



9 April 2012

Corporate Communications Department  
Hong Kong Exchanges and Clearing Limited  
12th Floor, One International Finance Centre  
1 Harbour View Street  
Central  
Hong Kong

**Re: Consultation Paper on ESG Reporting Guide**

Dear Sir or Madam:

We are writing to you concerning the market consultation on the proposed Environmental, Social and Corporate Governance (ESG) Reporting Guide (Guide).

The [Association for Sustainable & Responsible Investment in Asia Ltd](#) (ASrIA) is a membership association dedicated to promoting sustainable finance and responsible investment practice in the Asia Pacific region. Our responses are on behalf of ASrIA and do not necessarily reflect the views of our individual members, who have been encouraged to submit separately. We welcome this opportunity to provide commentary on your proposed guide.

This proposed guide comes at an opportune time as there will be a Sustainable Stock Exchanges 2012 Global Dialogue on 18 June 2012 in Rio de Janeiro, Brazil. We recommend policymakers, regulators, investors, listed issuers and market participants read [Sustainable Stock Exchanges: A Report on Progress](#), a discussion paper prepared by Responsible Research, an ASrIA member.

Following on from the paper, ASrIA recommends these actions:

1. EXCHANGES should consider becoming members of ASrIA and signatories of the Principles for Responsible Investment;
2. EXCHANGES AND REGULATORS should enhance dialogue on ESG disclosure with listed companies;
3. EXCHANGES AND REGULATORS should enhance dialogue on ESG disclosure with soon-to-be-listed companies;
4. REGULATORS should work with policymakers in developing an international policy framework requiring, on a comply or explain basis, listed companies to provide material and consistent ESG disclosures;
5. POLICYMAKERS should set a roadmap for the development of an international policy framework that supports improved and consistent ESG disclosure by listed companies across markets; and
6. POLICYMAKERS should support the introduction of a sustainability initiative related to listed companies by market regulators and securities exchanges in respective markets.

Referring now to the Guide, we wholeheartedly support your medium term goal to create a culture for companies to integrate ESG issues into their business practices and disclosure. Most listed issuers on the Hong Kong Stock Exchange have yet to start down the pathway towards ESG disclosure. Your seminars and workshops for listed issuers during 2011 raised awareness and knowledge regarding ESG disclosure and ways to begin the process. In particular, we are encouraged that so many small and medium sized companies demonstrated interest by participating in the learning experiences.



While the exchange's consultation is wide-ranging, we highlight five key recommendations:

- Tone of the ESG Guide needs to communicate a sense of urgency and strategic imperative
- Integrated reporting should be encouraged
- Elusiveness of global standards is no excuse for companies to take a wait-and-see attitude
- Listed issuers should be obligated to communicate about ESG issues on a comply or explain basis
- HKEx should require external, independent verification of ESG disclosures

Our comments on the entire consultation are included for your consideration.

**Tone of the ESG Guide needs to communicate a sense of urgency and strategic imperative**

There are many instances where the language of the Guide can be strengthened to emphasise that ESG reporting should be a strategic imperative for directors and executives. For instance, paragraph 14 notes: *Where the information is included in a separate report, it does not need to be issued at the same time or cover the same period as the annual report.*

Timely information is critical for investors. The exchange should remove language like the above and not prolong the standard practice of companies reporting ESG data months after the annual report. Rather, it should encourage the synchronisation of ESG reporting and financial reporting. If it is concise, reliable and material ESG data, then the exchange needs to encourage ESG and financial reporting systems be aligned.

Likewise, paragraph 72 notes: *We understand that an issuer will need to put systems in place to collect data so it may take up to three years before an issuer can meaningfully report on some KPIs.* This language effectively creates an escape clause for directors and executives to conclude the KPIs, while nice to have, are not strategically important. The exchange should emphasise that integrated reporting is a strategic imperative; directors and executives should have a similar sense of urgency and focus when launching a company's ESG reporting system.

**Integrated reporting should be encouraged**

ESG data should be an integral part of statutory and legally required financial reporting. For corporate directors and executives beginning to develop an ESG reporting system, we strongly recommend their goal be to communicate concise, reliable and material ESG information in the annual report. Having an integrated report combining the corporate sustainability strategy and performance with what is statutorily and legally required is a superior way to present significant information. Integrated reporting provides information in a holistic and coherent way so that time-constrained shareowners and other stakeholders (customers, suppliers, for instance) can make better informed decisions.

