Part B  Consultation Questions


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

Timeframe for Publication of ESG Reports

1. Do you agree with our proposal to amend Main Board Listing Rule 13.91 and GEM Listing Rule 17.103 to shorten the time required to publish an environmental, social and governance ("ESG") report from three months after the publication of the annual report to within four months for Main Board issuers or three months for GEM issuers from the financial year-end date?

☑ Yes
☑ No

Please give reasons for your views.

We understand quite a lot of issuers are already publishing their ESG Report together with the annual report and this new proposed change should be manageable for most companies. This should allow investors to have a full picture of the company’s all-rounded performance at the same time.

Printed Form of ESG Reports

2. Do you agree with our proposal to amend the Listing Rules and the Guide to clarify that issuers are not required to provide printed form of the ESG report to shareholders unless responding to specific requests, but are required to notify shareholders that the ESG report has been published on the Exchange’s and the issuer’s websites?

☑ Yes
☑ No

Please give reasons for your views.

We agree and support this measure to protect the environment and reduce associated costs. We believe in due course the same arrangement should be applied to annual reports as well.
Introducing Mandatory Disclosure Requirements

General

3. Do you agree with our proposal to amend the Guide to introduce Mandatory Disclosure Requirements ("MDR")?

☐ Yes
☒ No

Please give reasons for your views.
After careful consideration and deliberation with member representatives, we have come to believe it is too soon to introduce such mandatory disclosure requirements. Rather we believe issuers should be given a lot more leeway in determining the level, amount and contents of disclosure based on their own strategic needs, company situation and cost-benefit analysis, and should be allowed more time to cope with the existing disclosure requirements first.

The Chamber supports the ESG beliefs and actions and in fact through numerous seminars and talks have promoted the concept and encouraged commitment from our member companies. But we have doubts about changing many of the requirements to mandatory, or even comply-or-explain.

One argument for fuller disclosure is to raise transparency to enable investors, particularly institutional ones, to have a better understanding of the company's performances before they make investment decisions. It would also allegedly allow comparison among different companies. But let's not forget fulfilling disclosure requirements and committing to actions, is altogether a costly and time-consuming process, requiring much management effort. Issuers should be convinced the benefits would justify the work. From the consideration of attracting institutional investor capital, larger companies or those in environmental and social sensitive sectors would no doubt be willing to oblige. But for smaller ones, who do not fall onto the radar screen of institutional investors, there is no apparent benefits in this regard, apart from being good corporate citizens.

As for providing a basis of comparison, it is not as easy as it seems as companies may apply different methodologies to calculate and measure their performances. This is particularly true for the Environmental Aspects. The units of say emissions may even be different across countries. The key issue is to identify consistent and comparable metrics and methodology for measuring the company's control of emission/energy consumption. Given a globally accepted standard for measuring environmental aspects is yet to be identified and recognized, it is premature to introduce MDR at this stage.

If we look back at the history of the ESG reporting in Hong Kong, issuers published their first separate ESG reports only beginning from FY2016; then reporting Environmental KPIs on a "comply-or-explain" basis beginning from FY2017. By FY2020, issuers would have only published 4 ESG Reports. It is fair to say ESG reporting is relatively new to Hong Kong and issuers are still only beginning to accumulate experience in handling the existing requirements and fine tune their disclosures quality. It is premature to add further to their disclosure responsibilities such as those proposed in this consultation. It would only complicate the disclosure efforts and stretch the management efforts, dragging down the overall reporting quality. Henceforth, we believe many of the additional requirements shall best be left as Recommended Best Practices. For companies who see the value and benefits, they would be more than willing to disclose. Indeed, we have seen larger issuers such as China Light and Power, MTR and Link Reit are all complying with the much higher standard of GRI, over and beyond the Exchange's requirements. Other companies on the other hand, should not be pressed to disclose something that carries no apparent value to them.

In fact, as your consultation pointed out, many overseas jurisdictions do not have mandatory requirements for sustainability issues but "comply-or-explain" except Singapore and Malaysia, and where there are strict reporting obligations, they mostly apply to companies who are high polluters passing certain thresholds.

