

Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below on the proposed changes discussed in the Consultation Paper downloadable from the HKEx website at: <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201112.pdf>.

Where there is insufficient space provided for your comments, please attach additional pages.

1. Should the ESG Guide be a recommended best practice appended to the Listing Rules?

Yes

No

If your answer is “No”, please give reasons and alternative views.

2. Do you agree with the proposed Main Board Listing Rule 13.91 and paragraph 53 of Appendix 16/ GEM Listing Rules 17.103 and 18.84 in Appendix I of the Consultation Paper?

Yes

No

If your answer is “No”, please give reasons and alternative views.

Whilst it may be initially appropriate for a company to issue a non financial (ESG) report that does not cover the same period as the annual report, as the world moves towards fully integrated reporting is, there will be a greater drive for both financial and non-financial information to be disclosed covering the same period. Companies should be encouraged to adopt this timing is convergence early, to ensure lower cost of change and alignment later.

Content of the proposed Environmental, Social and Governance Reporting Guide

Introduction

3. Do you agree with the Introduction section?

The proposed Introduction section states:

1. This guide sets out Environmental, Social and Governance (“ESG”) subject areas, aspects, general disclosure and key performance indicators (“KPIs”).
2. This guide is not comprehensive. We encourage an issuer to identify and disclose additional ESG issues and KPIs that are relevant to its business. It may also refer to existing international ESG reporting guidance for its relevant industry or sector.
3. An issuer may adopt a higher level of ESG reporting based on international guidance and standards.
4. An issuer may disclose the ESG information in its annual report regarding the same period covered in the annual report, or in a separate report, in print or on its website. Where the information is included in a separate report, an issuer is free to report on any period.
5. It is important to involve the board of directors in preparing the ESG report. The board of directors is responsible for ESG reporting but it may delegate the task of compiling the ESG report to its employees or a committee that reports to the board.

Yes

No

If your answer is “No”, please give reasons and alternative views.

General Approach

4. Do you agree with the guidance under the General Approach section?

The proposed General Approach section states:

Identify subject areas, aspects and indicators that are relevant

8. Not all ESG subject areas, aspects and KPIs in this Guide may be relevant to an issuer's business. Also, some may be more important to an issuer's business than others. For example, product responsibility, an ESG aspect, may be important to a retailer.
9. The ESG report could prioritise ESG subject areas, aspects and KPIs that are material in the context of its corporate strategy, which could be given prominence in the report.
10. It is unnecessary to report on all subject areas, aspects and KPIs. An issuer could identify and report on relevant ESG subject areas, aspects and KPIs that have material environmental and social impacts. Materiality can be addressed in strategic, operational and financial terms.

Engage stakeholders

11. It is important to engage stakeholders to identify material aspects and KPIs and understand their views. Stakeholders are parties that have interests in or are affected by the decisions and activities of an issuer. They may include shareholders (including independent shareholders), business partners, employees, suppliers, sub-contractors, consumers, regulators and the public.
12. The ESG report could disclose the issuer's stakeholders and the basis for their identification. It may also disclose the activities the issuer has arranged to engage stakeholders, the objectives and how it has responded to stakeholders' views. Stakeholder engagement may be conducted through meetings (e.g. personal or annual general meetings), conferences, workshops, advisory committees, round-table discussions, focus groups, questionnaires, web-based forums and written consultations.
13. The ESG report may also disclose a mechanism for stakeholders to provide feedback.

Yes

No

If your answer is "No", please give reasons and alternative views.

Whilst agreeing with numbers eight and nine, 10 introduces a problem to be considered. Any corporate disclosure should be focused on the material and the relevant but there is a challenge in expecting all companies to accurately and consistently self select that which is material, with no framework or guidelines to assist the company in the self selection process. The text here as it stands will not cause all listed companies to fully identify material areas. Further, without such a framework, the burden of responsibility to research, understand and then decide which subject areas, aspects and KPI is material, is left with the issuer – “An issuer could identify and report on relevant ESG subject areas”. In its present form, the text has introduced an additional piece of work for companies – “Identify” - even before they begin to report. Even large corporations have few resources available for non-financial reporting, therefore any ESG reporting guidelines should as far as possible reduce the burden for companies which includes providing direction and signposts within the space. This will help companies quickly understand what is required of them in order that they can focus resources on the task of disclosure, rather than spending significant amounts of time simply understanding what they should be disclosing against. CDPs experience is that in subject areas that are not company's core business (eg ESG reporting) many companies find value in more rather than less specific guidelines and instruction. At this stage even high-level signposts would help companies to understand what is required of them, for example there are a number of well known high emitting sectors which could be identified here as material regarding greenhouse gas emissions.