Within the firm, it forces corporate directors and executives to prioritise ESG drivers or key performance indicators (KPIs) of intrinsic firm value, otherwise the report could run into the hundreds of pages. This material priority approach gives managers an option to allocate additional resources for further reporting targeting specific stakeholders (customers, environmental NGOs, for example) at a later stage.

**Elusiveness of global standards is no excuse for companies to take a wait-and-see attitude**

Corporate directors and executives should use existing guidance (including Global Reporting Initiative, United Nations Global Compact, and International Integrated Reporting Committee) and identify for themselves what is material. We argue for a practical approach: Companies should start with what ESG disclosure they have and build on that!

Assuming that the Chief Financial Officer or financial controller already has a working model for the intrinsic value of the firm, directors might guide a process wherein a sustainability team would use the value drivers of the existing model and squeeze the model through an ESG filter, trying to find weaknesses and strengths of the firm's strategy and economics.



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If the company does not have a working financial model, then this exercise needs to happen coincident with establishing the sustainability team. The sustainability team would justify their recommendations by linking ESG issues related to a firm's strategy and economics with one (or more) of the following:

1. Minimizing taxes (e.g., credits for use of renewable energy or marketing of environmentally-friendly products)
2. Maximising sustainable profits
3. Optimising capital efficiency
4. Energising top-line (and cash) growth
5. Reducing cost of capital
6. Communicating with financial and real markets → ESG reporting system and disclosure

Point (6) naturally relates to concise, reliable and material ESG information being an integral part of statutory and legally required financial reporting.

The work of the International Integrated Reporting Committee ([IIRC](#)) and Hong Kong Institute of Certified Public Accountants (HKICPA), which formed the Sustainability and Integrated Reporting Advisory Group, are commendable. Identifying specific key performance indicators (KPIs) which can be commonly applied across listed issuers is useful. For entry level disclosure we offer the following suggested guidance:

Key performance indicator	Specification
Energy efficiency	Energy consumption, total
GHG emissions	GHG emissions, total (scope I, II)
Staff turnover	Percentage of full time employees (FTE) leaving per annum/total FTE
Training and qualification	Average expenses on training per FTE per annum
Maturity of workforce	Age structure/distribution (number of FTEs per age group, 10-year intervals)
Remuneration	Total amount of bonuses, incentives and stock options paid out in local currency (and US\$)
	Total number of FTEs who receive 90% of total amount of bonuses, incentives and stock options
	Key performance narrative (Please answer questions no longer than 500 words). Questions to consider include: Do you take ESG performance into account in your performance agreements? How do you integrate ESG principals within performance agreements in your company and to what extend do you apply it?
Litigation risks	Expenses and fines on filings, law suits related to anti-competitive behaviour, anti-trust and monopoly practices
Corruption	Percentage of revenues in regions with Transparency International corruption index below 6.0
Revenues from new products	Percentage of new products or modified products introduced less than 12 months ago
Innovation	Total R&D expenses
	Number of patents registered within last 12 months
	Total investments in research on ESG relevant aspects of business as defined by company
	Percentage of products or services for - increasing eco-efficiency of client applications or operations - developing and using clean technologies - offsetting climate change, carbon emissions, resource depletion - increasing fuel-efficiency - making ESG-relevant products operable (e.g., smart metering, green building technologies) - financing of ESG-relevant products or services
	R&D expenses in fuel efficiency and climate change mitigation as a percentage of revenue

Source: KPIs for ESG: A Guideline for the Integration of ESG into Financial Analysis and Corporate Valuation

#### **Listed issuers should be obligated to communicate ESG issues on a comply or explain basis**

We strongly recommend that listed issuers should be obligated to communicate the general disclosure and key performance indicators (KPIs), on a comply or explain basis, by 31 December 2013. This level of obligation is similar to the Corporate Governance Code. Moreover, there is precedent for more stringent HKEx rules. For example, the Listing Rules require mineral companies to make certain material sustainability-related disclosure in prospectuses. Because material ESG issues impact a firm's strategy and economics in all sectors, there is a strong argument for disclosure, on a comply or explain basis, for all listed issuers and not necessarily only mineral companies.



