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

By email to: [response@hkex.com.hk](mailto:response@hkex.com.hk)

26 August 2015

Dear Sir/Madam,

Please find attached the response by BMO Global Asset Management EMEA to the Exchange's Consultation Paper on Review of the ESG Reporting Guide that was published in July 2015.

We are pleased to contribute to this important review, and hope that our comments are useful in your deliberations. Please feel free to contact me if you have further questions or comments. We would be happy to meet with you, as required, to discuss our views in further detail.

With best wishes,

Kwai San Wong  
Analyst  
Governance and Sustainable Investment



## Consultation Paper on Review of the ESG Reporting Guide

BMO Global Asset Management EMEA is an asset management firm with assets under management of USD 109.5bn as of June 2015. As well as acting for our own portfolios, we also represent the interests of over 26 major third-party investment institutions with USD 76bn of assets. We have long been an active voice in support of robust ESG reporting in jurisdictions where we invest. In this context we welcome the opportunity to comment on the Consultation Paper on Review of the ESG Reporting Guide.

We are supportive of the development of ESG reporting in Hong Kong. As an active investor for many years, we believe that robust engagement and voting by institutional investors is critical to the health of financial markets and long-term value creation. This is particularly true in Hong Kong's principles-based, "comply or explain" regulatory regime, whose effectiveness requires an active involvement by investors in engaging with companies and monitoring their compliance with the Hong Kong Corporate Governance Code.

We present below our responses outlined in the consultation paper.

### The need for ESG reporting that focuses on materiality

- We support the Exchange's proposal to re-organise the ESG Guide and upgrade some of the disclosure to "comply or explain". This will raise the ESG reporting standards in Hong Kong and help investors who incorporate environmental, social and governance (ESG) factors in their investment decisions. Better ESG reporting by companies will also enable investors to carry out responsible ownership/stewardship activities on which the Securities and Futures Commission consulted the market early this year.
- While we broadly support the proposal that listed issuers should report on their environmental KPIs on a "comply or explain" basis, we would like to emphasise that investors focus on all material ESG issues, i.e. ESG factors that will present significant risks and opportunities to a business. Therefore, any steps taken by the Exchange should promote better ESG reporting across all extra-financial KPIs considered material by the company in order to ensure consistency and comparability. In the Hong Kong market, we hold routine conversations with our investee companies on supply chain management, product responsibility and anti-corruption, in addition to environmental issues. Upgrading environmental KPIs to "comply or explain" is encouraging, but we hope companies would not be distracted from focusing on other issues that are material.

### The governance of ESG management

- We agree with the Exchange's clarification that the board has overall responsibility for an issuer's ESG strategy and reporting, and this is in line with our current approach to engagement with investee companies through which we encourage board oversight on significant ESG risks and opportunities.
- We believe that a link between Appendices 14 and 27 should be better defined under the Overall Approach in Appendix II to further ensure that the issuers address the role of governance in their ESG reports, and environmental and social matters in their corporate governance reports. Currently, the relationship has not been established in sufficient detail; as a consequence, the quality of reporting can be significantly affected by neglecting critical aspects of governance such as risk management and strategy which are essential to the ESG Guide and its reporting.

**Regular review of the disclosure by appropriate supervisory authority**

- We encourage the appropriate supervisory authority to carry out periodic reviews and evaluation on the quality of company disclosure to ensure the intended purpose of the disclosure is met.

## 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/eng/newsconsul/mktconsul/Documents/cp201507.pdf>

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

1. Do you agree with our proposal to amend Rule 13.91 to require issuers to disclose in their annual reports or ESG reports whether they have complied with the “comply or explain” provisions in the ESG Guide and if they have not, they must give considered reasons in the ESG reports?

Yes

No

Please give reasons for your views.

*We use ESG data and reports to research and engage with investee companies. In the Hong Kong market where such disclosure is not yet mainstream, introducing a "comply or explain" approach will drive improved ESG reporting in this market and enable us to diligently consider both financial and ESG factors in making investment decisions.*

2. Do you agree with our proposal to amend Rule 13.91 to require the issuer to report on ESG annually and regarding the same period covered in its annual report?

Yes

No

Please give reasons for your views.

*ESG data and reporting should not be viewed and interpreted independent of the company's business and financial data; hence ESG reporting should be made annually and cover the same period as the annual report.*

3. Do you agree with our proposal to include a Note under Rule 13.91 to clarify that:
- (i) an ESG report may be presented as information in its annual report, in a separate report, or on the issuer’s website; and
  - (ii) the issuer should publish the ESG report as close as possible to, and in any event no later than three months after, the publication of the issuer’s annual report?

Yes

No

Please give reasons for your views.

***The ESG issues discussed in the ESG report should be material and relevant to the company’s business, and therefore the ESG report should be released at the same time as the annual report, and ideally be part of the annual report.***

***We understand that some issuers may wish to have an interval between the publication of the annual report and the ESG report due to resource constraints. While additional disclosure on the website on a range of sustainability issues intended for broader stakeholder use is acceptable, it is critical for investors that companies disclose all ESG issues that are material to their businesses in a timely manner which is best achieved by releasing the ESG report at the same time, and as part of the annual report.***

4. Do you agree with our proposal to revise the introductory section of the Guide into four areas (i.e. “The Guide”, “Overall Approach”, “Reporting Principles” and “Complementing ESG Discussions in the Business Review Section of the Directors’ Report”), and with the wording set out in Appendix II to the Consultation Paper?

Yes

No

Please give reasons for your views.