Reporting guidance

5. Do you agree with the guidance under the Reporting Guidance section?

The proposed Reporting Guidance section states:

Scope of reporting

14. The ESG report could state which entities in the group and/or which operations have been included for the report. If there is change in the scope, the issuer could explain the difference and reason for change.

Approaches to reporting

15. Once an issuer starts reporting, it could continue to do so regularly. The aspects and KPIs reported could be consistent for each period or there could be an explanation of the changes. An issuer may also explain why some aspects and KPIs are not reported.
16. An ESG report could state the issuer's ESG management approach, strategies, priorities, objectives and explain how they relate to its business. It could discuss the issuer's management, measurement and monitoring system to implement its ESG strategies.
17. An ESG report could also discuss ESG opportunities, risks, challenges and how they are addressed. For example, a telecommunication company may see an opportunity to promote teleconferencing as an alternative to travel due to climate change concerns. An information and technology company may see the damage to its reputation from a breach in consumer privacy as an ESG risk.

Reporting on line items

18. The Guide does not provide a definition for each KPI. An issuer could explain how the KPIs are calculated and include information that is necessary for interpreting the KPIs. It may use the same definition and calculation method each period for comparison over time. If there is a change to the definition or calculation method, the issuer could explain the difference and reason for the change.
19. Over time, an issuer may present time series of data for comparison over a period already reported on. The time period used may be consistent for every report.
20. An issuer may report line items with objective and representative industry benchmarks.
21. Quantitative information could be presented in a table format.

Yes

No

If your answer is "No", please give reasons and alternative views.

Whilst agreeing with the content of items 14 to 21, it is believed a stronger tone is warranted. If the guidelines are advocating best practice, then the text should be clear and firm in advocating what are best practices. Best practice is reflected in the text, but the text does not portray that HKex have certainty / confidence that these are in fact best practice. It is suggested to replace the use of the word ‘could’ with ‘should.’ The word could introduces a sense of uncertainty and will not provide issuers with the confidence in these guidelines that is needed in order to act on them. The scope and approaches to reporting as set out in 14 to 21 are widely accepted as best practice and have been adopted in disclosure frameworks generally. E.g There is little question that once the company begins to report, it should continue to do so, and do so consistently. If the aim of these guidelines is to advocate best practice, the text should reflect a confidence that what is stated is best practice. The current wording (could) does not display signal confidence, which undermines the good content.

Key ESG Subject Areas

6. Do you agree with the proposed ESG areas, namely: Workplace Quality, Environmental Protection, Operating Practices and Community Involvement?

Yes

No

If your answer is “No”, please give reasons and alternative views.

Aspects for each ESG Area

7. Do you agree with the following proposed aspects?

Areas and aspects	
A. Workplace quality	
Aspect A1	Working Conditions
Aspect A2	Health and safety
Aspect A3	Development and training
Aspect A4	Labour standards
B. Environmental protection	
Aspect B1	Emissions
Aspect B2	Use of resources
Aspect B3	The environment and natural resources
C. Operating practices	
Aspect C1	Supply chain management
Aspect C2	Product responsibility

Aspect C3	Anti-corruption
D. Community involvement	
Aspect D1	Community investment

Yes

No

If your answer is “No”, please give reasons and alternative views.

With regard section B, and specifically aspect B1: best practice climate change reporting does not focus *only* on emissions. A comprehensive approach to climate change reporting incorporates governance, strategy (e.g. to risk management), reduction targets, initiatives for reduction with performance indicators, consideration of absolute versus intensity targets, risks and opportunities from regulation and or physical parameters, and then emissions. To start with emissions seems a natural first step but in order for an organisation to report on emissions themselves, a number of processes and mechanisms firstly need building within the organisation. For example responsibility for climate change first needs to be generated at a senior management level to ensure that climate change becomes a key part of corporate strategy. Once strategies have been identified, policies can be developed, followed by processes to implement policy. At this point it is possible for a company to begin the capture of relevant information (including emissions data) followed by reporting. There is therefore, an institutional journey of learning. ESG reporting guidelines and specifically around climate change in this case, will add greater value if they work with this journey of learning in mind, and recommend best practice in line with all steps along that journey.