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#### **HKEx should require external, independent verification of ESG disclosures**

HKEx's recommendation not to require independent verification of ESG information because of the administrative burden is discouraging. The practice of disclosing unaudited ESG data should not be encouraged. As the Hong Kong Institute of Certified Public Accountants says, "ESG information is, however, becoming increasingly important to company valuations and assurance improves its quality so it is difficult to see why independent assurance should not be a best practice." Given our strong recommendation for external assurance, the limited number of KPIs above may serve as a foundation for entry level reporting to establish a relationship with a credible assurance provider. In the future, once this ESG reporting system is in place, then the directors and executives could add more KPIs after consultations with shareowners, customers, and other stakeholders.

Again, ASrIA welcomes the exchange's goal to create a culture for companies to integrate ESG issues into their business practices and to report them. The development, maintenance, and improvement of ESG reporting systems are corporate strategic imperatives and of great value to investors. To encourage action by companies, we need political will from policymakers; resolve from regulators and exchanges; a coordinated, assertive voice from institutional investors and their agents; and engagement from other stakeholders. We would be grateful if you would carefully consider our opinions and look forward to seeing the implementation of the ESG Reporting Guide.

Yours faithfully,

[Redacted]  
[Redacted]  
[Redacted]

[Redacted]  
[Redacted]  
[Redacted]



**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.

While in the first year the ESG guide should be a recommended best practice (RBP), afterwards, listed issuers should be obligated to communicate the general disclosure and key performance indicators (KPIs), on a comply or explain basis, by 31 December 2013. This level of obligation is similar to the Corporate Governance Code. Moreover, there is precedent for more stringent HKEx rules. For example, the Listing Rules require mineral companies to make certain material sustainability-related disclosure in prospectuses. Because material ESG issues impact a firm's strategy and economics in all sectors, there is a strong argument for disclosure, on a comply or explain basis, for all listed issuers and not necessarily only mineral companies.

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.

Proposed paragraphs should be amended as:

Issuers are encouraged to include information set out in Appendix 27 in the annual report regarding the same period covered in the annual report.  
~~or as a separate report. Note: Where the information is included in a separate report, it does not need to be issued at the same time or cover the same period as the annual report. An issuer is free to report on any period but should consistently report on the same period so that the information can be comparable.~~



**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.

We propose the following modifications:

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.~~

We agree with para. 5 so we hope that HKEx will give due consideration to align the ESG Guide with the Code of Corporate Governance. We understand as a practical matter not wanting to combine the two in the first year. However, if para. 5 is true, then why not have the ESG Guide cover the Code of Corporate Governance as well? We urge the exchange to bring corporate governance into the ESG Guide framework. By dividing the ESG Guide and Code of Corporate Governance reporting schemes, investors are forced to look in two separate places for this critical information. Moreover, calling it a “ESG” Guide will be confusing to investors who would expect the G, corporate governance, to also be included in the report.



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.



QUESTIONNAIRE ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

We request HKEx to reconsider the order of these paragraphs. By starting with “Not all ESG subject areas, aspects and KPIs in this Guide may be relevant to an issuer’s business...” the tone of the ESG Guide suggests that if directors and executives have time for these ESG things, then please include it. We urge a more urgent and impactful tone whereby corporate leaders are faced with a strategic imperative to identify material ESG issues which are currently impacting their value.

While we agree with para. 8, HKEx should consider identifying specific key performance indicators (KPIs) which can be commonly applied across listed issuers. For entry level disclosure we offer the following suggested guidance:

Key performance indicator	Specification
Energy efficiency	Energy consumption, total
GHG emissions	GHG emissions, total (scope I, II)
Staff turnover	Percentage of full time employees (FTE) leaving per annum/total FTE
Training and qualification	Average expenses on training per FTE per annum
Maturity of workforce	Age structure/distribution (number of FTEs per age group, 10-year intervals)
Remuneration	Total amount of bonuses, incentives and stock options paid out in local currency (and US\$)
	Total number of FTEs who receive 90% of total amount of bonuses, incentives and stock options
	Key performance narrative (Please answer questions no longer than 500 words). Questions to consider include: Do you take ESG performance into account in your performance agreements? How do you integrate ESG principals within performance agreements in your company and to what extend do you apply it?
Litigation risks	Expenses and fines on filings, law suits related to anti-competitive behaviour, anti-trust and monopoly practices
Corruption	Percentage of revenues in regions with Transparency International corruption index below 6.0
Revenues from new products	Percentage of new products or modified products introduced less than 12 months ago
Innovation	Total R&D expenses
	Number of patents registered within last 12 months
	Total investments in research on ESG relevant aspects of business as defined by company
	Percentage of products or services for - increasing eco-efficiency of client applications or operations - developing and using clean technologies - offsetting climate change, carbon emissions, resource depletion - increasing fuel-efficiency - making ESG-relevant products operable (e.g., smart metering, green building technologies) - financing of ESG-relevant products or services
	R&D expenses in fuel efficiency and climate change mitigation as a percentage of revenue

