

# CONSULTATION CONCLUSIONS

## REVIEW OF THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

**December 2015**



**Hong Kong Exchanges and Clearing Limited**  
**香港交易及結算所有限公司**

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# CONTENTS

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Page No.

<b>CHAPTER 1: INTRODUCTION.....</b>	<b>1</b>
<b>CHAPTER 2: MARKET FEEDBACK AND CONCLUSIONS .....</b>	<b>4</b>
<b>APPENDIX I: LIST OF RESPONDENTS.....</b>	<b>31</b>
<b>APPENDIX II: LISTING RULE AMENDMENTS .....</b>	<b>35</b>

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# CHAPTER 1: INTRODUCTION

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1. In July 2015, The Stock Exchange of Hong Kong Limited (the “**Exchange**”), a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited (“**HKEx**”) published a “Consultation Paper on Review of the Environmental, Social and Governance Reporting Guide” (“**Consultation Paper**”). The Consultation Paper sought views and comments on proposed changes to the Environmental, Social and Governance Reporting Guide (“**ESG Guide**” or “**Guide**”) <sup>1</sup>, which aimed to strengthen environmental, social and governance (“**ESG**”) disclosure requirements and enable issuers to formulate policies, measure relevant data, monitor progress and report to investors and other stakeholders on their work in this area.
2. This paper presents the results of the consultation.
3. The consultation period ended on 18 September 2015. The Exchange received a total of 203 responses from a broad range of respondents. 186 responses contained original content, whilst 17 responses were entirely identical, in content, to other responses.<sup>2</sup> All responses are available on the HKEx website<sup>3</sup>, and a list of respondents (other than those who requested anonymity) is set out in **Appendix I**.
4. All the proposals received substantial majority support. We conclude that they should be adopted, with certain modifications or clarifications, as set out in this paper.
5. Chapter 2 of this paper summarises the key points made by respondents on the proposals, our responses and conclusions. This paper should be read in conjunction with the Consultation Paper, which is posted on the HKEx website.<sup>4</sup>
6. The amended Rules and Guide are set out in **Appendix II**, and are available on the HKEx website.<sup>5</sup> They have been approved by the boards of the Exchange and the Securities and Futures Commission.
7. Rule references in this paper are to the Main Board Rules, but apply equally to the equivalent GEM Rules.
8. We would like to thank all respondents for their time and effort in reviewing the Consultation Paper and sharing with us their detailed and thoughtful suggestions.

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<sup>1</sup> Appendix 27 to the Main Board Rules and Appendix 20 to the GEM Rules.

<sup>2</sup> 17 of the 186 unique responses were submitted by professional bodies representing their members; one of the 186 unique responses was submitted by an industry association on behalf of itself and eight other industry associations.

<sup>3</sup> <http://www.hkex.com.hk/eng/newsconsul/mktconsul/responses/cp201507r.htm>.

<sup>4</sup> See the “*Consultation Paper on Review of the Environmental, Social and Governance Reporting Guide*” at: <https://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201507.pdf>

<sup>5</sup> [http://en-rules.hkex.com.hk/en/display/display\\_main.html?rbid=4476&element\\_id=4978](http://en-rules.hkex.com.hk/en/display/display_main.html?rbid=4476&element_id=4978) and [http://en-rules.hkex.com.hk/en/display/display\\_main.html?rbid=4476&element\\_id=4977](http://en-rules.hkex.com.hk/en/display/display_main.html?rbid=4476&element_id=4977).

## **Main changes adopted**

9. In summary, the main changes include:
  - (a) amending Rule 13.91 to require that:
    - (i) the issuer must state in its annual report or a separate ESG report whether it has complied with the “comply or explain” provisions set out in the ESG Guide for the relevant financial year;
    - (ii) where the issuer deviates from the “comply or explain” provisions, it must give considered reasons for doing so in its ESG report; and
    - (iii) the issuer must disclose its ESG information on an annual basis and regarding the same period covered in its annual report;
  - (b) revising the introductory section of the Guide to provide more guidance on reporting and to be more in line with international standards;
  - (c) re-arranging the Guide into two Subject Areas: A. Environmental and B. Social;
  - (d) upgrading the General Disclosures under each Aspect of the Guide to “comply or explain”;
  - (e) revising the wording of the General Disclosures (where relevant) to be consistent with the directors’ report requirements under the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (“CO”) (which will be incorporated in the Listing Rules under Appendix 16, paragraph 28(2)(d), for financial years ending on or after 31 December 2015);
  - (f) upgrading the Key Performance Indicators (“KPIs”) under the “Environmental” Subject Area to “comply or explain”; and
  - (g) revising the wording of the recommended (i.e. voluntary) disclosures of the Guide to bring it more in line with international standards of ESG reporting by incorporating disclosure of gender diversity.

## **Implementation dates**

10. The Rule amendments and the upgrade of the General Disclosures under each Aspect of the Guide from recommended to “comply or explain”, as well as the revised recommended disclosures, will be effective for issuers’ financial years commencing on or after 1 January 2016, as originally proposed (see paragraph 9 of the Consultation Paper).
11. In relation to the Environmental KPIs, we note concerns that the proposed implementation date would give issuers with December financial year-ends very short notice. In view of these concerns and considering that over 70% of our issuers have

December financial year-ends, we have decided to postpone the implementation date for the upgrade of the Environmental KPIs to “comply or explain” by one year. The implementation of the upgrade will instead be for issuers’ financial years commencing on or after 1 January 2017.

## **Additional comments**

12. We also received valuable comments in respect of the Guide and related Rules which, whilst not on this occasion specifically sought in the consultation, will be considered in future reviews. In particular, we would like to highlight respondents’ suggestions in relation to upgrading the KPIs under the “Social” Subject Area to “comply or explain”. We recognise the strength of these arguments and intend to review this matter in due course.

## **Next steps**

13. To facilitate reporting, we will provide additional issuer training, webcasts/recordings of seminars, frequently asked questions (“**FAQs**”), as well as other resources on the HKEx website.
14. The development of the ESG Guide has been, and will continue to be, an evolutionary process, with the longer term goal of achieving better and more comprehensive ESG reporting amongst our issuers. We will continue to review the Guide periodically going forward, particularly in the light of any future regional or international legislative and regulatory developments in this area.

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## CHAPTER 2: MARKET FEEDBACK AND CONCLUSIONS

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15. This chapter sets out our proposals for amendments to the Rules and Guide, a summary of the comments we received both for and against the proposals, and our responses and conclusions.
16. The Main Board and GEM Rule amendments are available on the HKEx website.<sup>6</sup>
17. We received a total of 203 responses from a broad range of respondents. Of these, 186 responses contained original content (17 responses were entirely identical, in content, to other responses).<sup>7</sup>

RESPONDENT CATEGORY	NUMBER OF RESPONSES	PERCENTAGE OF RESPONSES <sup>8</sup>
<b>INSTITUTIONS</b>		
<b>Market Practitioners:</b>	<b>43</b>	<b>23%</b>
Investment Managers	23	12%
Accountancy Firms	6	3%
Law Firms	1	1%
Consultancy/Advisory Firms	13	7%
<b>Professional Bodies</b>	<b>17</b>	<b>9%</b>
<b>Listed Companies<sup>9</sup></b>	<b>32</b>	<b>17%</b>
<b>Non-Governmental/Charitable Organisations</b>	<b>18</b>	<b>10%</b>
<b>None of the Above</b>	<b>14</b>	<b>8%</b>
<b>INDIVIDUALS</b>		
<b>Retail Investors</b>	<b>13</b>	<b>7%</b>
<b>Listed Company Staff</b>	<b>14</b>	<b>8%</b>
<b>HKEx Participant Staff</b>	<b>1</b>	<b>1%</b>
<b>None of the Above</b>	<b>34</b>	<b>18%</b>
<b>TOTAL</b>	<b>186</b>	<b>100%</b>

18. A list of the respondents (apart from those who have requested anonymity) forms **Appendix I**. The full text of all the submissions is available on the HKEx website.<sup>10</sup>

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<sup>6</sup> [http://en-rules.hkex.com.hk/en/display/display\\_main.html?rbid=4476&element\\_id=4978](http://en-rules.hkex.com.hk/en/display/display_main.html?rbid=4476&element_id=4978) and [http://en-rules.hkex.com.hk/en/display/display\\_main.html?rbid=4476&element\\_id=4977](http://en-rules.hkex.com.hk/en/display/display_main.html?rbid=4476&element_id=4977).

