

Do you agree with the proposal to revise the Guide's wording on [independent] 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. Although we would replace the word "strengthen" with something more impartial. Describing the level, scope and processes adopted for assurance is unquestionably of value to investors.



Robert C Allender
Founder & CEO