Source: KPIs for ESG: A Guideline for the Integration of ESG into Financial Analysis and Corporate Valuation

In addition to this baseline of reporting, directors and executives would identify KPIs based on the firm’s strategy and economics, which specifically relate to a firm’s intrinsic value and align with:

1. Minimizing taxes (e.g., credits for use of renewable energy or marketing of environmentally-friendly products)
2. Maximising sustainable profits
3. Optimising capital efficiency
4. Energising top-line (and cash) growth
5. Reducing cost of capital



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.



QUESTIONNAIRE ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

While we agree in the general wording, more consideration needs to be given as to the order of these paragraphs. Para 16 is one of the most important but is not listed first. If handled properly, this para. would include the scope of the reporting, for example.

A general comment about the use of the phrase “KPI” and para. 21. KPIs are measured and managed and therefore should be quantitative. While we agree the KPIs should be in tabular form to help investment analysts, some of the proposed KPIs do not seem to be quantitative. For example, KPI D1.1 reads:

*Focus areas of contribution (e.g education, environmental concerns, labour needs, health, culture, sport)*

Labelling this statement (and others which seem to be qualitative) as a KPI may confuse directors and executive as well as analysts.

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.

Corporate governance, Environmental and Social are suggested.



Aspects for each ESG Area

7. Do you agree with the following proposed aspects?

<b>Areas and aspects</b>
<b>A. Workplace quality</b>
Aspect A1 Working Conditions
Aspect A2 Health and safety
Aspect A3 Development and training
Aspect A4 Labour standards
<b>B. Environmental protection</b>
Aspect B1 Emissions
Aspect B2 Use of resources
Aspect B3 The environment and natural resources
<b>C. Operating practices</b>
Aspect C1 Supply chain management
Aspect C2 Product responsibility
Aspect C3 Anti-corruption
<b>D. Community involvement</b>
Aspect D1 Community investment

Yes

No

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

Investors may need an explanation of Aspect D. If it's corporate philanthropy, then some investors may need to understand how it relates to the firm's intrinsic value, specifically how it aligns with:

1. Minimizing taxes (e.g., credits for use of renewable energy or marketing of environmentally-friendly products)
2. Maximising sustainable profits
3. Optimising capital efficiency
4. Energising top-line (and cash) growth
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**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.

In the general disclosure in this aspect as well as the others, directors and executives need to articulate how this aspect relates to the firm's intrinsic value, specifically how it aligns with:

- 1. Minimizing taxes (e.g., credits for use of renewable energy or marketing of environmentally-friendly products)
- 2. Maximising sustainable profits
- 3. Optimising capital efficiency
- 4. Energising top-line (and cash) growth
- 5. Reducing cost of capital

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.



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

- Yes
- No

Please give reasons for your proposals.

See our suggested guidance on what all listed issuers should report in our response to Question 4.

#### 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.

In the general disclosure in this aspect as well as the others, directors and executives need to articulate how this aspect relates to the firm's intrinsic value, specifically how it aligns with:

1. Minimizing taxes (e.g., credits for use of renewable energy or marketing of environmentally-friendly products)
2. Maximising sustainable profits
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13. Do you agree to include KPI A2.1: "Fatality number and rate"?

- Yes
- No



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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.

This KPI is not quantitative. Companies will offer boilerplate responses that they all have strong occupational health and safety measures adopted.

A proposed KPI is "Number of times your policy on occupational health and safety measures was violated in the last 12 months"

Investment analysts might verify by cross-referencing information from the government agency in charge of inspections.

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.