<sup>7</sup> Submissions with entirely identical content were counted as one response. This follows our publicly stated policy.

<sup>8</sup> The percentages in this column do not total 100% due to rounding.

<sup>9</sup> Includes one company that is not listed itself, but is the majority shareholder of four listed companies.

<sup>10</sup> <http://www.hkex.com.hk/eng/newsconsul/mktconsul/responses/cp201507r.htm>.

## **Proposed amendments to Main Board Rule 13.91**

(Consultation Questions 1 to 3)

### **Proposals and Response Statistics**

19. We proposed 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, to give considered reasons in their ESG reports (Question 1); and
  - to report on ESG annually and regarding the same period covered in their annual reports (Question 2).
20. We also proposed to include a Note under Rule 13.91 to clarify that:
- an ESG report may be presented as information in the issuer’s annual report, in a separate report, or on the issuer’s website; and
  - 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 (Question 3).
21. Each of these proposals received substantial majority support from respondents (96%, 95% and 89%, respectively).

### **Comments received**

#### **Proposed amendments to Rule 13.91 (Questions 1 and 2)**

##### *The “comply or explain” approach*

22. Most supporters of the proposed amendments to Rule 13.91 agreed with the incremental approach we are taking to upgrading the Guide for the reasons set out in the Consultation Paper (paragraphs 73 to 75). They commented that “comply or explain” can be an effective approach to encourage ESG reporting whilst allowing issuers the flexibility to acclimatise to the new requirements, and to develop their practice, skills, reporting scope and processes required for reporting.
23. Supporters also commented that this proposal would align Hong Kong’s practice with global developments in this area. These respondents considered that it was important for Hong Kong not to lag behind other markets in relation to ESG disclosure, and in particular that Hong Kong should align itself with Mainland requirements in this regard.

24. A number of respondents<sup>11</sup> stated that ultimately they would like to see mandatory ESG disclosure. A couple of them also pointed out that ESG factors are real and material, and may affect issuers' business outlook, risks, asset value, reputation and investors' confidence. In practical terms, investors use ESG data and reports to research and engage with investee companies.
25. Two respondents expressed concern that "explaining" under the "comply or explain" regime is commonly regarded by the market as non-compliance. Another respondent suggested incorporating in the Guide an abridged version of the "What is "comply or explain"?" section of the Corporate Governance Code and Corporate Governance Report ("**Corporate Governance Code**")<sup>12</sup> to reiterate that shareholders should not consider "explaining" to be non-compliance.
26. A handful of respondents<sup>13</sup> opposed this proposal. Their main concern was costs, particularly for issuers with smaller market capitalisations ("**market cap**") and those with operations in multiple locations. Some of these respondents considered that the "comply or explain" requirements for ESG disclosure would be burdensome without generating sufficient benefits, especially for issuers with minimal ESG impacts.
27. To address the concerns of smaller market cap issuers, a few respondents suggested that the "comply or explain" requirements could be implemented in phases (e.g. in accordance with issuers' market cap or the nature of their business), thereby allowing more time for issuer education/training. Some even suggested exempting smaller market cap issuers from the "comply or explain" requirements.
28. One respondent stated that regulators in major international capital markets do not impose "mandatory" ESG disclosure on issuers, and as such ESG reporting in Hong Kong should remain voluntary.

*Report on ESG annually and regarding the same period covered in the annual report*

29. Nearly all respondents agreed that issuers should report on ESG annually and regarding the same period covered in their annual report. Many supporters agreed with the rationale given in the Consultation Paper (paragraph 90) that this would present investors and other stakeholders with a more holistic and comprehensive view of the issuer's performance.
30. On the other hand, two respondents cautioned against requiring ESG reporting annually on the basis that this could discourage more frequent reporting, which some market leaders are already undertaking.
31. One respondent suggested allowing biennial ESG reporting so as to enable issuers sufficient time to focus on strategy and implementation, and to report with more substance.
32. A couple of respondents objected to this proposal, stating that the Exchange should continue to maintain flexibility for issuers to decide on their reporting period and

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<sup>11</sup> These were mainly investment managers.

<sup>12</sup> Appendix 14 to the Main Board Rules and Appendix 15 to the GEM Rules.

<sup>13</sup> These were mainly listed issuers.



frequency of reporting on ESG issues. This would avoid imposing unnecessary and undue reporting burden on issuers, and would prevent reporting from becoming compliance driven.

### **Proposed Note to Rule 13.91 (Question 3)**

#### *Reporting format*

33. Supporting respondents agreed that issuers should be given flexibility to issue ESG reports in the form that most suits their individual circumstances.
34. However, several respondents<sup>14</sup> suggested requiring issuers to disclose ESG information in their annual reports. They stated this would encourage consistency and comparability between financial and ESG information, facilitate integrated thinking, and enable report users to locate the relevant information with ease. They also noted this would ensure that issuers' ESG information would be available ahead of the annual general meeting, enabling shareholders to consider companies' ESG information before making their voting decisions.
35. Several respondents suggested that where the issuer's ESG information is not presented in its annual report, a summary or reference should be included in the annual report to link it to the separate ESG report/the issuer's website in order to present investors and other stakeholders with a more holistic and comprehensive view of the issuer's financial and non-financial information.
36. A couple of respondents commented that issuers' ESG information should not be disclosed discretely in different sections (rather than within one single section) of the website, as this would limit the accessibility/user-friendliness of the information.

#### *Timing of publication of ESG report*

37. A number of supporting respondents commented that allowing a three-month gap between publication of the annual report and ESG report afforded sufficient time for issuers to prepare their ESG reports.
38. However, some respondents<sup>15</sup> thought that the ESG report should be published at the same time as the annual report, otherwise there would be a disconnection between the issuer's operations and ESG factors, rendering the information and data out-of-date. One respondent commented that this would frustrate the goal of timely ESG disclosure and raise the possibility that ESG reporting would not be subject to the same level of board oversight that is common to traditional annual reporting.
39. A few respondents<sup>16</sup> considered that setting a specific timeframe for publication of the ESG report would cause difficulties, particularly for smaller market cap issuers.

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<sup>14</sup> These were mainly investment managers.

<sup>15</sup> These were mainly investment managers.

<sup>16</sup> These were mainly listed issuers.

