

## 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 agree that in line with international best practice, the ESG report should be made available at the same time as the publishing of the annual report or audited financial statements. This increases the level of priority placed on the ESG reporting, and in doing so, the level of accountability. Managing ESG risks should be integrated into how the business is run, and not an afterthought. In addition, if the ESG report is delivered months later, the information may be outdated and out of sync with the annual report and other information.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.

We agree with this proposal for environmental reasons.

## 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.

Community Business agrees with the proposal for MDRs to be introduced, with the requirement that boards take responsibility for governance of ESG risks. This would elevate the accountability for ESG risks and ensure that ESG management and reporting are not box-ticking exercises. Issuers should be obligated to disclose whether the company has any material exposure to ESG risks, and if so, how it is managing or plans to manage these risks.

We urge HKEX to also take the opportunity to review whether the Corporate Governance Code and Listing Rules need to be amended so that it is clear to existing and new issuers what their board's responsibilities are in respect of ESG governance and oversight.

### 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.

We agree with the proposal, which will increase the level of accountability by the board in ESG governance and oversight. In addition, the board should also be required to disclose whether the company has any material exposure to ESG risks, and if so, how it is managing or plans to manage these risks.

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.

We agree with the proposal to include this information which will improve transparency and accountability.

### 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.

We agree with the proposal to include this information which will improve transparency and accountability.

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.

We agree with this proposal to amend the Reporting Principle on "materiality" to improve transparency and accountability. It is important to understand from an investor's perspective how materiality is determined, and the potential risk to the business. In addition, the board should also be required to disclose whether the company has any material exposure to ESG risks, and if so, how it is managing or plans to manage these risks.

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 agree with this to improve clarity and transparency. Standards and methodologies are important for issuers to be able to benchmark with other organisations. This would also be of interest to investors and other stakeholders. Targets should be expressed by reference to specific percentages, and tracking across reporting cycles.

#### 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 agree with this for increased transparency on the scope of reporting on the ESG report, and to ensure that areas of significance are included. As it is mentioned that it is not proposed to disclose a list of excluded of entities or operations, would it be possible to have criteria that issuers must disclose significant excluded entities or operations?

## 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.

We agree with this proposal due to the urgency of climate change and to hold all companies accountable for doing their part to identify and mitigate the risks of climate change. These changes are welcome for increased responsibility and transparency, and to be more in line with increasing stakeholder expectations. Community Business urges HKEX to be more prescriptive and provide guidance to companies, more in line with international best practice, such as referencing the TCFD framework.

### 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.

We agree with this proposal due to the urgency of climate change and to hold all companies accountable for doing their part to identify and mitigate the risks of climate change. These changes are welcome for increased responsibility and transparency, and to be in line with increasing stakeholder expectations. Community Business urges HKEX to be more prescriptive and provide guidance to companies, more in line with international best practice, such as referencing the TCFD framework.

## 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.

<p>We agree with this proposal due to the urgency of climate change and to hold all companies accountable for identifying and mitigating the risks of climate change. Community Business urges HKEX to be more prescriptive and provide guidance to companies, more in line with international best practice, such as referencing the TCFD framework.</p>
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## **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.

Social KPI's are important indicators for business and issuers should be obligated to report these, in line with international best practice.

In addition to upgrading the disclosure obligations of social KPI's, Community Business recommends that additional measures be undertaken to address and encourage diversity and inclusion (D&I) which is fundamental to corporate governance, risk management, and business success. There is a large and growing body of research that links greater diversity at senior levels of organisations with improved risk management, higher degree of innovation, and a positive bottom line impact.

On gender diversity on its listed boards, Hong Kong is significantly lagging other markets globally and within the region. With its paltry 13.5% women on Hang Seng Index boards and 12 all-male HSI boards (as of 2 July 2019), Hong Kong's reputation as an international financial centre is being undermined. Other markets such as Singapore (15.2%) are moving ahead at a much faster pace without mandated quotas, and appear to be showing much more commitment to change. While we believe that the introduction of the new LR 13.92 will help improve the percentage of women on listed boards, we must also consider gender diversity within an organisation, not only at board level. Companies need to build a strong pipeline of female talent and provide their female employees with the enabling workplace environment to reach the top, but also create the demand for such talent in senior levels of management,



including at the board level. Unless both the supply and demand sides are addressed, efforts to achieve greater gender diversity will be undermined.