If despite our submission, HKEx still considers that it is necessary to introduce the Disclosure Requirements, we will submit that such Disclosure Requirements be introduced by way of 'comply or explain' so that our members will have more flexibility to tailor-make their disclosure requirements to suit their companies and purposes and not mandatory given that for any mandatory disclosure, any failure to disclose or incomplete disclosure may constitute a breach of the Listing Rules by the issuers and they may be subject to disciplinary action under the Listing Rules. If so and if the Disclosure Requirements are to be introduced, we strongly suggest that they are introduced by way of comply or explain regimes so that our members will have time to familiarise themselves with the Disclosure Requirements before they are upgraded to Mandatory Disclosure Requirements.
Governance Structure

4. If your response to Question 3 is positive, do you agree with our proposal to introduce an MDR requiring a statement from the board containing the following elements:

   (a) a disclosure of the board’s oversight of ESG issues?

   (b) the process used to identify, evaluate and manage material ESG-related issues (including risks to the issuer’s businesses); and

   (c) how the board reviews progress made against ESG-related goals and targets?

☐ Yes
☒ No

Please give reasons for your views.

We do not object to companies talking about this but as per our thinking in Q.3 this needs not be made mandatory.
5. Do you agree with our proposal to set out in a note that the board statement should include information on the issuer’s current ESG management approach, strategy, priorities and goals/targets and an explanation of how they relate to the issuer’s businesses?

☐ Yes
☒ No

Please give reasons for your views.

We do not object to companies talking about this but as per our thinking in Q.3 this needs not be made mandatory.

Reporting Principles

6. Do you agree with our proposal to amend the Guide to introduce an MDR requiring disclosure of an explanation on how the issuer has applied the Reporting Principles in the preparation of the ESG report?

☐ Yes
☒ No

Please give reasons for your views.

We do not object to companies talking about this but as per our thinking in Q.3 this needs not be made mandatory.

7. Do you agree with our proposal to amend the Reporting Principle on “materiality” to make it clear that materiality of ESG issues is to be determined by the board and that the issuer must disclose a description of significant stakeholders identified, the process and results of the issuer’s stakeholder engagement (if any), and the criteria for the selection of material ESG factors?

☐ Yes
☒ No

Please give reasons for your views.

We do not object to companies talking about this but as per our thinking in Q.3 this needs not be made mandatory.
8. Do you agree with our proposal to amend the Reporting Principle on "quantitative" to:

   (a) require disclosure of information on the standards, methodologies, assumptions and/or calculation tools used, and source of the conversion factors used for the reporting of emissions/energy consumption (where applicable); and

   (b) clarify that while key performance indicators ("KPIs") for historical data must be measurable, targets may be expressed by way of directional statements or quantitative descriptions?

☐ Yes
☒ No

Please give reasons for your views.

We do not object to companies talking about this but as per our thinking in Q.3 this needs not be made mandatory. (a) Without a generally accepted measuring and reporting standard, we foresee that the disclosure of standards, methodologies or assumptions used in ESG report would be rather clumsy and probably provide little value to investors (b) We agree targets would be easier to make by way of a directional statement than actual numerical figures.

Reporting Boundary

9. Do you agree with our proposal to amend the Guide to include an MDR requiring an explanation of the ESG report's reporting boundary, disclosing the process used to identify the specific entities or operations that are included in the ESG report?

☐ Yes
☒ No

Please give reasons for your views.

We do not object to companies talking about this but as per our thinking in Q.3 this needs not be made mandatory. In any case, this is relatively easy to report if the issuer chooses to do so.
Introducing Aspect on Climate Change and Revising the Environmental KPIs

Climate Change

10. Do you agree with our proposal to introduce a new Aspect A4 requiring:

(a) disclosure of policies on measures to identify and mitigate the significant climate-related issues which have impacted, and those which may impact the issuer; and

(b) a KPI requiring a description of the significant climate-related issues which have impacted, and those which may impact the issuer, and the actions taken to manage them?

☒ Yes
☐ No

Please give reasons for your views.

Targets

11. Do you agree with our proposal to amend the Environmental KPIs to require disclosure of a description of targets set regarding emissions, energy use and water efficiency, waste reduction, etc. and steps taken to achieve them?

☐ Yes
☒ No

Please give reasons for your views.

