

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.

BHRRC agrees that the timeframe for publishing the ESG report should align with that the publication of the annual report. This will significantly increase the likelihood that the ESG report will be available at the time of the issuers' annual general meeting, to provide useful information to help facilitate the necessary discussions on important ESG issues that investors or other stakeholders may be particularly concerned about.

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.

BHRRC agrees that issuers should utilize digital technology as much as possible when publishing their ESG reports and save paper by not printing the reports.

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.

BHRRC agrees that Mandatory Disclosure Requirements should be expanded to cover all aspects and subject areas of ESG reporting to hold issuers accountable for their performance in addressing ESG issues and to achieve more meaningful and constructive reporting.

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.

BHRRC agrees that the Board, as the top governing body within a corporate should be held accountable for the corporate's overall ESG policy and strategy. This aligns with the UN Guiding Principles on business & human rights (Principle 16) that "As the basis for embedding their responsibility to respect human rights, business enterprises should express their commitment to meet this responsibility through a statement of policy that...[i]s approved at the most senior level of the business enterprise...[and] is publicly available and communicated internally and externally to all personnel, business partners and other relevant parties..."

And according to the UN Guiding Principles Reporting Framework, companies should disclose what kinds of human rights issues are discussed by the Board to give potential investors or existing investors a sense of how the most senior levels of the company's management are involved in addressing human rights issues. Information such as the criteria that a company uses to determine which human rights issues are to be discussed by the Board and examples of specific human rights issues discussed at the Board would help stakeholders understand the approach of the company in dealing with human rights issues.

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.

Requiring a statement signed by the board that include information on the issuer's ESG management approach strategy, priorities and goals/targets and relations to the issuer's businesses would be instrumental in encouraging the issuers to carry out assessments on its own ESG approach, which would generate very useful information for its investors and other stakeholders, facilitate dialogues and help mitigate risks related to ESG issues.

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 encourage issuers to consider the Reporting Principles throughout the process of putting together information for the report, and will help to raise the quality of reporting produced.

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.

Stakeholder identifications and engagements are important steps in ensuring the information disclosed in the ESG report is material to the readers. These processes help to build better understanding of how the company's actions and decisions can affect individuals and groups. Given the wide range of internal and external stakeholders, and the variety of possible approaches of how stakeholders may be engaged, it would be crucial for issuers to provide such descriptions to help readers assess the quality of the reporting and the issuers' approach to ESG related issues in general.

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.

BHRRC agrees with the proposed amendment on the reporting principle on "quantitative". If the principles are being met, the information would be helpful for investors and other stakeholders to assess and compare across time and with other issuers.

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.

Reporting Boundary would be a useful information to investors and other stakeholders, as it informs the scope of the report.

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.

BHRRC agrees with introducing the new aspect of climate change to encourage issuers to strengthen their commitment to tackling climate change. Reference could be made to the "Report on Climate-related Disclosures" published by the EU Technical Expert Group on Sustainable Finance in January 2019, which specify disclosure details on climate change related issues.

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.

BHRRC agrees with this amendment, as it could motivate issuers to strengthen its commitment and take actions towards reducing adverse environmental impacts from their business operations.

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.

BHRRC agrees with this amendment.

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.

BHRRC agrees that the "comply or explain" requirement should be expanded to all Social KPIs. As shown in the HKEX's analysis of ESG disclosures by issuers published in 2018, as well as other publications such as Oxfam Hong Kong's report on Hang Seng Index (HSI) constituents' ESG disclosure, disclosures by the issuers on social KPIs are generally weaker than that on environmental KPIs. This is likely due to the current voluntary "Recommended Disclosures" requirements on the social KPIs and more stringent "Comply or Explain" requirements on environmental KPIs

According to the Global Reporting Initiative, reporting organizations should report information on operations and suppliers that are considered to have significant risk for incidents of child labour and forced labour. The BHRRC suggests that risk assessments conducted on child labour and forced labour should be included as Social KPIs to encourage issuers to step up their efforts in mitigating the risks of child labour and forced labour.

Other important human rights indicators such as human rights assessment (GRI 412), freedom of assembly and collective bargaining (GRI 407) and rights of indigenous people (GRI 411) as outlined in the Global Reporting Initiative should also be included in the social aspect of ESG disclosure to ensure that the business operations of issuers are in line with international human rights standards.

In the past few years, the UK, Australia and California (in USA) have adopted legislations to require companies to produce statements setting out the steps they are taking to address and prevent the risk of modern slavery in their operations and supply chains. Many other countries are following suit, taking steps towards requirements for mandatory human rights due diligence: <https://bit.ly/2VTi9Fz>. It would be very encouraging to see HKEX taking part in steering Hong Kong-listed companies towards the same direction.

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.

Rate
of

Apart from the issuers' directly employed full-time and part-time employees, we think that other types of workforces in the supply chain, including but not limited to temporary, dispatched and sub-contracted workers should also be considered for the disclosure requirement. In many cases, these groups of workers that do not belong to direct employments by the companies are more vulnerable to exploitations. In order to mitigate risks on child labour and forced labour, it is essential for companies to look beyond their direct employees and look broadly into workers in their supply chains. Providing the data on these other workforces would be an important first step.

In addition to disclosing demographic information and turnover rate of the total workforce, according to GRI 401 regarding employment and GRI 405 regarding diversity and equal opportunity, the ratio of salary of women to men, benefits for full-time and part-time staff, figures related to parental leave etc. should also be disclosed in the aspect of employment.

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.

BHRRC agrees with this would provide useful information for investors and other stakeholders. We would again encourage the inclusion of data related to workforces beyond direct employees, to include temporary, dispatched and sub-contracted workers. For instance, it is much more likely for subcontracted construction workers to fall victim to work-related injuries than direct employees of a real estate company. The data on the former would also be material in assessing that real estate company's ESG performances.

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.

Making supply chain management information transparent is critical to mitigating environmental and social risks along the supply chain.

Anti-

As set out in the GRI 414 regarding supplier social assessment, selected and contracted suppliers should be subject to due diligence process for social impacts. Disclosure of information on the number of new suppliers screened using social criteria, the negative social impacts identified in suppliers and the actions taken could be added as additional KPIs in the aspect of supply chain management.

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 with this proposal, as training is important in combating corruption in an organization.

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.

Independent assurance does strengthen the credibility of ESG information in many cases.

- In addition to that, the Exchange should also consider establishing a grievance mechanism available to investors and other stakeholders to receive information on, consider and address alleged inaccurate, incomplete or misleading disclosure of material ESG-related information.

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