## The Exchange's response

### Proposed amendments to Rule 13.91 (Questions 1 and 2)

#### *The “comply or explain” approach*

40. We note the range of views, with some preferring mandatory ESG disclosure (paragraph 24), and others preferring a voluntary approach because of cost concerns (paragraph 26) and the lack of mandatory ESG disclosure in other markets (paragraph 28). However, the “comply or explain” approach was strongly endorsed by most respondents (paragraphs 22 and 23). We believe this approach strikes the right balance between the respective interests of issuers and investors, as well as other stakeholders. It gives issuers, particularly smaller market cap issuers, a chance to explain where reporting on a particular provision is not practicable.
41. To respond to those in favour of the voluntary approach (paragraphs 26 and 28), we believe that the long term benefits of requiring ESG reporting (on a “comply or explain” basis) will outweigh the disadvantages (see Chapter 2 of the Consultation Paper). For issuers with operations in multiple jurisdictions, we note there are international guidelines for multinational companies reporting on ESG.<sup>17</sup> Also, although there is no uniform regulatory approach to ESG disclosure requirements in other markets, a trend has emerged towards increasingly higher levels of reporting obligation (see paragraph 25 of the Consultation Paper). We believe that our proposed regulatory approach is appropriate given this trend, and also in view of the current level of reporting and the variance in reporting capabilities amongst our issuers (see paragraphs 16 to 19 of the Consultation Paper).
42. Regarding concerns that “explaining” may be perceived by the market as non-compliance (paragraph 25), we would point out that the “*What is “comply or explain”?*” section of the Corporate Governance Code provides for exactly the opposite.<sup>18</sup> The same principles apply to the ESG Guide. Also, it is evident from several other respondents’ comments<sup>19</sup> that investors do not consider “explaining” to be non-compliance. However, given respondents’ concerns, we have incorporated into the Guide a cross-reference to the “*What is “comply or explain”?*” section of the Corporate Governance Code.
43. We do not agree that the “comply or explain” requirements should initially apply to large market cap issuers and those in certain industries, or that smaller market cap issuers should be exempt (paragraph 27). The Listing Rules apply to all issuers equally; maintaining a level playing field is an important principle underlying the Rules.

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<sup>17</sup> For instance, the Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises (see link: <http://www.oecd.org/corporate/mne/oecdguidelinesformultinationalenterprises.htm>).

<sup>18</sup> It states: “*Shareholders should not consider departures from code provisions and recommended best practices as breaches. They should carefully consider and evaluate explanations given by issuers in the “comply or explain” process, taking into account the purpose of good corporate governance.*”

<sup>19</sup> These came mostly from investment managers, who considered that it was understandable that certain companies, for various reasons, may not be able to fully comply with all the “comply or explain” provisions of the Guide. They stated that the “comply or explain” approach allows sufficient flexibility for issuers to explain why they were not able to, or did not consider it necessary to, report on certain ESG matters.

*Report on ESG annually and regarding the same period covered in the annual report*

44. The proposed Rule and the Guide require the issuer to report on the ESG information set out in the Guide on an annual basis. This should not deter those issuers that wish to report more frequently from doing so (paragraph 30).
45. We do not agree that it should be left to issuers to decide on their reporting period and frequency, nor that reporting on a biennial basis should be allowed (paragraphs 31 and 32). We consider that our proposal would: (i) promote comparability of ESG reports; (ii) facilitate the review of ESG reports by investors and other stakeholders; and (iii) ensure that issuers' ESG reports contain up-to-date information.

**Proposed Note to Rule 13.91 (Question 3)**

*Reporting format*

46. We note the call for ESG reporting to be a part of the annual report (paragraph 34). However, this may pose significant difficulties for some issuers, as they may not have the necessary resources to prepare their ESG information in parallel with their annual reports (see paragraph 92 of the Consultation Paper). We are also mindful that over half our issuers are not yet reporting<sup>20</sup>, and consider that requiring ESG reporting to be a part of the annual report at this stage would be unduly onerous.
47. We also note comments that issuers should include in their annual reports a summary of, or reference to, their ESG information/reports (paragraph 35). However, this might not work in practice, as the ESG information/reports may not be ready at the time of their annual report publication.
48. As for the concern that the proposed Note might allow the ESG information to be disclosed discretely in various sections of the issuer's website (paragraph 36), we refer to paragraph 3 of the proposed Guide, which states that "regardless of the format adopted<sup>21</sup>, the ESG report should be published on the Exchange's website and the issuer's website." The search function of the HKEx website should allow anyone interested to locate an issuer's ESG report with ease.<sup>22</sup>

*Timing of publication of ESG report*

49. We note the contrasting views, with some believing that a seven-month gap from financial year-end to publication of the ESG report is too long, and others believing that setting a deadline for publication of the ESG report may cause difficulties, particularly for smaller market cap issuers (paragraphs 38 and 39). We consider that allowing a three-month gap between publication of the annual report and ESG report strikes a fair balance between these opposing views. This was also supported by a significant majority of respondents.

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<sup>20</sup> See Appendix III to the Consultation Paper containing Bloomberg's statistics on issuers' ESG reporting.

<sup>21</sup> We have amended this clause slightly (from "whichever format is adopted" to "regardless of the format adopted") to incorporate a respondent's drafting comments.

<sup>22</sup> Under Main Board Appendix 24 and GEM Appendix 17, there is a headline category for "Environmental, Social and Governance Information/Report". Issuers should upload their ESG reports onto the HKExnews website (see link: <http://www.hkexnews.hk/>) under this headline category.

## **Consultation conclusion**

50. We have adopted the proposals.

## **Proposed amendments to the Guide**

### **A. Revamping the introductory section of the Guide**

(Consultation Questions 4 to 6)

#### **Proposals and Response Statistics**

51. We proposed to amend the Guide by:

- dividing the introductory section of the Guide into four areas (Question 4):
  - The Guide;
  - Overall Approach;
  - Reporting Principles; and
  - Complementing ESG discussions in the Business Review Section of the Directors' Report.
- introducing new wording for the Reporting Principles in the introductory section of the Guide (Question 5); and
- linking the Guide to Appendix 16 in relation to the requirement to include ESG discussions in the directors' report (Question 6).

52. Each of these proposals received substantial majority support from respondents (94%, 88% and 95%, respectively).

## **Comments received**

### **The Guide**

53. Respondents' comments relevant to this section of the Guide are the same as those on the proposed amendments to Rule 13.91 (see paragraphs 22 to 39).

### **Overall Approach**

*Corporate governance (paragraph 4 of the proposed Guide)*

54. A few respondents suggested that there should be a stronger linkage between environmental and social issues, and those relating to governance. One respondent favoured more explicit integration of issuers' obligations under both the Corporate Governance Code and the ESG Guide. Several respondents considered that the connection between the Corporate Governance Code and the Guide could be better defined to elaborate, for example, on the role of the board and board committees in the oversight of ESG reporting (also see comments in paragraphs 60 to 62).

*Stakeholder engagement (paragraph 6 of the proposed Guide)*

55. A number of respondents called for the Exchange to clarify its expectations in respect of stakeholder engagement. Several respondents preferred the original wording in the Guide regarding stakeholder engagement, as it explains the basis for identification of stakeholders and activities of stakeholder engagement. They considered that the proposed Guide did not go far enough in discharging an issuer's responsibility to engage with non-financial stakeholders (e.g. civil society, communities adversely impacted by issuers' operations).
56. One respondent suggested setting a road map to upgrade stakeholder engagement to a "comply or explain" level of obligation.

*International ESG reporting guidance and assurance (paragraph 7 of the proposed Guide)*

57. Several respondents commented that where issuers adopt alternative reporting guidance/international standards with comparable provisions to the ESG Guide, they should not be required to give any explanation/reconciliation in relation to the Guide.
58. A small number of respondents suggested that, to make it easier for companies that follow international reporting guidance to ensure they also comply with the ESG Guide, the Exchange should publish notes on the extent to which the Guide differs from widely used international reporting guidance. Similarly, a number of respondents considered that the Guide should list out examples of international reporting guidance that the Exchange considers to have comparable disclosure provisions to the Guide.
59. Several respondents stated that the Guide should require issuers to obtain third party assurance, as it plays an important role in establishing the credibility of the ESG reporting process, and enables investors and other stakeholders to have confidence in the veracity of an ESG report's contents.

