

From: Dennis Kwok [REDACTED]
Sent: 20 July 2019 00:05
To: response
Cc: Claudia Yip
Subject: Re: Consultation Paper on Review of the ESG Reporting Guide and Related Listing Rules

WARNING: External email, please exercise caution.

1. The Hong Kong Exchanges and Clearing Limited (HKEX) published a consultation paper in May on review of the environmental, social and governance (ESG) reporting guide and related listing rules. The Office of the Hon. Dennis Kwok is delighted to witness such progress in Hong Kong's ESG reporting guide. Echoing with the increasing demand for corporate sustainability, the proposed review of the ESG reporting guide facilitates the incorporation of ESG issues into business practice and operation. We are pleased to have the opportunity to give comments regarding the amendments proposed by the HKEX.
2. We are generally supportive to the proposed changes towards ESG reporting. We would like to focus on Question 16 of the consultation paper in relation to modern slavery and supply chains management.
3. The Hon. Dennis Kwok is a vocal advocate on combatting human trafficking, or modern slavery. He believes Hong Kong as an international financial centre has an important role to play in this issue. He tabled the Modern Slavery Bill 2019 together with the Hon. Kenneth Leung in March 2019, hoping to address the gaps in existing legislations in Hong Kong in dealing with all forms of modern slavery. The bill, modelled after the United Kingdom's Modern Slavery Act, also illustrates how Hong Kong has been lagging behind some major trading partners in this area of law. While the criminal law and government policy in Hong Kong fall short of reflecting the severity of modern slavery, this horrific form of crime has galvanized much action in multiple jurisdictions; the risks associated, however, are not sufficiently reflected in existing ESG reporting.

Question 16

4. We agree with the proposal.
5. Studies show that companies with modern slavery in their supply chains are punished by capital markets, as reflected in drop in sales and share prices - Michael T. Rock, "Public Disclosure of the Sweatshop Practices of American Multinational Garment/Shoe Makers/Retailers: Impacts on Their Stock Prices" *Competition & Change*, 2003, Vol. 7(1), March, pp. 23–38; and Brian W. Jacobs, Vinod R. Singhal, "The effect of the Rana Plaza disaster on shareholder wealth of retailers: Implications for sourcing strategies and supply chain governance", *Journal of Operations Management*, 49-51 (2017) 52-66.
6. Moreover, companies with modern slavery in their supply chains face increased possibility of being sanctioned by governments etc, as the corporate responsibility to respect human rights has been rising on the legislative, investor and business agenda in multiple jurisdictions. There has been a significant increase in the number of laws aimed at requesting corporate disclosure relating to human rights in a company's direct operations and throughout its supply chain, e.g. the UK Modern Slavery Act 2015, EU Non-Financial Reporting Directive 2016, and the Australian Modern Slavery law. These transparency laws have increased the volume of human rights related information in the public domain, enabling deeper interrogation by investors and other stakeholders, and facilitating the production of benchmarks and assessments. This has happened in parallel to the development of new duty of care laws, which impose certain obligations on parent companies with regard to the human rights related behaviours of their subsidiaries and suppliers. See the French Duty of Vigilance Law, 2017, and the Swiss and Dutch initiatives. See further in Georgie Erangey, "Evaluating Human Rights Performance: The Role of ESG Ratings, Indices and Benchmarks in Driving Change", Valuing Respect Project (available at <https://www.shiftproject.org/media/resources/docs/Valuing%20Respect%20PDFs/evaluating-human-rights-performance.pdf>), and Business & Human Rights Resource Centre, *Modern Slavery in Company Operation and Supply Chains*, September 2017.

7. The resolution to combat modern slavery is expected to persist and increase. For example, this issue has been receiving bi-partisan support in the United States, Hong Kong's second largest trading partner. The United States government amended their federal procurement rules in 2015 to require contractors' compliance to ensure no modern slavery is involved in the federal supply chain; the same has been replicated in multiple states; there continues to be vibrant discussion of what further measures can be taken to punish companies who do not take sufficient action to eliminate modern slavery in their supply chains. The European Union has taken similar efforts in regard to public procurement.
8. It is hoped that there will be further consultation when the proposed KPIs are drafted.

Office of the Hon. Dennis Kwok

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