Other strands of diversity are also important to businesses, and demographic changes within Hong Kong and the rest of Asia, will have tremendous impact on workplaces and workforces going forward, for example, disability, multi-generational workplaces, ageing, racial diversity, LGBT+ inclusion, etc. All of these will have impact on the workplace and human capital planning, and they will also present tremendous business opportunities as well.

In order for Hong Kong to implement a stronger framework for diversity and inclusion, including gender diversity on boards, we recommend changes to and an integration of the various rules including the Corporate Governance Code (Appendix 14), the Board Diversity rule in LR13.92, Guidance Letter GL86-16 and the ESG requirements (Appendix 27).

So far, the Exchange's efforts to improve board diversity, especially gender diversity, on listed boards have had limited success, and therefore Community Business recommends that stronger measures be undertaken, including being more prescriptive around diversity, especially gender, in its guidance around board diversity policy. To promote greater diversity at both the board level and organisation level, we recommend that Mandatory Disclosure Requirements be implemented within a new section of the Corporate Governance Report and the existing board diversity policy be upgraded to the following:

An issuer should:

- (a) have and disclose a diversity policy;
- (b) through its board or a committee of the board, set measurable objectives for achieving greater diversity, including gender diversity, in the composition of its board, management, senior management and workforce generally; and

(c) disclose in relation to each reporting period: (1) the measurable objectives set for that period to achieve greater diversity, including gender diversity; (2) the entity's progress towards achieving those objectives; (3) the representation on the board, in management and senior management positions and across the whole workforce - for each attribute of diversity, including gender diversity.

The above recommended diversity policy aims to be inclusive of different aspects of diversity that the board and company are committed to achieving, such as gender, age, ethnicity, people with disabilities, LGBT+, etc. Some of these aspects are not as easily measured, and may require qualitative descriptions rather than numbers. However, gender diversity is something that is easily measured and we feel that every company should be required to make gender disclosures related to its representation at every level, including the board.

## 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.

Agree with the proposal but further recommend that disclosures under B1 (Employment) be extended to address diversity and inclusion, in line with other international markets. We recommend that all workplace statistics be broken down by gender.

As reporting on these statistics is a fundamental component of a diversity policy as well as measurable objectives to address gender diversity, we recommend these be mandatory disclosures within the Corporate Governance Report rather than only under "comply or explain" provisions of the ESG Report.

We urge HKEX to consider stronger and more comprehensive measures that address some of the root causes of inequality, rather than incremental measures. For example, other jurisdictions such as the UK and Iceland have introduced mandatory disclosures of gender pay gap. This reporting applies to larger companies and is a very effective way to identify and address some key causes of inequality in the business sector and to create a higher level of accountability and ownership. We encourage HKEX to consider game-changing measures like this.

### 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.

We agree with the proposal as responsible companies have a duty of care to their employees and are responsible for their wellbeing and safety (physical and emotional) at work - companies should be creating workplaces that ensure happy, healthy and engaged employees. This is not only good for employees, but also good for business. As part of our work at Community Business, we work with companies on employee wellbeing, which encompasses physical, emotional, and financial wellbeing, as well as work-life harmony. Within the area of emotional well-being, mental health, resilience, and happiness at work are topics that companies are becoming much more aware of and taking steps to address as part of a wider employee wellbeing strategy.

## 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.

<p>We support this wholeheartedly as responsible businesses need to identify and manage supply chain risk, including issues such as human trafficking, modern slavery, ethical sourcing, etc.</p>
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## 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.

We agree with this new KPI requiring disclosure of anti-corruption training for all employees and directors as long as this is aligned with requirements in the Corporate Governance Code. Community Business believes that the Corporate Governance Code should address at an organisational level, the requirement for a robust risk management framework fundamental to strong corporate governance, which includes mandated preventative and reactive measures related to anti-corruption, anti-bribery, anti-money laundering, whistle-blowing process, etc. Each of these should have robust processes along with formal reporting mechanisms, training, communications, etc. If Hong Kong is truly an international financial centre, it must strengthen these areas.

## 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.

We agree with this proposal so as to be in line with international best practice.

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