*Role of the board (paragraphs 8 and 9 of the proposed Guide)*

60. Many respondents welcomed the proposal to state in the Guide that the board has overall responsibility for a company's ESG strategy and reporting. These respondents commented that board-level/top management commitment is crucial for effective ESG reporting and the development of long-term ESG strategies.
61. Several respondents suggested clarifying that the board may delegate ESG-related tasks to employees or a committee that reports to the board. A respondent further suggested delineating the respective roles of management and the board – i.e. that management is responsible for identifying the issuer's ESG-related risks, and the board is responsible for ensuring such risks are evaluated and mitigated as appropriate.
62. A couple of respondents that held opposing views contended that by recommending the board to have "overall responsibility for an issuer's ESG strategy and reporting", the Guide went beyond the duties of the board of directors as required under the CO.

One respondent commented that stating the board is “responsible for evaluating and determining the issuer’s ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place” and that “management should provide a confirmation to the board on the effectiveness of these systems” exceeded the requirements of the Corporate Governance Code.

## **Reporting Principles**

63. Many supporting respondents stated that the proposed Reporting Principles are within the general expectations of investors, and would provide greater clarity and guidance to the reporting process. Many respondents also opined that they are better aligned with international reporting guidance.
64. However, several respondents suggested adding more to the Reporting Principles to further align them with those of international reporting standards and/or to harmonise them with the principles that apply to the accounting profession in Hong Kong.
65. A few respondents suggested that the Reporting Principles should be subject to a higher level of compliance. Some suggested upgrading them to “comply or explain”, whilst others thought they should be made mandatory by using more forceful language (such as “must” instead of “should”).
66. Some respondents commented that the Exchange (or other appropriate supervisory authority) should regularly review and evaluate the quality of the disclosed information to ensure the intended purpose of the disclosure is met.
67. A number of respondents had additional comments and suggestions in relation to the proposed Reporting Principles, which are summarised below.

### *Materiality*

68. Several respondents called for more guidance on how to determine materiality, as this is the foundation of good reporting and is a complex concept that challenges both new and experienced reporters.
69. A few respondents suggested that this Reporting Principle should require issuers to disclose their processes for determining what ESG issues are material to their businesses.

### *Quantitative*

70. One respondent recommended that this Reporting Principle should call for disclosure of definitions and calculation/measurement methods of KPIs. Another suggested that, given the narrative nature of the General Disclosures, the Guide should clarify that this Reporting Principle is more applicable to the KPIs (which are more quantitative in nature).

### *Balance*

71. A number of supporters stated this Reporting Principle would help issuers appreciate the main objective/purpose of the ESG report, and distinguish it from corporate public relations reports. Other comments included that this Reporting Principle would enable readers to have a more complete and unbiased view of the company.
72. One respondent suggested including “oversight” as a supplemental or additional Reporting Principle to ensure the principle of “Balance” had been adhered to. This would require an internal committee or other body within the company to provide a review and/or assessment of the ESG report, independent of the group or division that produced the report.

### *Consistency*

73. Supporters of this Reporting Principle opined that it would help make ESG reporting more meaningful and facilitate year-on-year comparisons.

### *Additional Reporting Principles suggested*

74. Some respondents suggested including additional Reporting Principles, as set out below:

- (a) *Comparability*

One respondent suggested adding “comparability”, contending that disclosure is only meaningful when investors and other stakeholders can make comparisons on a consistent basis over time (as advocated by the Reporting Principle “Consistency”) and across issuers (i.e. comparability).

- (b) *Reliability*

A number of respondents suggested including “reliability” to emphasise that issuers should have rigorous processes in place so that the ESG information they provide can be relied upon. A couple of these respondents acknowledged, however, that it may take some time for smaller market cap issuers to build the capability to ensure reliability, so suggested that the Exchange introduce it as a Reporting Principle in a few years’ time.

- (c) *Completeness and Clarity*

Several respondents suggested including “completeness” and “clarity” to emphasise that:

- (i) issuers should include sufficient coverage of material Aspects in their ESG reports to reflect their significant environmental and social impacts, and to enable stakeholders to assess their performance in the reporting period; and

(ii) the information should be made available in a format and manner that is understandable and accessible to the report readers.

(d) *Accuracy*

One respondent suggested including “accuracy”, as it is central to the usefulness of the reported information.

### **Complementing ESG discussions in the Business Review Section of the Directors’ Report**

75. Nearly all respondents recognised that this section aimed to clarify the differing but complementing nature of the information called for under the Guide and the requirement under the new CO (incorporated in Appendix 16 to the Rules) for a high level discussion of ESG matters in the business review section of the directors’ report.
76. A few respondents misunderstood the proposal. Some commented that it would oblige the issuers – even those incorporated outside Hong Kong – to comply with the new CO provisions requiring the inclusion of ESG discussions in the business review section of the directors’ report.

### **The Exchange’s response**

#### **The Guide**

77. Our response to respondents’ comments on this section of the Guide is set out in paragraphs 40 to 49 of this paper.

#### **Overall Approach**

##### *Corporate governance (paragraph 4 of the proposed Guide)*

78. We agree that the ESG Guide should be linked to the Corporate Governance Code (paragraph 54), and in developing the proposed new Guide considered this point carefully. In addition to referring specifically to the Corporate Governance Code, we aligned the language of the Guide in relation to ESG risk management (paragraph 9 of the proposed Guide) with the corresponding provision of the Corporate Governance Code (see paragraph 85).
79. However, we note calls for more explicit integration of issuers’ obligations under the Corporate Governance Code and the ESG Guide (paragraph 54). We will consider how to further improve the Guide in this regard in future reviews.

##### *Stakeholder engagement (paragraph 6 of the proposed Guide)*

80. We note comments that the proposed Guide does not sufficiently address stakeholder engagement (paragraph 55). However, we are of the view that stakeholder engagement is a company-specific activity. It should be left to the issuer to determine who its key stakeholders are and engage them as the issuer considers appropriate.



81. For the reasons stated in paragraph 80, we do not think that stakeholder engagement should be upgraded to “comply or explain” (paragraph 56). Stakeholder engagement is a widely employed method for assessing materiality; we believe that including it in the Guide is helpful for issuers seeking guidance on how to identify their material ESG issues. However, in our view, issuers should be free to choose how and the extent to which they use this method.

*International ESG reporting guidance and assurance (paragraph 7 of the proposed Guide)*

82. We agree that to avoid duplication, adopting international standards that contain comparable provisions to the ESG Guide should be sufficient compliance with the Guide without the need for further explanation (paragraph 57). However, issuers that report on international standards should make reference to the relevant “comply or explain” provisions of the Guide in their ESG reports so that it is clear which of the disclosures relate to the equivalent provisions of the Guide. We will publish a clarification in the FAQs on this point.
83. As regards the suggestion for the Exchange to publish notes on the difference between international reporting guidance and the ESG Guide (paragraph 58), we intend to update the table in the FAQs setting out the provisions of our Guide against comparable provisions in several leading international reporting guidelines.
84. We note calls for third party assurance (paragraph 59). At this stage, however, we do not consider it appropriate to require issuers to obtain third party assurance (see our discussions in paragraph 50 of the Consultation Paper). Also, many of our issuers are still at the beginning stages of reporting<sup>23</sup> and to require third party assurance would impose a greater cost burden.

*Role of the board (paragraphs 8 and 9 of the proposed Guide)*

85. Regarding suggestions that the Guide should clarify that the board may delegate its ESG-related tasks (paragraph 61), we consider that this point is covered elsewhere in the Rules.<sup>24</sup> With respect to the further delineation of the roles of the board and management, the language of the proposed Guide is aligned with that of the amended Principle C.2<sup>25</sup> in the Corporate Governance Code (which comes into effect for accounting periods beginning on or after 1 January 2016).
86. As for the comments that the ESG Guide goes beyond what is required in the CO and Corporate Governance Code in terms of the role and responsibilities of the board (paragraph 62), we would point out that the board is collectively responsible for an

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<sup>23</sup> See footnote 20.

<sup>24</sup> Rule 3.08 on directors’ duties provides that it is permissible for directors to delegate their functions, but doing so does not absolve them from their responsibilities or from applying the required levels of skill, care and diligence. Also, the Corporate Governance Code (Section D) addresses delegation by the board.