B1 would be better listed as ‘climate change.’ Emissions, and the other areas identified above would then form subsections or KPIs for climate change. CDP has developed and refined a globally accepted and best practice structure for climate change reporting, and would be happy to work with HKex to enable the benefit of this 10 years of learning to be integrated into these ESG guidelines.

A. Workplace quality

Aspect A1 Working conditions

8. Do you agree with the following general disclosure for Aspect A1: Working conditions?

Information on:

- (a) the policies; and
- (b) compliance and material non-compliance with relevant standards, rules and regulations

on compensation and dismissal, recruitment and promotion, working hours, rest periods, diversity and other benefits and welfare.

Yes

No

If your answer is “No”, please give reasons and alternative views.

9. Do you agree to include KPI A1.1: “Total workforce by employment type, age group and geographical region”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

10. Do you agree to include KPI A1.2: “Employee turnover rate by age group and geographical region”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

11. Do you have any additional KPIs for Aspect A1?

Yes

No

Please give reasons for your proposals.

Aspect A2 Health and safety

12. Do you agree with the following general disclosure for Aspect A2: Health and safety?

Information on:

(a) the policies; and

(b) compliance and material non-compliance with relevant standards, rules and regulations

on providing a safe working environment and protecting employees from occupational hazards.

Yes

No

If your answer is “No”, please give reasons and alternative views.

13. Do you agree to include KPI A2.1: “Fatality number and rate”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

14. Do you agree to include KPI A2.2: “Lost days due to work injury”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

15. Do you agree to include KPI A2.3: “Description of occupational health and safety measures adopted, how they are implemented and monitored”?

Yes

No

If you answer is “No”, please give reasons and alternate views.

16. Do you have any additional KPIs for Aspect A2?

Yes

No

Please give reasons for your proposals.

Aspect A3 Development and training

17. Do you agree with the following general disclosure for Aspect A3: Development and training?

Policies on improving employees' knowledge and skills for discharging duties at work.

Training refers to vocational training. It may include internal and external courses paid by the employer.

Yes

No

If your answer is "No", please give reasons and alternative views.

18. Do you agree to include KPI A3.1: "Description of training activities provided and if relevant, the percentage of employees trained by employee category (e.g. senior management, middle management, etc.)"?

Yes

No

If your answer is "No", please give reasons and alternative views.

19. Do you agree to include KPI A3.2: "The average training hours completed per employee by employee category"?

Yes

No

If your answer is "No", please give reasons and alternative views.

20. Do you have any additional KPIs for Aspect A3?

Yes

No

Please give reasons for your proposals.

Aspect A4 Labour standards

21. Do you agree with the following general disclosure for Aspect A4: Labour standards?

Information on:

(a) the policies; and

(b) compliance and material non-compliance with relevant standards, rules and regulations

on preventing child or forced labour.

Yes

No

If your answer is “No”, please give reasons and alternative views.

22. Do you agree to include KPI A4.1: “Description of measures to review employment practices to avoid child and forced labour”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

23. Do you agree to include KPI A4.2: “Description of steps taken to eliminate such practices when discovered”?

Yes

No

If you answer is “No”, please give reasons and alternate views.

24. Do you have any additional KPIs for Aspect A4?

Yes

No

Please give reasons for your proposals.

B. Environmental protection

Aspect B1 Emissions

25. Do you agree with the following general disclosure for Aspect B1: Emissions?

Information on:

- (a) the policies; and
- (b) compliance and material non-compliance with relevant standards, rules and regulations

on air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.

Air emissions include NO_x, SO_x, and other pollutants regulated under national laws and regulations.

Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

Hazardous wastes are those defined by national regulations.

Yes

No

If your answer is “No”, please give reasons and alternative views.

There are other elements of climate change reporting that are missing that should be included as per the answer to question 7. For examples, both risks and opportunities have been proven to be central levers in generating corporate behaviour change with regards climate change. To not include these at this stage will be to miss an opportunity to help sustainability / ESG teams within companies to build a strong business case to take to corporate management teams. Without placing climate change in a business context, it can be hard for sustainability teams to generate buy in and traction. The business case has been found over 10 years of CDPs experience, to be best articulated in terms corporate risks and opportunities. Providing a guide that draws in the business case and context will generate greater engagement of companies with ESG performance.