***We believe that a link between Appendices 14 and 27 should be better defined under the Overall Approach in Appendix II to further ensure that the issuers address the role of governance in their ESG reports, and environmental and social matters in their corporate governance reports. Currently, the relationship has not been established in sufficient detail; as a consequence, the quality of reporting can be significantly affected by neglecting critical aspects of governance such as risk management and strategy which are essential to the Guide and its reporting.***

5. Do you agree with the proposed wording of the Reporting Principles (i.e. “Materiality”, “Quantitative”, “Balance” and “Consistency”) in the introductory section of the Guide, as set out in Appendix II to the Consultation Paper?

Yes

No

Please give reasons for your views.

***We generally agree with the proposed wording. Considering materiality, we would like to stress that:***

***1) A company will have impacts on the environment and society, but will in turn also be affected by various ESG issues in its operating environment. We encourage companies to focus on ESG factors that will impact their businesses as well as the external ESG impacts they create when identifying material ESG issues.***

***2) In disclosing material sustainability matters, we encourage companies to discuss how these matters could affect their business models, revenues, costs, capital expenditures and cash flows. Risks to corporate reputation and brand image are important and are seen as material by investors when they are likely to have a financial impact on a company’s business.***

***In addition, it is important that the quality of the disclosed information is regularly reviewed and evaluated by the appropriate supervisory authority to ensure the intended purpose of the disclosure is met.***

6. Do you agree with the proposed wording in the Guide linking it to Appendix 16 to the Main Board Listing Rules (in relation to the requirement for ESG discussions in the business review section of the directors’ report), as set out in Appendix II to the Consultation Paper?

Yes

No

Please give reasons for your views.

7. Do you agree with the proposal to re-arrange the Guide into two Subject Areas (A. Environmental and B. Social) and re-categorise “Workplace Quality”, “Operating Practices” and “Community Involvement” under Subject Area B?

Yes

No

Please give reasons for your views.

***Rearranging the Guide gives it a better structure. However, we are concerned that steps to link the Guide to Appendix 14 Corporate Governance Code have not been clearly highlighted in the Guide. Defining the link will help build the issuers’ understanding on the element of governance in the Guide, which will contribute towards incorporating their ESG reporting in their good governance activity, and integrating it with their stewardship responsibilities as well.***

8. Do you agree with the proposal to change the heading “Workplace Quality” to “Employment and Labour Standards”?

Yes

No

Please give reasons for your views.

9. Do you agree with our proposal to upgrade the General Disclosures for each Aspect of the ESG Guide to “comply or explain”?

Yes

No

Please give reasons for your views.



10. Do you agree with our proposal to amend the wording of paragraph (b) under current Aspects A1, A2, A4, B1, C2 and C3, re-numbered Aspects A1, B1, B2, B4, B6 and B7, to “compliance with relevant laws and regulations that have a significant impact on the issuer...” in order to align it with the language of the relevant provisions of the Companies Ordinance?

Yes

No

Please give reasons for your views.

***Compliance with relevant laws and regulations are expected of listed issuers but this is not enough to help them deal with significant ESG risks and opportunities in their operating environments. We expect listed companies to comply with all applicable laws and regulations, but equally need to understand their ability to anticipate and cope with changes in the laws and regulations, which tend to tighten as the economy develops.***

***While we understand that this change is a mere alignment with relevant provisions of the new CO, we would like to suggest that, instead of reporting compliance with laws and regulations, companies should disclose their management systems and measures or actions taken to deal with material ESG issues. In addition, disclosing a corporate structure chart or a description of the governance framework for decision-making and implementing sustainability measures would be useful as this would help investors understand the approach the company adopts. This information will help investors understand the readiness of a company to tackle its material ESG challenges and opportunities.***

***We would also like to stress that aspects B5-B7 – supply chain management, product responsibility and anti-corruption – are part of our routine conversations with our investee companies, as these ESG issues are often material to their businesses. We would suggest that the Exchange consider require that these disclosures be on a “comply or explain” basis.***

11. Do you agree with our proposal to revise proposed Aspect A1 (“Emissions”) by upgrading to “comply or explain” the current KPIs B1.1, B1.2, B1.4 and B1.5, re-numbered KPIs A1.1, A1.2, A1.4 and A1.5, concerning disclosure of emissions and non-hazardous waste?

Yes

No

Please give reasons for your views.

*We encourage companies to refer to international standards if possible when reporting in this area in anticipation of further convergence between Hong Kong's ESG reporting standards and international standards in future.*

12. Do you agree with our proposal to upgrade to “comply or explain” the current KPIs B1.3 and B1.6, re-numbered KPIs A1.3 and A1.6, concerning disclosure of hazardous waste?

Yes

No

Please give reasons for your views.

***We encourage companies to refer to international standards if possible when reporting in this area in anticipation of further convergence between Hong Kong’s ESG reporting standards and international standards in future.***

13. Do you agree with our proposal to upgrade to “comply or explain” the KPIs under the current Aspect B2, re-numbered Aspect A2, “Use of Resources”?

Yes

No

Please give reasons for your views.

***We encourage companies to refer to international standards if possible when reporting in this area in anticipation of further convergence between Hong Kong’s ESG reporting standards and international standards in future.***

14. Do you agree with our proposal to upgrade to “comply or explain” the current KPI B3.1, re-numbered KPI A3.1, concerning disclosure of the significant impacts of activities on the environment and natural resources?

Yes

No

Please give reasons for your views.

***We encourage companies to refer to international standards if possible when reporting in this area in anticipation of further convergence between Hong Kong’s ESG reporting standards and international standards in future.***

15. Do you agree with our proposal to incorporate gender disclosure in proposed Subject Area B. Social, under the sub-heading “Employment and Labour Standards”?

Yes

No

Please give reasons for your views.

***We encourage companies to refer to international standards if possible when reporting in this area in anticipation of further convergence between Hong Kong’s ESG reporting standards and international standards in future.***

- End -