



WORLD GREEN
ORGANISATION

WORLD GREEN ORGANISATION LIMITED

世界綠色組織有限公司

(Registered Charitable Institution)

(註冊慈善機構)



17 September 2015

By email to : response@hkex.com.hk

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

Dear Sir/Madam,

Consultation Paper : Review of the Environmental, Social and Governance (ESG) Reporting Guide (July 2015)

World Green Organisation Limited (WGO) welcomes the Hong Kong Exchanges and Clearing Limited (HKEx) to upgrade the requirements of listed companies on ESG performance and we are pleased to have the opportunity to comment on the revised ESG guideline..

World Green Organisation Limited

WGO is an independent non-governmental organisation concerned with environmental conservation and environmentally related livelihood and economic affairs. It provides a holistic approach to a fully integrated three-pronged solution that combines social, environmental and economic aspects for an environmental revolution.

Since its establishment in late 2012, WGO has been actively engaging the business sectors and mobilising their participation in ‘go-green’ measures for daily operations, such as Green Office Awards Labelling Scheme (GOALS), Waste Audit and Reduction Initiatives as well as Energy Efficiency Analysis with ultimate goals to reduce Greenhouse Gas (GHG) emissions coupled with CSR and CSV initiatives. Under GOALS, over 230 offices have been well recognised and awarded by WGO’s Green Office Label and United Nations Better World Company Label over the past 2 years. More details of the programmes can be found on WGO’s official website.

Comments on the Proposed Changes to the Existing ESG Guideline

WGO acknowledges the legitimate needs that the ESG reporting is a required practice to the listing rules as it can raise awareness on Environmental, Social and Governance dimensions, meeting the global trend on greater demand for disclosure of both financial and non-financial information from the investors and other stakeholders. WGO fully supports the launch of a practical ESG guideline which allows companies to disclose related ESG data while meeting the market expectation and improving the strategic position of the listed companies.

WGO is pleased to share our comments with HKEx, which might be used in formulating its final ESG guidelines, as described below:

1. The revamp of the introductory section of the ESG guideline can deliver an important signal to the company's management body; i.e. the Board of Directors are with significant roles on overall responsibility and accountability for ESG strategy and reporting content, mitigation and management of corresponding risks as well as internal control systems.
2. WGO expects that the proposed changes can encourage the top management to be effectively engaged in formulating the ESG visions and related strategies for the benefit of enhancing the strategic development of the company. The requirements for the regularly (annually), timely and flexible (no later than three months after production of annual report) approaches of ESG reporting can facilitate the management in taking a closer review on setting and achieving reasonable improvement targets of KPIs and overall ESG performance.
3. WGO welcomes the ideas of categorising the 4 reporting principles (Materiality, Quantification, Balance and Consistency) and integrating the "Workplace Quality", "Operating Practices" and "Community Involvement" into a new Subject Area - "Social". On the one hand, such changes can improve the clarity of different natures in the ESG reporting to the stakeholders, on the other hand, the proposed wordings and changes are in line with the new Companies Ordinance (Cap 622) and comparable to the terminology of the international guidelines.

Recommendations

In the long run, this ESG guideline shall be further upgraded to fully match the global requirements and international best practices due to the significant increases in the amount of policies and regulations derived for ESG reporting.

1. WGO is delighted to see the KPIs in the Subject Area, “Environmental” is upgraded to “comply or explain” on its three Aspects: - Emissions, Use of resources, The environment and natural resources. According to the recent report on the carbon disclosure of Hong Kong listed companies¹, it was found that only 19% of the surveyed companies disclosed GHG emissions in line with the International GHG Protocol standard in 2013, which was still in low side compared to the global disclosure rate.

Apart from KPMG’s Top 10 Risks² – Expected Severity Ranking Study conducted in 2012 in Australia that Environmental issues, such as Climate Change was ranked top on the list, the understanding and perceptions of business sectors and their employees towards the potential impact and risks brought by Environment can be enhanced and educated through the means of ESG reporting.

According to WGO’s Climate Risk Assessment Report 2015 to be published³, it was deemed critical to determine precisely how climate changes are expected to impact Hong Kong, as well as how increasingly erratic, frequent or intense events may affect Business Operations - infrastructure, supply, facilities, production processes, home-installed appliances, personnel, and customers.

Setting carbon-related KPI is a highly significant factor in successfully gauging employees’ preparedness in the face of potential manifestations of climate change. Awareness impacts the entirety of Businesses’ resilience, preparedness in general, and the appropriateness and robustness of any mitigation strategies & deployments.

