

BEC's Response to HKEx's Consultation on Proposed Changes to ESG Guide

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BEC's Submission

On 17 July 2015, the Hong Kong Exchanges and Clearing Limited ("HKEx") published the consultation paper - "Review of the Environmental, Social and Governance Reporting Guide" to seek views on proposed amendments to the Environmental, Social and Governance Reporting Guide ("ESG Guide"). BEC **made a submission to HKEx** on 17 September 2015.

BEC recognises the value of ESG disclosure that it helps companies manage their social and environmental impacts, improve operating efficiency and natural resource stewardship, as well as enhance the companies' engagement with their shareholders, employees, and other key stakeholders. We support HKEx in taking a strong and active leadership position on this issue in bringing Hong Kong in-line with rising international standards.

BEC's Views

BEC's views on some of the key proposed changes to the ESG Guide are set out below:

- Amend the Listing Rules to require issuers to state in their annual report or ESG report whether they have complied with the "comply or explain" provisions of the ESG Guide for that financial year**

BEC's response: Agree. BEC believes that decision making and policy formulation are strengthened as a result of enhanced corporate transparency and reporting. The additional information that is fed into the market enables both providers of financial capital and the companies themselves to take more long term considered and informed actions.

To BEC it seems evident that the levels of voluntary disclosure have now flatlined. It is important that HKEx follow other regulators such as Australia, the EU, Taiwan and the UK, and move towards mandatory disclosures in order to close the gap. We feel that upgrading some/all of the recommended disclosures to "Comply or Explain" is an important next step that is also in line with the revised Companies Ordinance (Cap622) ("CO").



2. Build out the introductory section of the Guide to provide issuers with more advice on reporting. This includes the establishment of 4 "Reporting Principles" (Materiality, Quantitative, Balance and Consistency) in line with international standards.

BEC's response: Agree. BEC considers that the proposed restructuring provides much needed guidance to issuers in how to pull together their Report, and should make the Guide easier to follow and understand. We also feel that adding in guidance on how to complete the Business Review section of the Directors' Report will aid companies in responding to the changes in the CO particularly for those companies that have not reported on ESG matters previously.

The addition of the principles also brings the Guide in-line with those of the GRI framework which is the world's most widely used reporting framework. This should address some of the issues of local frameworks overlapping with international standards, and provide much needed guidance to issuers in how to pull together their Report.

BEC recommended that the principle of "Reliability", which is included in GRI G4 Guidelines, should also be included to ensure that the reported ESG data and information are reliable in quality. However, BEC acknowledges that it may take time for the medium to small enterprises to build the capability to ensure reliability. We therefore recommend that HKEx consider including this principle in a few years' time.



3. Upgrade the general disclosures for all aspects (Environmental and Social) in the Guide to "comply or explain".

BEC's response: Agree. BEC supports the direction that HKEx is taking by upgrading the disclosure requirements of all of the General Disclosures to "comply or explain". We welcome that HKEx has allowed for flexibility in deciding on which aspects to report on, particularly emphasising the need to report on aspects that are material to the company and its stakeholders.

However, we request that more guidance be included on what constitutes "Compliance" and what represents a sufficient/acceptable "Explanation". The Guide should therefore be modified such that it is not necessary to quantify impacts if they are negligible. This modification will allow organisations with immaterial activity for an Aspect to just report that fact rather than 'non-comply'.

4. Upgrade the Key Performance Indicators ("KPI") under the Environmental subject area to "comply or explain".

BEC's response: Agree. BEC welcomes the flexibility the "Comply or Explain" approach gives to issuers, in determining whether these KPIs represent a material issue for their business and therefore whether they should be included or not in their ESG disclosure. However, BEC would like to seek clarification from HKEx in relation to disclosure of certain KPIs, particularly in relation to Hazardous Waste.

5. Incorporate gender diversity into the wording of the recommended disclosures to bring it in line with international standards such as the GRI framework.

BEC's response: Agree. Inclusion of gender into the Guide will be consistent with most international ESG reporting standards and is consistent with regulations in other jurisdictions including the UK, Australia and Canada.



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Business Environment Council Limited 商界環保協會有限公司 ("BEC") is an independent, charitable membership organisation, established by the business sector in Hong Kong. Since its establishment in 1992, 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 programmes for government, business and the community, thus enabling environmental protection and contributing to the transition to a low carbon economy.

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