26. Do you agree to include KPI B1.1: “The types of emissions and respective emissions data”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

Regards climate change, the ultimate goal is to drive down emissions. It is therefore a natural step to encourage companies to report their 'emissions data' by 'emissions type.' Yet these two phrases can mean many different things to many different audiences. Without further structure and guidance, companies are left with the burden of effort to understand exactly what the phrases mean and decide what it is that is being asked of them. This increases the reporting burden, reduces corporate engagement, and will result in great variety in terms of content, structure and format of disclosed information by different companies. Comparability and year on year performance becomes harder to measure, and the utility and value of disclosed information reduces greatly for investors and other stakeholders.

It is understood that many Hong Kong issuers are new to ESG disclosure and this guidance is intended as a simple easy-to-use guide. In aiming for flexibility and ease of use, a tension is introduced: and lack of specificity comes at a price, including 1) more work on the part of companies to understand and define particular phrases like 'emissions type' and 2) the increase in the variety of schemes/methods/formats used in disclosure, resulting in less comparability of data, and reduced value to stakeholders. Where mature reporting structures exist, for example around climate change, with the greenhouse gas protocol, and the definitions of scope 1, 2 and 3 it would be more appropriate to offer more specific guidelines. The greenhouse gas protocol defines 'emission type' and 'data' and provides a well structured and developed, and generally accepted protocol for emissions categorization and calculation. To not reference the GHG protocol or scopes 1, 2 and 3 creates a space where companies may construct and create new reporting methodologies, which is duplication. Ultimately this will be of lower value to stakeholders due to inability to compare with other companies.

Whilst understanding that HKex wish to create an easy-to-use guide, it is believed that where accepted and mature methodologies already exist, these should be referenced and included to ensure that the trajectory begun by companies now is appropriate and in line with existing best practice. CDP would be pleased to work with HKex to develop climate change text for these guidelines, which are both accessible to companies new to ESG disclosure, which also ensure a direction of travel in line with accepted best practice. Alternatively, a process could be created whereby HKex could defer companies in the ESG guidance, to the CDP process and guidelines for the climate change elements of the ESG guidelines. The CDP process would generate a climate change disclosure in a structure and format that is mature and broadly accepted. Companies would be able to download the completed disclosure and insert it into either the annual report or the separate ESG/sustainability report. Additionally, through analysis of the disclosures submitted to CDP by HK issuers, (for example, number/percent of companies that had board level responsibility for climate change, or who disclosed scope 1 emissions, identified emissions reduction targets or achieved emissions reductions), HKex would be able to measure it direct and very tangible terms, the performance of HK issuers regards these KPIs.

27. Do you agree to include KPI B1.2: “Greenhouse gas emissions in total (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility)?

Yes

No

If your answer is “No”, please give reasons and alternative views.

See q 26. Measuring and reporting emissions has been proven to work effectively using the GHG protocol scope 1,2 and 3 emissions. Any company beginning to measure emissions will find the GHG protocol of great practical assistance. To not use the GHG protocol will increase the burden of effort for companies. It's suggested that the KPI is broken down at least into the three scopes of emissions, to provide structure and assist companies in what can be a daunting task first time round.

28. Do you agree to include KPI B1.3: “Total hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility)?”

Yes

No

If your answer is “No”, please give reasons and alternative views.

29. Do you agree to include KPI B1.4: “Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility)?”

Yes

No

If your answer is “No”, please give reasons and alternative views.

30. Do you agree to include KPI B1.5: “Description of measures to mitigate emissions and results achieved”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

31. Do you agree to include KPI B1.6: “Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

32. Do you have any additional KPIs for Aspect B1?

Yes

No

Please give reasons for your proposals.

See Question 7,25 and 26. Alternatively, the GHG protocol or the CDP disclosure request and guidelines offer mature and accepted best practice KPIs.

Aspect B2 Use of resources

33. Do you agree with the following general disclosure for Aspect B2: Use of resources?

Policies on efficient use of resources including energy, water and other raw materials.

Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.

Yes

No

If your answer is “No”, please give reasons and alternate views.

Other raw materials is a broader topic and could be further broken down using a commodities approach for example timber, soy, palm oil - all of which are known to be a risk to deforestation.

34. Do you agree to include KPI B2.1: “Energy consumption by type (e.g. electricity, gas or oil) in total (kwh in ‘000s) and intensity (e.g. per unit of production volume, per facility)”?

Yes

No

If your answer is “No”, please give reasons and alternate views.

It may help to list the different energy types that could be reported against for example liquid fuels, solid fuels, electricity, heat, steam, cooling, to ensure that companies take a comprehensive approach when considering energy consumption. Note - CDP requests data in megawatt hours.