<sup>25</sup> Principle C.2 states: “*The board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the issuer’s strategic objectives, and ensuring that the issuer establishes and maintains appropriate and effective risk management and internal control systems. The board should oversee management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the board on the effectiveness of these systems.*”

issuer's management and operations<sup>26</sup>, including in respect of ESG matters. Further, the language of the proposed Guide in relation to the board's responsibility for ESG risk management, etc., is also aligned with the amended Corporate Governance Code (see paragraph 85).

## **Reporting Principles**

87. We note the suggestion that the Reporting Principles should be aligned with those of international ESG reporting guidance (paragraph 64). In developing the Reporting Principles of the proposed Guide, we referenced a number of international reporting guidelines. The principles we proposed were those we considered central to the preparation of an ESG report and not covered elsewhere in the Rules (see paragraph 96(c)).
88. As regards comments that the Reporting Principles should be upgraded to a “comply or explain” or mandatory level of obligation (paragraph 65), we consider that this is contrary to our intention for the principles to contain broad concepts, leaving room for issuers to develop their own policies (see paragraph 97 of the Consultation Paper). Also, this would be out of line with our practice in other areas of the Rules – most notably the Corporate Governance Code, where the principles are not subject to “comply or explain”.
89. In respect of the Exchange's role in monitoring ESG disclosures (paragraph 66), we may spot-check issuers' compliance with the “comply or explain” provisions of the ESG Guide to ensure that they are either disclosing the required information or explaining why not. However, we do not examine the basis upon which issuers decide whether to “comply or explain” with a particular provision, or the accuracy of issuers' disclosures. This approach is consistent with our existing practice in relation to monitoring compliance with the Corporate Governance Code.

### *Materiality*

90. We note calls for more guidance in this area (paragraph 68) but do not consider it appropriate to be too prescriptive when defining the “Materiality” Reporting Principle in the Guide. This is because whether a particular ESG issue is material is a matter of judgment that depends on the facts involved and the circumstances of the specific issuer.
91. Also, materiality can have different meanings for different stakeholder groups. For example, investors are principally concerned with a company's share value and the impact that ESG issues could have on it; other stakeholders (e.g. non-financial stakeholders) may have a broader range of concerns. What some stakeholders consider material ESG issues would not necessarily accord with – and may even conflict with – what investors consider material. Ultimately, it is up to the issuer to identify its material ESG issues, with reference to the views of its key stakeholders.
92. We do not agree that this Reporting Principle should call for issuers to disclose their processes for determining their material ESG issues (paragraph 69). Many of our

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<sup>26</sup> See Rule 3.08.

issuers are still developing their reporting practices and processes, and we believe that giving them the space to do so will lead to higher quality reporting over time. Also, we consider that this would go beyond the scope of the Guide, which sets out minimum parameters for reporting with a view to facilitating issuers' disclosure and communication with investors and other stakeholders.

93. To address respondents' request for more guidance on materiality (paragraph 68), we will publish an FAQ setting out relevant resources.

*Quantitative*

94. For similar reasons as discussed in paragraph 92, we do not consider it appropriate at this stage to ask issuers to disclose the definitions and calculation/measurement methods they have employed for their KPI disclosures (paragraph 70). However, we consider that this point is to a certain extent addressed by the proposed Reporting Principle "Consistency", which calls for issuers to use consistent methodologies and disclose any changes to the methods used.

*Balance*

95. As for the suggestion to include "oversight" as a supplemental Reporting Principle (paragraph 72), we refer to paragraph 9 of the proposed Guide, which provides that the board is responsible for the oversight of the issuer's ESG risk management and internal control systems.

*Other reporting principles suggested*

96. In relation to comments in paragraph 74, we would comment as follows:

(a) *Comparability*

We do not consider it necessary to include "comparability" as a separate Reporting Principle (paragraph 74(a)), as our proposed principle "Consistency" already addresses comparability of an issuer's ESG disclosures over time. We acknowledge, however, that comparability across issuers may be helpful to facilitate the review of ESG reports by investors and other stakeholders; we may consider incorporating this concept into the Reporting Principles in the future.

(b) *Reliability*

We recognise the importance of reliability (paragraph 74(b)), but note that under international reporting guidance it is linked with third party assurance (see paragraph 84). As some respondents acknowledged, it may take time for some issuers to build the capability to ensure reliability. In view of this, and for the reasons stated in paragraph 84, it may not be appropriate to introduce reliability as a Reporting Principle at this time. However, we may re-consider this in future reviews of the Guide.

(c) *Completeness, Clarity and Accuracy*

These principles are addressed in Rule 2.13.<sup>27</sup> We consider that it would be redundant to repeat them in the ESG Guide.

### **Complementing ESG discussions in the Business Review Section of the Directors' Report**

97. In light of comments on this matter (paragraph 76), we consider it important to remind issuers that the new CO requirement in this regard will be incorporated under paragraph 28(2)(d) of Appendix 16 to the Rules and will apply to all issuers listed on the Exchange, regardless of their place of incorporation, for financial years ending on or after 31 December 2015. We will publish an FAQ to clarify this point.

### **Consultation conclusion**

98. We have adopted the proposals.

## **B. Re-arranging the Guide**

### **(Consultation Questions 7 and 8)**

### **Proposals and Response Statistics**

99. We proposed to re-arrange the Guide into two Subject Areas: Subject Area **A. Environmental** and Subject Area **B. Social**; and to re-categorise the current Subject Areas "Workplace Quality", "Operating Practices" and "Community Involvement", with some modifications, under Subject Area B (Question 7).
100. We also proposed to change the heading "Workplace Quality" to "Employment and Labour Standards" (Question 8).
101. Both these proposals were supported by a significant majority of respondents (94% and 92%, respectively).

### **Comments received**

#### **Re-arrange the Guide into two Subject Areas (Question 7)**

102. Supporting respondents broadly agreed that the proposed changes were in line with international reporting guidelines and the new CO; and would enhance the simplicity and clarity of the Guide, whilst promoting the comparability of issuers' ESG reports.

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<sup>27</sup> Rule 2.13 states: "...any announcement or corporate communication required pursuant to the Exchange Listing Rules must be prepared having regard to the following general principles: (1) the information contained in the document must be clearly presented and in the plain language format specified or recommended by the Exchange and/or the Commission from time to time; and (2) the information contained in the document must be accurate and complete in all material respects and not be misleading or deceptive..."

103. Several respondents disagreed with this proposal, stating that the proposed re-arrangement would make Subject Area B. Social cover too many different issues.

**Change the heading “Workplace Quality” to “Employment and Labour Standards” (Question 8)**

104. Supporters of this proposal commented that it was in line with international guidelines and better described the information called for under each of the Aspects in this area.
105. However, whilst in favour of the proposal, a number of respondents thought it would be more appropriate to change the heading to “Employment and Labour Practices”. They considered that “standards” might imply “compliance” with legal or regulatory standards, whereas the KPIs under this heading focused on the company’s actual performance in this area.
106. A handful of respondents disagreed with the proposal, giving the reason that they considered “Workplace Quality” to be wider in scope and thus preferable to “Employment and Labour Standards”.
107. A few respondents considered that Aspect B4, “Labour Standards”, should be re-titled “Working Age and Voluntary Labour”, as labour standards comprise much more than “child and forced labour”.

**The Exchange’s response**

**Re-arrange the Guide into two Subject Areas (Question 7)**

108. We note concerns that the “Social” Subject Area may be too broad (paragraph 103). However, the proposed re-structuring of the Guide is aligned with the structure of leading international guidelines. As explained in the Consultation Paper (see paragraph 101), we believe such alignment will help to reduce burden on issuers that report on multiple guidelines, and the resulting reports will better meet the needs of investors and other stakeholders.

