

2 April 2012

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

Dear Sir/Madam,

### **BEC Submission – Consultation Paper on Environmental, Social and Governance Reporting Guide**

Business Environment Council Limited (BEC) has long been an advocate for environmental protection and sustainable development. We congratulate Hong Kong Exchanges and Clearing Limited (HKEx) for taking the step in developing the *Environmental, Social and Governance Reporting Guide* (the “ESG Guide”) and for consulting on its content with stakeholders.

Business Environment Council Limited (BEC) is an independent, membership-based non-profit organization, established by the business sector in Hong Kong. Since its origin in 1989, BEC has been at the forefront of promoting environmental excellence by advocating the uptake of clean technologies and practices which reduce waste, conserve resources, prevent pollution and improve corporate environmental and social responsibility. BEC offers sustainable solutions and professional services covering advisory, research, assessment, training and award programs for government, business and the community, thus enabling environmental protection and contributing to the transition to a low carbon economy. For more information on BEC, please visit [www.bec.org.hk](http://www.bec.org.hk).

BEC has carefully reviewed and discussed the ESG Guide with our membership. The following views have emerged as our collective response to the discussion points put forth by HKEx. Views recommended in this paper represent the views of BEC as a whole, and may not necessarily correlate with the views of individual members.

#### **Summary of Views**

BEC recognizes the need to improve corporate ESG disclosure in Hong Kong. We support HKEx in encouraging ESG disclosure amongst issuers, thereby earmarking Hong Kong as one of the more progressively regulated jurisdictions. Indeed, this step is putting HKEx on par with best practice amongst stock exchanges globally.

As such **BEC recommends implementing the ESG Guide**. We feel that appending the ESG Guide to the Listing Rules is essential for making corporate reporting on ESG more widespread amongst issuers in Hong Kong. BEC believes that ESG reporting provides the fundamentals for making businesses more environmentally and socially sustainable, while supporting wider economic development in particular through the inflow of capital from ESG investors.

The introduction of the ESG Guide is significant because it **moves the benchmark** for issuers to improve corporate disclosure, and more broadly **levels the playing field** amongst issuers. ESG disclosure may help companies to safeguard reputation, maximise competitive advantage and mitigate operational risks, all contributing towards sustainable economic performance in Hong Kong. To better encourage companies to report ESG information, we suggest introducing benchmarking measures such as rating of the company’s performance in certain KPIs of the ESG Guide.

We have outlined several key points for further discussion with HKEx, in order to build on the guide and thereby strengthen ESG reporting in Hong Kong.

## Key discussion points for further improvement of the ESG Guide

### General

BEC would like to see a **more balanced view of the current state of play of the ESG market** as relevant to Hong Kong and the region. We believe that the Consultation document could have provided additional background information about the increasing importance of the *Hang Seng Corporate Sustainability Index* and the accompanying RepuTex ESG rating methodology. Additional benchmarking tools such as the *DowJones Sustainability Index* developed in collaboration with SAM and the *FTSE4Good Index Series* developed in association with EIRIS provide additional insights as to the importance of ESG disclosure; both are well respected international benchmarks that Hong Kong issuers would find value in comparing against.

For effectiveness and consistency, it is preferable to align some requirements such as KPIs of the ESG Reporting Guide with that of Reputex's questionnaire. HKEx should take into consideration the administrative efforts associated with ESG disclosure amongst issuers. In particular, many listed companies already respond to the questionnaire from RepuTex with respect to the Hang Seng Corporate Sustainability Index or use reporting standards defined by the Global Reporting Initiative (GRI). It would be counter-productive to develop guidance that significantly deviates from what some companies are already reporting.

### How to meet the intent of the ESG Guide

The definition of what qualifies as a 'higher level of ESG reporting' (Item 3 of the ESG Guide) is missing in the current version of the guide. It is also not clear whether companies would need to issue a separate ESG report for HKEx only, or at what level existing ESG reports (e.g. Corporate Sustainability Reports or similar) would be sufficient to meet the guide. For regular ESG reporters, the preparation of yet another **disclosure report to meet the intent of the HKEx guide alone may not be the most efficient or effective** way forward. It would be helpful to be specific about what type of existing reporting formats qualifies for meeting the disclosure requirements of the ESG guide.