35. Do you agree to include KPI B2.2: “Water consumption in total and intensity (e.g. per unit of production volume, per facility)”?

Yes

No

If your answer is “No”, please give reasons and alternate views.

The CDP water team would be pleased to engage with HKEX in order to discuss the outcomes of two years of the CDP Water program, to discuss the development of best practice KPIs for water.

36. Do you agree to include KPI B2.3: “Description of energy use efficiency initiatives and results achieved”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

37. Do you agree to include KPI B2.4: “Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

38. Do you agree to include KPI B2.5: “Total packaging material used (in tonnes), and if applicable, with reference to per unit produced”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

39. Do you have any additional KPIs for Aspect B2?

Yes

No

Please give reasons for your proposals.

Annual emissions data is made irrelevant by reference to a base year. Introducing a base year KPI will allow performance on progress to be measured. Further, the GHG emissions inventory is relevant only within a specified reporting period, therefore companies should be encouraged to define the reporting period for their emissions data.

Aspect B3 The environment and natural resources

40. Do you agree with the following general disclosure for Aspect B3: The environment and natural resources?

Policies on minimizing the operation’s significant impact on the environment and natural resources.

Yes

No

If your answer is “No”, please give reasons and alternative views.

41. Do you agree to include KPI B3.1: “Total paper used”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

42. Do you agree to include KPI B3.2: “Paper use efficiency initiatives and results achieved”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

43. Do you agree to include KPI B3.3: “Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

44. Do you have any additional KPIs for Aspect B3?

Yes

No

Please give reasons for your proposals.

C. Operating practices

Aspect C1 Supply chain management

45. Do you agree with the following general disclosure for Aspect C1: Supply chain management?

Policies on risk management of supply chain.

Yes

No

If your answer is “No”, please give reasons and alternative views.

46. Do you agree to include KPI C1.1: “Number of suppliers by geographical region”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

47. Do you agree to include KPI C1.2: “Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

48. Do you have any additional KPIs for Aspect C1?

Yes

No

Please give reasons for your proposals

Aspect C2 Product responsibility

49. Do you agree with the following general disclosure for Aspect C2: Product responsibility?

Information on:

(a) the policies; and

(b) compliance and material non-compliance with relevant standards, rules and regulations

on health and safety, advertising, labelling, privacy and methods of redress.

Yes

No

If your answer is “No”, please give reasons and alternative views.

50. Do you agree to include KPI C2.1: “Percentage of total products sold or shipped subject to recalls for safety and health reasons”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

51. Do you agree to include KPI C2.2: “Number of products and service related complaints received and how they are dealt with”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

52. Do you agree to include KPI C2.3: “Description of practices relating to observing and protecting intellectual property rights”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

53. Do you agree to include KPI C2.4: “Description of quality assurance process and recall procedures”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

54. Do you agree to include KPI C2.5: “Description of consumer data protection and privacy policies, how they are implemented and monitored”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

55. Do you have additional KPIs for Aspect C2?

Yes

No

Please give reasons for your proposals.

Aspect C3 Anti-corruption

56. Do you agree with the following general disclosure for Aspect C3: Anti-corruption?

Information on:

(a) the policies; and

(b) compliance and material non-compliance with relevant standards, rules and regulations

on bribery, extortion, fraud and money laundering.

Yes

No

If your answer is “No”, please give reasons and alternative views.

57. Do you agree to include KPI C3.1: “Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

58. Do you agree to include KPI C3.2: “Description of preventive measures and whistleblowing procedures, how they are implemented and monitored”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

59. Do you have any additional KPIs for Aspect C3?

Yes

No

Please give reasons for your proposals.

D. Community involvement

Aspect D1 Community investment

60. Do you agree with the following general disclosure for Aspect D1: Community investment?

Policies on understanding the community’s needs in where it operates and ensuring its activities takes into consideration of communities’ interests.

Yes

No

If your answer is “No”, please give reasons and alternative views.

61. Do you agree to include KPI D1.1: “Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

62. Do you agree to include KPI D1.2: “Resources contributed (e.g. money or time) to the focus area”?

Yes

No

If your answer is “No”, please give reasons and alternative views.

63. Do you have any additional KPIs for Aspect D1?

Yes

No

Please give reasons for your proposals.

Assurance

64. Do you agree that we should not recommend that issuers to seek external assurance for issuers that report on ESG performance?

Yes

No

If your answer is “No”, please give reasons and alternative views.

- End -