**Change the heading “Workplace Quality” to “Employment and Labour Standards” (Question 8)**

109. We agree with the comments that “Employment and Labour Practices” would be a more suitable heading for the reasons described in paragraph 105.

**Consultation conclusion**

110. We have adopted the proposals with a minor amendment as discussed in paragraph 109.

**C. Upgrading the General Disclosures**

**(Consultation Questions 9 and 10)**

## **Proposals and Response Statistics**

111. We proposed to upgrade the General Disclosures for each Aspect of the ESG Guide to “comply or explain” (Question 9).
112. We proposed amending 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 match the language of the relevant provisions of the new CO (incorporated in Appendix 16) (Question 10).
113. Both these proposals received overwhelming majority support from respondents (94% and 97%, respectively).

## **Comments received**

### **Upgrading the General Disclosures for each Aspect to “comply or explain” (Question 9)**

114. Supporters commented that upgrading the General Disclosures would help to improve the quality and extent of reporting amongst issuers, as well as enhance transparency and stakeholder communications.
115. A number of respondents favoured this proposal on the basis that General Disclosures are narrative in nature and call for disclosure of qualitative (rather than quantitative) information. They considered this to be consistent with international practice and agreed that it should not impose any undue burden or cost on issuers.
116. Some respondents commented that more guidance should be included in the Guide on what constitutes a sufficient/acceptable explanation under the “comply or explain” approach.
117. A few respondents<sup>28</sup> disagreed with this proposal, stating that General Disclosures should remain voluntary on the basis that they would not be relevant to all issuers’ businesses. These respondents also thought it would be a burden for issuers to develop ESG policies covering all the Aspects of the Guide.

### **Amendments to align with the new CO (incorporated in Appendix 16) (Question 10)**

118. Supporting respondents agreed that the proposed amendments would enhance consistency between the Guide and the relevant provisions of the new CO (incorporated in Appendix 16), prevent confusion over disclosure requirements and minimise the reporting burden on issuers.
119. The few respondents that disagreed with the proposal considered the amended wording too vague and wide in scope.

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<sup>28</sup> These were mostly listed issuers.

## **The Exchange’s response**

### **Upgrading the General Disclosures for each Aspect to “comply or explain” (Question 9)**

120. In view of the request for more guidance on the meaning of “comply or explain” (paragraph 116), we have incorporated into the Guide a cross-reference to the “*What is “comply or explain”?*” section of the Corporate Governance Code (see paragraph 42).
121. As for the comments that the General Disclosures should remain voluntary as they are not relevant to all issuers’ businesses (paragraph 117), we would point out that if this is the case, issuers could consider using materiality/relevance (e.g. to their business operations) as an explanation.

### **Amendments to align with the new CO (incorporated in Appendix 16) (Question 10)**

122. As the intention of this proposal is to align the wording of the General Disclosures to the relevant provisions of the new CO (incorporated in Appendix 16), we do not consider that there is any scope for amending it to address concerns that it is too vague or wide in scope (paragraph 119).

## **Consultation conclusion**

123. We have adopted the proposals.

## **D. Upgrading the KPIs in Subject Area A. Environmental**

### **(Consultation Questions 11 to 14)**

#### **Proposals and Response Statistics**

124. We proposed to upgrade to “comply or explain” the KPIs under re-numbered Aspects:
- A1: Emissions – in respect of emissions and non-hazardous waste (Question 11), and hazardous waste (Question 12);
  - A2: Use of Resources – in respect of energy and water consumption, and use of packaging material (Question 13); and
  - A3: The Environment and Natural Resources – in respect of the significant impacts of activities on the environment and natural resources (Question 14).
125. Each of these proposals received substantial majority support from respondents:
- Aspect A1: 87% and 85%, respectively;
  - Aspect A2: 86%; and
  - Aspect A3: 86%.

## Comments received

### General comments in support of upgrading the Environmental KPIs

126. Supporters of the proposals commented that issuers' environmental performance is increasingly important to a wide range of stakeholders. They stated that the proposals would enhance transparency and stakeholder communications in this area.
127. Supporting respondents also considered that these proposals were in line with international ESG reporting requirements (e.g. the UK requirement for disclosure of greenhouse gas emissions). A number of these respondents commented that this alignment with overseas practice would promote consistency of disclosure across markets.
128. Respondents broadly agreed that in choosing which KPIs to prioritise for upgrade, the Environmental KPIs were a logical choice. Some respondents commented that environmental issues were the most widely relevant to a broad range of industries. Other respondents commented that this was an area that would be increasingly legislated over time, and as such these proposals would help issuers understand and prepare for managing these emerging risks and expectations from suppliers, customers and regulators.
129. Some respondents commented that investor demand for ESG information is increasing, as investors believe that evaluating how a company manages and reports on ESG risks aids in their investment decisions. In this regard, one respondent commented that upgrading the Environmental KPIs would help address the current market gap for investors who are increasingly seeking to integrate ESG considerations into their investment portfolios.
130. A number of supporting respondents considered that issuers' disclosures in this area should be aligned with Hong Kong government guidelines (e.g. the guidelines for reporting greenhouse gas emissions developed by the Environmental Protection Department<sup>29</sup>) and/or international standards (e.g. the Greenhouse Gas Protocol's Corporate Standard<sup>30</sup>), where relevant.
131. A few respondents, whilst in favour of upgrading the Environmental KPIs, suggested that the Guide should give issuers an alternative to either "complying" or "explaining". That is, if issuers have immaterial/negligible activity in respect of a particular KPI, they should be allowed to simply report that fact, rather than being required to "explain" their reasons for non-compliance.

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<sup>29</sup> "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong", published by the Environmental Protection Department and the Electrical and Mechanical Services Department (see link: [http://www.epd.gov.hk/epd/english/climate\\_change/files/Guidelines\\_English\\_2010.pdf](http://www.epd.gov.hk/epd/english/climate_change/files/Guidelines_English_2010.pdf)).

<sup>30</sup> "The Greenhouse Gas Protocol – A Corporate Accounting and Reporting Standard", published by the World Business Council for Sustainable Development and the World Resources Institute (see link: <http://www.ghgprotocol.org/standards/corporate-standard>).



## **General comments opposed to upgrading the Environmental KPIs**

132. Several respondents suggested keeping the Environmental KPIs as recommended disclosures. They stated that these KPIs are not relevant for all industries. Issuers operating in non-environmentally sensitive sectors do not face the same regulatory and market scrutiny that issuers in environmentally sensitive sectors do; whilst those operating in multiple businesses or markets would face difficulties in collecting the relevant data. To require these issuers to disclose the Environmental KPIs would yield no additional benefits and would be very burdensome.
133. These respondents also contended that “requiring” KPI disclosure is not an international norm. They stated that the international trend is still towards qualitative (rather than quantitative) disclosure and analysis.
134. Some of these respondents stated there would be no comparable basis for the data amongst reporting companies in terms of areas, scope, definition, methodology of data collection, etc., so investors or analysts who wished to do a market-wide analysis or comparison of performance between companies may not find this data helpful.
135. Several respondents expressed concern that the proposed timeline for implementation of the “comply or explain” Environmental KPIs for financial years commencing on or after 1 January 2016 was very tight (see paragraph 168).
136. The concerns of respondents summarised in paragraphs 25 to 28 of this paper are also relevant.

## **Specific comments on Aspect A1. Emissions (Questions 11 and 12)**

### *Non-hazardous waste (re-numbered KPIs A1.4 and A1.6)*

137. Several respondents had concerns regarding the disclosure of non-hazardous waste. They commented that:
  - (a) there is no legal definition of non-hazardous (or hazardous) wastes in Hong Kong;
  - (b) there is no commonly accepted framework for measuring non-hazardous waste (as opposed to emissions, which are subject to established accounting methods);
  - (c) tracking the total amount of non-hazardous waste may be difficult for issuers operating in places where waste disposal is not charged by weight; and
  - (d) companies should report on non-hazardous waste that is material to their operations, but be given flexibility with regard to incidental waste that is not material in scope or substance.