BEC believes that the intent of an ESG guide is to make companies think about their impact, as a way to drive and improve performance. However, it is not clear at this stage how the KPIs have been developed, why they were chosen for inclusion, and how they are defined for the purpose of reporting. Without clarification of basic definitions, the ESG Guide may create substantial obstacles for veteran and first-time reporters alike. Furthermore, in the long term it would be useful to issue sector-specific guidance documents to ensure that annual ESG disclosure is indeed material for each of the issuers, and not just a box ticking exercise.

The Global Reporting Initiative (GRI) has become the de-facto ESG reporting standard over the last decade. **BEC is generally supportive of existing, globally accepted ESG reporting standards**, in particular because organizations such as GRI have developed a strong body of knowledge based on a continual review process that has been relied upon by issuers over time. BEC believes that there is limited merit in devoting time and resources for *recreating* a standard that is already available to issuers now. Nevertheless, we appreciate that certain issuers in Hong Kong may benefit from a simplified ESG disclosure standard as proposed in the Guide, thus BEC is supportive of this approach provided that mechanisms are in place for continual improvement and updating of the ESG Guide. However, the GRI "core" indicators could have provided the reference point for a 'simplified' HKEx Guide.

BEC does agree that **ESG disclosure should proceed on a voluntary basis for the time being**, with a view to elevate the level to 'comply or explain' at a later stage. BEC is supportive of the approach of not making the guideline too prescriptive, in order to ensure that issuers will accept ESG disclosure over time. More clarity is required from HKEx as to next steps in implementing the ESG Guide in order to help issuers strike the right balance in reporting.

While BEC sees merit in the relative flexibility that the ESG Guide offers to issuers, clear **direction in terms of how best to report on ESG issues** would help businesses. In particular issuers that have not previously undertaken any form of ESG disclosure will find the existing HKEx guide of limited value. HKEx may like to consider how to make direct reference to existing ESG material that HKEx has prepared already in relation to the ESG Guide, so that issuers will easily be able to source the required guidance documents.

#### Reporting period

BEC seconds that the reporting period of ESG information should be the same period as for issuer's annual financial report. Ideally, the **ESG data should be released alongside and in conjunction with financial data**, as this would be most useful for investors in assessing overall company performance.

#### The board of directors

The ESG Guide in its current form states that 'it is important to involve the board of directors in preparing the ESG report' (Item 5 of the ESG Guide). It is essential for issuers to **understand how the board of directors may be held responsible and/or accountable for ESG reporting**. We ask for HKEx to elaborate clearly the level of directors' involvement it deems appropriate and explain the consequential liabilities.

#### Materiality

The ESG Guide does not provide any guidance or reference points for determining materiality (Item 9 and 10 of the ESG Guide). Issuers will need direction in terms of what standard to follow **and what would be categorized as acceptable materiality tests** under the ESG Guide. The process of determining materiality is one of the most fundamental exercises of ESG disclosure and should not be an optional component of disclosure.

#### Corporate Governance

As stated in the consultation document, the current version of the ESG Guide does not address corporate governance issues but instead refers to the existing Corporate Governance Code for guidance. However, upon further inspection of this Code, it is apparent that **key issues that are normally covered under the Governance component of ESG reporting are not integrated into the existing Corporate Governance Code**. For instance, issues around shareholder rights or risk management are not covered in existing provisions. The *RepuTex ESG Ratings Methodologies & Policies* as well as *GRI 3.1* provide additional reference points as to what is normally covered under the 'G' component of ESG reporting.

#### **In Closing**

BEC believes Hong Kong should **meet international best practice** in all aspects of corporate disclosure of listed companies. BEC is in the process of forming a member advisory group to provide a forum for listed companies to share and learn on matters related to ESG disclosure. BEC, as a key membership organization representing the business community in Hong Kong, would welcome the opportunity for **further engagement with HKEx to continually improve the ESG disclosure standard**.

Yours sincerely,



Prof John Chai  
Chairman, Business Environment Council

CC: Mr Mark Dickens, Head of Listing