According to the independent non-profit Development Assistant Research Associates (DARA)⁴ climate-related risks cost the global economy US\$1.2 trillion per year. By 2030 the three most populous nations - the United States of America (USA), India & the People’s Republic of China (PRC) are expected to face damage costs of US\$2.5 trillion. It is also expected that these three nations shall see an additional 3 million deaths per year, as climate and weather extremes increase in frequency or magnitude. The USA, India and the PRC combined would, therefore, account for half of increased mortality expected to be incurred by rising climate risk and extreme events. However, India and the PRC, as developing and less resilient nations, will absorb the majority of this loss.

The quantification of environmental disaster and impact into monetary terms will positively inform businesses through P&L in terms of risk mitigation and management. The establishment of carbon emissions, carbon costs, carbon budget will build the foundation and baseline for future quantification process.

2. WGO would like to recommend HKEx to set a timeframe for upgrading the disclosure of Social aspects from “recommended” to “comply or explain” level in the near future. We believe that adopting a higher standard across all areas can provide an incentive for issuers to allocate more resources in social aspects and bring along forthcoming commendable performance.
3. WGO agrees with HKEx that the third party assurance is not required for ESG reporting at this stage as many listed companies are still very new to the concepts of ESG. Nevertheless, HKEx could provide a clear framework for the issuers on quality control and creditability of ESG reports. A “grace-period” approach or any assessment measures shall be introduced in regular consultation for subsequent revision of the ESG guide. The scope and number of KPIs should be reviewed after 2 years of implementation and the feedback from the issuers should be regularly collected, making reference to the global trend in international reporting.
4. HKEx may consider adopting a higher standard in subsequent review, especially the new G4 version of Global Reporting Initiative has been widely adopted by many international companies, and ISO 26000 Guidance on Social Responsibility has formed the basis for HKQAA in deriving its social responsibility index.
5. Data collection should be systematically formulated towards the establishment of benchmarking measurement for the industry/sector in order to make the reported data from the companies sensible and comparable.
6. Regarding the reporting format, working towards Integrated Reporting should be the option to further explore in next review as it reflects how companies create value in the short, medium and long term. The integrated reporting framework⁵ enables investors to understand the longer term prospects of the companies they invested instead of focusing on short term, largely backward-looking, financial information. WGO welcomes the option given to companies to report on ESG data through ESG report, CSR report and sustainability report or incorporated into annual report.

Projected Contribution from WGO in ESG Reporting

1. According to the KPMG report on SustainAbility⁶, the readers expected a stronger role of stakeholders being engaged through the ESG reporting and how the stakeholders’ feedback could be incorporated into corporate strategies and targets. In addition, readers also looked for a balance view between “good” and “bad” in

terms of the disclosure in ESG performance for a good ESG reporting. In order to strengthen the credibility of ESG reports, the process of Stakeholder Engagement and Materiality Assessment should be emphasized.

2. According to Edelman Trust Around the World Survey 2014, The public trust level to business severely dropped in 2012 to 53% and improved to 58% in 2013 and maintained the same in 2014. To re-establish trust between public and business sector, companies should commit to Corporate Social Responsibility (CSR) and a higher level to Creating Shared Value (CSV) platform and engage the public as well as related stakeholders. Through Stakeholder Engagement and Materiality Assessment, companies should be able to build communication, clarification and hence trust throughout the process with their important stakeholders. Non-profit making organisation or Non-governmental organisation can definitively play a role to facilitate the trust building and communication as the public trust level to NGO is higher.
3. In order to raise the quality in reporting, the continuous training in related skills and knowledge is essential. WGO contributed to designing and delivering ESG training in the past, such as speaking to 200 professional accountants in one seminar, 100+ CFOs, CSR practitioners and Company Secretaries in different seminars and workshops. In the near future, we will co-design training workshops with HKIoD to support the Directors on the knowledge and skill in ESG strategy formulation and reporting.

Yours sincerely,

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Founder & Chief Executive Officer
World Green Organisation (WGO)



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References:

1. *Carbon Matters – A review of listed companies' carbon disclosures and performance in Hong Kong. July 2015, Trucost & British Consulate – General Hong Kong*
2. *Australian Report 2012, KPMG, ADC Forum*
3. *Report: Climate Change & Extreme Event Risks to Hong Kong Gas Supply – Operational Implication and Prevention 2015 (To be published in November, 2015)*
4. *Report: DARA & The Climate Vulnerable Forum (2012) Climate vulnerability monitor: A guide to the cold calculus of a hot planet.*
5. *International Integrated Reporting Council IIRC*
6. *Count me in: The readers' take on sustainability reporting. KPMG & SustainAbility Limited, 2008.*