*Hazardous waste (re-numbered KPIs A1.3 and A1.6)*

138. Several supporting respondents commented that problems associated with handling and management of hazardous waste were often material and investors had frequently been subject to unmanaged and unreported risks in this area.
139. A couple of respondents noted that since hazardous waste is typically associated with greater health and safety impacts, it is likely to be regulated in a number of countries, particularly since there is an international treaty<sup>31</sup> regulating this area. As such, issuers operating in sectors where hazardous waste was a material issue should already be reporting this data as a matter of legal compliance.
140. Supporters generally considered that the arguments against upgrading these KPIs (see paragraph 119 of the Consultation Paper) were not valid. Reasons included that:
- (a) the negative environmental and social impacts could be disastrous and the consequences irreversible;
  - (b) there are laws in place that identify what comprises hazardous waste, as well systems and services available to properly separate, contain and dispose of all waste types; and
  - (c) there are regulatory, safety, reputational and litigation risks associated with improper handling of hazardous waste that can have a material financial impact.
141. However, some respondents had concerns regarding the disclosure of hazardous waste. They commented that:
- (a) there is no legal definition of hazardous waste in Hong Kong;
  - (b) there is no accepted industry standard on the reporting of hazardous waste; and
  - (c) companies with operations in multiple countries could face difficulties collecting the relevant data.

**Specific comments on Aspect A2. Use of Resources and Aspect A3. The Environment and Natural Resources (Questions 13 and 14)**

*Aspect A2. Use of Resources (re-numbered KPIs A2.1 to A2.5)*

142. Respondents that disagreed with the proposal to upgrade these KPIs commented that issuers may face challenges and incur significant costs in collecting the relevant data if their business operations are spread out across the world, if they have many subsidiaries or are involved in multiple industries.

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<sup>31</sup> The Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal.

*Aspect A3. The Environment and Natural Resources (re-numbered KPI A3.1)*

143. Respondents that disagreed with upgrading this KPI commented that many issuers do not have a significant impact in these areas.

*Difference between Aspect A2 and Aspect A3*

144. A few respondents had comments relating to the nature of the disclosures required under Aspects A2 and Aspect A3. They considered that the Guide should clarify the difference between the information called for under each Aspect.

## **The Exchange's response**

### **General comments in support of upgrading the Environmental KPIs**

145. In relation to the comments on aligning issuers' disclosures in this area with relevant Hong Kong and/or international standards (paragraph 130), we consider that prescribing specific standards would go beyond the scope of the Guide (see paragraph 92). Also, issuers from different jurisdictions may use different standards, and to restrict these may pose difficulties for some issuers.
146. That being said, there are already widely recognised and accepted standards for reporting in some areas (e.g. for the calculation of greenhouse gas emissions). We will publish a list of relevant resources in the FAQs and raise awareness of these through issuer training.
147. As regards the suggestion to give issuers an alternative to "complying" or "explaining" (paragraph 131), we would clarify that an issuer with immaterial/negligible activity in respect of a particular KPI could consider stating this fact as its explanation.

### **General comments opposed to upgrading the Environmental KPIs**

148. We recognise that the Environmental KPIs will not necessarily be relevant for all issuers (paragraph 132). However, environmental issues do have a wide scope of application (see paragraph 59 of the Consultation Paper) and we consider that the rationale for upgrading these KPIs is very strong (see paragraphs 111 to 114 of the Consultation Paper).
149. We do not agree that requiring KPI disclosure (on a "comply or explain" basis) is not an international norm (paragraph 133). Mainland China, the United Kingdom, Australia and South Africa all call for KPI disclosure (see our summary of international practice in paragraphs 27 to 47 of the Consultation Paper).
150. In response to comments on the lack of comparability of issuers' disclosures (paragraph 134), please see our comments in paragraphs 145 and 146.
151. Regarding respondents' concerns about the implementation date (paragraph 135), please see our comments in paragraph 170.

152. Our response to the concerns of respondents summarised in paragraphs 25 to 28 is set out in paragraphs 41 to 43.

### **Specific comments on Aspect A1. Emissions (Questions 11 and 12)**

#### *Non-hazardous waste (re-numbered KPIs A1.4 and A1.6)*

153. We note the concerns raised (paragraph 137) and would comment as follows:

(a) *No legal definition*

Non-hazardous waste should be any waste not covered under the definition of “hazardous waste” in the Basel Convention (see paragraph 139), to which Hong Kong is a signatory.

(b) *No commonly accepted framework for measuring*

For the purposes of these KPIs, issuers would only need to obtain information on the weight of their non-hazardous waste. Most issuers should be able to obtain this information from contractors or building management that collect the waste for disposal; or, if not, they should be able to make an estimate by weighing a sample of their non-hazardous waste generated over a certain period (e.g. one week).

(c) *Difficult to track*

Issuers that have difficulty tracking their non-hazardous waste should explain this in their ESG reports. However, most issuers should be able to make a reasonable estimate by weighing a sample (see sub-paragraph (b)).

(d) *Materiality*

Issuers that do not have a significant impact in this area could consider using materiality/relevance as an explanation.

#### *Hazardous waste (re-numbered KPIs A1.3 and A1.6)*

154. We note the concerns regarding the disclosure of hazardous waste (paragraph 141) and would comment as follows:

(a) *No legal definition*

The Basel Convention (see paragraphs 139 and 153(a)) defines the wastes that should be classified as “hazardous” for the purposes of the Convention. They include clinical and chemical wastes, as well as wastes from production and use of inks, dyes, paints and lacquers (amongst others).

In addition, Hong Kong has legislation regulating (i) chemical wastes<sup>32</sup>; (ii) clinical wastes<sup>33</sup>; and (iii) hazardous chemicals<sup>34</sup>.

(b) *No accepted industry standard for reporting*

For the purposes of these KPIs, issuers would only need to obtain information on the weight of their hazardous waste. Our understanding is that hazardous wastes are usually collected by specialised contractors who can provide information on the quantity removed.

(c) *Difficulties collecting data*

Issuers that face difficulties collecting the relevant data because their operations are spread over multiple countries or for any other reason, have the option to provide an explanation in their ESG reports.

**Specific comments on Aspect A2. Use of Resources and Aspect A3. The Environment and Natural Resources (Questions 13 and 14)**

*Aspect A2. Use of Resources (re-numbered KPIs A2.1 to A2.5)*

155. Regarding the comments that issuers may face challenges and incur significant costs in collecting the relevant data (paragraph 142), we would point out again that issuers in this situation have the option of providing an explanation in their ESG reports.

*Aspect A3. The Environment and Natural Resources (re-numbered KPI A3.1)*

156. As regards the comments opposed to upgrading this KPI (paragraph 143), we would re-iterate that issuers that do not have a significant impact in these areas could consider using materiality/relevance as an explanation.

*Difference between Aspect A2 and Aspect A3*

157. In relation to comments on the nature of the disclosures required under each of these Aspects (paragraph 144), we do not think issuers should be overly concerned with the difference between, for example, “resources” under Aspect A2 and “natural resources” under Aspect A3. The more important distinction to make is that: (i) Aspect A2 relates to the use of resources – i.e. it is concerned with the quantitative side of the story (e.g. how much an issuer is consuming); whilst (ii) Aspect A3 is concerned with the impact of an issuer’s activities on natural resources and the environment (e.g. the effect that an issuer’s activities have on water supply or biodiversity). We will clarify this point by way of an FAQ.