We believe many issuers are not ready to disclose targets. In a quick survey we conducted among some of our members, respondents indicated setting targets are most challenging based on their current resources and knowledge level. More guidelines needed to be given as to how to arrive at one, and how to decide on the time horizon, and how to monitor on a rolling basis. This aside, the targets put down are at best guestimates, as the level of emission, wastage or water usage will fluctuate according to the scale of the business and production. Even if targets are made on a ratio basis, the base would vary amongst issuers. Some would go for per capita, some go for production units, etc. As a result, peer comparison, which is one of the purported benefits of quantitative disclosure, is hard to achieve. We do not think making the target requirement a comply-or-explain very useful at this stage and it shall remain as a recommended best practice.
GHG Emissions

12. Do you agree with our proposal to revise an Environmental KPI to require disclosure of Scope 1 and Scope 2 greenhouse gas ("GHG") emissions?

☐ Yes
☒ No

Please give reasons for your views.

Again we believe Scope 2 emission is best left as a recommended best practices. It is very time consuming and cumbersome for the companies in collecting emission data from indirect sources. It will face the challenges of reconciling the emission units across markets. We do not see much value of producing this set of figures to many issuers.

Upgrading the Disclosure Obligation of the Social KPIs

13. Do you agree with our proposal to upgrade the disclosure obligation of all Social KPIs to "comply or explain"?

☐ Yes
☒ No

Please give reasons for your views.

Our position remains that issuers be left with the choice to decide what to disclose based on their own cost-benefit analysis. Although the proposal is to make such disclosure "comply-or-explain", non-disclosure would still be deemed as non-compliance, and as such would give pressure to issuers to disclose, perhaps to no apparent benefits to them. We believe that unless the information suggested for disclosure are readily available to issuers, disclosures be left as recommended best practices.
Revising the Social KPIs

Employment Types

14. Do you agree with our proposal to revise a KPI to clarify "employment types" should include "full- and part-time" staff?

☒ Yes
☐ No

Please give reasons for your views.

Rate of Fatalities

15. Do you agree with our proposal to amend the KPI on fatalities to require disclosure of the number and rate of work-related fatalities occurred in each of the past three years including the reporting year?

☐ Yes
☒ No

Please give reasons for your views.

Some members have concerns about this as this is a sensitive subject. For fatality cases, usually legal proceedings and compensation claims would ensue and that may last over a long period of time. We believe issuers shall be left with the flexibility of disclosing this or not after considering the legal implications on a case by case basis.
Supply Chain Management

16. Do you agree with our proposal to introduce the following new KPIs in respect of supply chain management?

(a) Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.

(b) Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.

☐ Yes
☒ No

Please give reasons for your views.

For many smaller issuers, the criteria used to select suppliers is still costs, and environmental and social performance of suppliers will be of secondary consideration, and therefore they may not have well-developed procedures. If this becomes a comply-or-explain KPI, issuers will be pressured to develop something to fulfil this requirement for the sake of compliance. And there is doubt how strongly these will be enforced. On the other hand, for larger companies who are more sophisticated in the sourcing and have stronger bargaining power and leeway with their suppliers, such procedures are more common. There will be no problem for them to report on those. We believe this be left as a RBP. Large companies would disclose if they see fit while smaller ones will not be pressured to do so if they do not wish to be seen as non-compliance.

Anti-corruption

17. Do you agree with our proposal to introduce a new KPI requiring disclosure of anti-corruption training provided to directors and staff?

☒ Yes
☐ No

Please give reasons for your views.
Encouraging Independent Assurance

18. Do you agree with the proposal to revise the Guide’s wording on independence assurance to state that the issuer may seek independent assurance to strengthen the credibility of ESG information disclosed; and where independent assurance is obtained, the issuer should describe the level, scope and processes adopted for assurance clearly in the ESG report?

☐ Yes
☒ No

Please give reasons for your views.

Given the market is still in the process of developing the ESG reporting standard and practice, we [question/are critical of] the availability of expertise in implementing independent assurance. Although the wording is "may" we believe independent assurance is a tall order to follow. Many issuers are already using an external consultant to help with their ESG reporting. If they are to engage another independent assurer, it will create extra burden both in costs and timing. There may not be a reliable supply of assurer in the market.

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