In the general disclosure in this aspect as well as the others, directors and executives need to articulate how this aspect relates to the firm's intrinsic value, specifically how it aligns with:

1. Minimizing taxes (e.g., credits for use of renewable energy or marketing of environmentally-friendly products)
2. Maximising sustainable profits
3. Optimising capital efficiency
4. Energising top-line (and cash) growth
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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.

However, the percentage of employees trained might be more material than the description of the training so we would strike out "if relevant" in KPI A3.1 above.

The description of the training activities should relate to the firm's intrinsic value, specifically how it aligns with:

1. Minimizing taxes (e.g., credits for use of renewable energy or marketing of environmentally-friendly products)
2. Maximising sustainable profits
3. Optimising capital efficiency
4. Energising top-line (and cash) growth
5. Reducing cost of capital



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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.

Investors would want to know

Average expenses on training per Full Time Employee per annum

#### 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.



In the general disclosure in this aspect as well as the others, directors and executives need to articulate how this aspect relates to the firm's intrinsic value, specifically how it aligns with:

1. Minimizing taxes (e.g., credits for use of renewable energy or marketing of environmentally-friendly products)
2. Maximising sustainable profits
3. Optimising capital efficiency
4. Energising top-line (and cash) growth
5. Reducing cost of capital

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.

This KPI is not quantitative. Companies will offer boilerplate responses that they all are against child and forced labour.

If HKEx wants to mention this serious issue, then a proposed KPI is:

Expenses and fines on filings, law suits related to child and forced labour behaviour

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

Yes

No

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

This KPI is not quantitative. While the elimination of child and forced labour is laudable, there are many serious social issues impacting companies and vice versa. Therefore, having two KPIs focused on child and forced labour implies this is the one of the highest risks companies face. Is this high priority supported by data?

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

Yes

No

Please give reasons for your proposals.



For investors, they would also like to know the percentage of operating plants under different types of collective bargaining laws as this could impact negotiations over pensions, salaries and other material concerns.

**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<sub>x</sub>, SO<sub>x</sub>, 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.

In the general disclosure in this aspect as well as the others, directors and executives need to articulate how this aspect relates to the firm's intrinsic value, specifically how it aligns with:

1. Minimizing taxes (e.g., credits for use of renewable energy or marketing of environmentally-friendly products)
2. Maximising sustainable profits
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26. Do you agree to include KPI B1.1: "The types of emissions and respective emissions data"?

Yes

No



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

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.

HKEx guidance may consider aligning with the Carbon Disclosure Project.

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.



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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.

This KPI is not quantitative. We propose the following:

Capital expenditures on emission reduction measures (air, land, water)

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.

Instead of "description" we suggest companies report their expenses so the KPI would read:

Expenses related to the handling of hazardous and non-hazardous wastes as well as reduction initiatives

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

Yes

No

Please give reasons for your proposals.



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.

In the general disclosure in this aspect as well as the others, directors and executives need to articulate how this aspect relates to the firm's intrinsic value, specifically how it aligns with:

1. Minimizing taxes (e.g., credits for use of renewable energy or marketing of environmentally-friendly products)
2. Maximising sustainable profits
3. Optimising capital efficiency
4. Energising top-line (and cash) growth
5. Reducing cost of capital

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.

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.



HKEx guidance may consider aligning with the Water Disclosure Project.

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.

This KPI is not quantifiable. While qualitative descriptions of the result achieved are illuminating, they should be supported by verifiable data coming from trend data of KPI B2.1 and 2.2. Proposed change to KPI B2.3 might be:

Capital expenditures on energy use efficiency measures

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.

If there is a serious issue with sourcing any material resource (energy, water, human capital, etc) then this should be highlighted in the general disclosure rather than a KPI.

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.

HKEx guidance may consider aligning with the Plastic Disclosure Project.

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.

In the general disclosure in this aspect as well as the others, directors and executives need to articulate how this aspect relates to the firm's intrinsic value, specifically how it aligns with:

1. Minimizing taxes (e.g., credits for use of renewable energy or marketing of environmentally-friendly products)
2. Maximising sustainable profits
3. Optimising capital efficiency
4. Energising top-line (and cash) growth
5. Reducing cost of capital

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.

Companies may need more guidance. We recommend listed issuers and HKEx may consider aligning with the Forest Footprint Disclosure Project.

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

- Yes  
 No



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

This KPI is not quantifiable. We suggest the proposed KPI to be:

Expenses related to Paper use efficiency initiatives

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.

This description should be in the general disclosure and how it relates to a firm's intrinsic value.

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.



In the general disclosure in this aspect as well as the others, directors and executives need to articulate how this aspect relates to the firm's intrinsic value, specifically how it aligns with:

1. Minimizing taxes (e.g., credits for use of renewable energy or marketing of environmentally-friendly products)
2. Maximising sustainable profits
3. Optimising capital efficiency
4. Energising top-line (and cash) growth
5. Reducing cost of capital

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.

Companies will need guidance on this KPI. Which geographical region would a US-headquartered supplier with a plant in China be in?

Investors may find enhanced disclosure of supply chain by products informative. For example, listed issuers may disclose cost of goods sold (COGS) broken down by supplier.

*Product A*

20% COGS - Vietnam  
10% COGS – Brazil  
30% COGS – China  
25% COGS - USA  
15% COGS – Turkey

While listed issuers may argue they do not disclose this type of information for commercially sensitive reasons, product analysts typically breakdown the supply chain this way and it's widely reported in the press.

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.

This type of information is better placed in the general disclosure as it relates to the rationale of including supply chain management in the ESG Guide.



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.

In the general disclosure in this aspect as well as the others, directors and executives need to articulate how this aspect relates to the firm's intrinsic value, specifically how it aligns with:

1. Minimizing taxes (e.g., credits for use of renewable energy or marketing of environmentally-friendly products)
2. Maximising sustainable profits
3. Optimising capital efficiency
4. Energising top-line (and cash) growth
5. Reducing cost of capital

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.

This KPI is not quantifiable. We propose the following:

Expenses and fines on filings, law suits related to intellectual property rights

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.

This KPI is not quantifiable. More than likely how a company expenses product warranties is already included in its statutorily required financial statements.



## **Association for Sustainable & Responsible Investment in Asia**

### QUESTIONNAIRE ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

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.

KPI is not quantifiable. Proposed change might be:

Revenues related to consumer data protection and privacy  
Expenses related to consumer data protection and privacy

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.



In the general disclosure in this aspect as well as the others, directors and executives need to articulate how this aspect relates to the firm's intrinsic value, specifically how it aligns with:

1. Minimizing taxes (e.g., credits for use of renewable energy or marketing of environmentally-friendly products)
2. Maximising sustainable profits
3. Optimising capital efficiency
4. Energising top-line (and cash) growth
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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.

In addition to the number of cases, this KPI might be enhanced by including the following:

Expenses and fines on filings, law suits related to corrupt practices brought against the issuer or its employees during the reporting period

58. Do you agree to include KPI C3.2: "Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored"?

- Yes  
 No

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

This KPI is not quantitative. While the policy description is informative, the KPI might be:

Number of times in the last 12 months the whistleblower policy was activated

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

- Yes  
 No

Please give reasons for your proposals.



Another KPI related to corruption would be:

Percentage of revenues in regions with Transparency International corruption index below 6.0

**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.

In the general disclosure in this aspect as well as the others, directors and executives need to articulate how this aspect relates to the firm's intrinsic value, specifically how it aligns with:

1. Minimizing taxes (e.g., credits for use of renewable energy or marketing of environmentally-friendly products)
2. Maximising sustainable profits
3. Optimising capital efficiency
4. Energising top-line (and cash) growth
5. Reducing cost of capital

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.

A clear link between community investment and the firm's value needs to be established for many investors. Otherwise, they will argue that they as private individuals can directly contribute to education, environmental concerns, labour needs, health issues, culture and sports rather than corporate directors and executives.

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.

HKEx's recommendation not to require independent verification of ESG information because of the administrative burden is discouraging. The practice of disclosing unaudited ESG data should not be encouraged. As the Hong Kong Institute of Certified Public Accountants says, "ESG information is, however, becoming increasingly important to company valuations and assurance improves its quality so it is difficult to see why independent assurance should not be a best practice." Given our strong recommendation for external assurance, the limited number of KPIs above may serve as a foundation for entry level reporting to establish a relationship with a credible assurance provider. In the future, once this ESG reporting system is in place, then the directors and executives could add more KPIs after consultations with shareowners, customers, and other stakeholders.

- End -