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<sup>32</sup> The Waste Disposal (Chemical Waste) (General) Regulation (Cap. 354C of the Laws of Hong Kong) (see link: [http://www.epd.gov.hk/epd/english/environmentinhk/waste/prob\\_solutions/chemical\\_wminhk.html](http://www.epd.gov.hk/epd/english/environmentinhk/waste/prob_solutions/chemical_wminhk.html)).

<sup>33</sup> The Clinical Waste Control Scheme, comprising Section 2 and Schedule 8 of the Waste Disposal Ordinance (Cap.354 of the Laws of Hong Kong), the Waste Disposal (Clinical Waste) (General) Regulation (Cap. 354O of the Laws of Hong Kong), and various pieces of additional legislation (see link: <http://www.epd.gov.hk/epd/clinicalwaste/en/scheme.html>).

<sup>34</sup> The Hazardous Chemicals Control Ordinance (Cap. 595 of the Laws of Hong Kong) (see link: [http://www.epd.gov.hk/epd/english/laws\\_regulations/comp\\_guides/cg\\_hazardous\\_chemical.html](http://www.epd.gov.hk/epd/english/laws_regulations/comp_guides/cg_hazardous_chemical.html)).

## **Consultation conclusion**

158. We have adopted the proposals, except that we have decided to delay the implementation for the upgrade of the KPIs under the “Environmental” Subject Area to “comply or explain” by one year (see paragraph 170).

## **D. Gender Disclosure**

### **(Consultation Question 15)**

## **Proposal and Response Statistics**

159. We proposed to amend the wording of the existing ESG Guide to incorporate gender disclosure in proposed Subject Area B. (i.e. in the recommended disclosures of the Guide), under the sub-heading “Employment and Labour Standards”.<sup>35</sup>
160. A significant majority of respondents supported this proposal (94%).

## **Comments received**

161. Supporting respondents commented that the proposal was in line with most international ESG reporting standards. They also stated that gender diversity is an important and relevant factor for investors and other stakeholders to understand a company’s hiring philosophy, assess the quality of its management and board, and track its progress towards achieving a diverse workforce.
162. A majority of supporting respondents commented that gender diversity is good for business performance and critical to Hong Kong’s competitive advantage. They noted that there is increasing evidence suggesting that companies can benefit from a more diversified workforce, especially gender diversity at the board and senior management level.
163. A number of respondents who supported this proposal did so on the proviso that it would be a recommended disclosure (i.e. voluntary). These respondents commented that, in general, they did not consider gender to be a persuasive indicator of a company’s performance or success. Employment or promotion should be based on merit. Further, issuers in different industries may have different demographic profiles in respect of gender due to the nature of their business (e.g. a construction company may have a predominantly male workforce, but this would not necessarily be an indication of weaker employment and labour standards).
164. Several respondents commented they would like to see the proposals go further, that is to make disclosure of gender diversity information a “comply or explain” provision or even a mandatory requirement.
165. Respondents who disagreed with the proposal cited similar reasons as described in paragraph 163. Others considered that gender diversity should not be a factor affecting the ESG performance of a company.

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<sup>35</sup> See paragraph 109 in relation to the amended sub-heading “Employment and Labour Practices”.

## **The Exchange’s response**

166. We believe the proposals are in line with international best practice/guidelines. Also, there was broad agreement amongst supporting respondents that gender diversity is not only an important ESG factor (paragraph 161), but also that it is good for business performance (paragraph 162). Further, the supporting responses show that an overwhelming majority of investors and other stakeholders wish to see issuers’ information on gender diversity.

## **Consultation conclusion**

167. We have adopted the proposal.

## **Implementation dates**

### **Comments received**

168. A number of respondents expressed concern regarding the proposed implementation date of the Guide (i.e. for issuers with financial years commencing on or after 1 January 2016). They commented that this would provide very little lead time for issuers to prepare, particularly those with December financial year-ends.

## **The Exchange’s response and conclusion**

169. The Rule amendments and the upgrade of the General Disclosures under each Aspect of the Guide from recommended to “comply or explain”, as well as the revised recommended disclosures, will be effective for issuers’ financial years commencing on or after 1 January 2016, as originally proposed (see paragraph 9 of the Consultation Paper).
170. To address concerns about the short lead time (paragraph 168), and considering that over 70% of our issuers have December financial year-ends, we have concluded that it is appropriate to postpone the implementation date for the upgrade of the Environmental KPIs to “comply or explain” by one year. The implementation of the upgrade will instead be for issuers’ financial years commencing on or after 1 January 2017.
171. We believe that implementing the “comply or explain” provisions in two stages (i.e. with the upgrade of the General Disclosures coming into effect first, and the upgrade of the Environmental KPIs one year later) will give issuers the time and space to:
- (a) identify the ESG areas that they will report on and develop policies in those areas; and
  - (b) put necessary arrangements in place ahead of the implementation of the “comply or explain” Environmental KPIs.

172. To facilitate reporting, we will provide additional issuer training, webcasts/recordings of seminars, FAQs, as well as other resources on the HKEx website.

## **Additional comments**

173. Several respondents submitted drafting suggestions, which we have reviewed and incorporated in the Guide where we thought appropriate.
174. We also received a number of additional valuable comments in respect of the Guide and related Rules which, although outside the scope of this consultation, we intend to consider in future reviews. We summarise some of these comments below.

## **Comments on upgrading Subject Area B. Social**

175. A number of respondents<sup>36</sup> considered that either some or all of the KPIs under the “Social” Subject Area should also be upgraded to “comply or explain”. They commented that only upgrading the KPIs under the “Environmental” Subject Area implied that environmental factors were more important. This may not be the case for certain industries, such as information technology, where social issues such as human capital management are more material than environmental issues.
176. Some of these respondents commented that in the Hong Kong market, investors hold routine conversations with their investee companies on Supply Chain Management (re-numbered Aspect B5), Product Responsibility (re-numbered Aspect B6) and Anti-corruption (re-numbered Aspect B7).
177. Several of these respondents stated that the Exchange should set a clear timeline for raising the reporting level of the KPIs in the “Social” Subject Area to “comply or explain”.

## **Exchange’s response**

178. In view of these comments, we would like to highlight that the development of the ESG Guide has been, and will continue to be, an evolutionary process, with the longer term goal of achieving better and more comprehensive ESG reporting amongst our issuers. At the same time, we believe the rationale for prioritising the upgrade of the Environmental KPIs is very strong, as discussed in Chapter 3 of the Consultation Paper (see in particular paragraphs 111 to 114, 117 to 118, 120 to 122, and 123 to 125).
179. We will continue to review the Guide periodically going forward, particularly in the light of any future regional or international legislative and regulatory developments in this area.

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<sup>36</sup> These were mostly investment managers.



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## APPENDIX I: LIST OF RESPONDENTS

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### INSTITUTIONS

#### A. Listed Companies (37 in total)

- 1 AAC Technologies Holdings Inc.
- 2 AIA Group Limited
- 3 Cathay Pacific Airways Limited
- 4 China CITIC Bank Co Ltd
- 5 China Petroleum & Chemical Corporation
- 6 CLP Holdings Limited
- 7 Henderson Land Development Company Ltd
- 8 Hong Kong Aircraft Engineering Company Limited
- 9 Hong Kong Ferry (Holdings) Company Ltd
- 10 HSBC Holdings plc
- 11 Manulife (International) Limited
- 12 MTR Corporation Ltd
- 13 New World Development Company Limited
- 14 Pacific Andes International Holdings Limited
- 15 Sa Sa International Holdings Ltd
- 16 Standard Chartered PLC
- 17 Swire Pacific Limited
- 18 Swire Properties Limited
- 19 The Hongkong and Shanghai Hotels Ltd
- 20-37 18 listed companies requested anonymity

#### B. Professional Bodies (17 in total)

- 38 Asia Capital Markets Institute
- 39 Asian Corporate Governance Association
- 40 Association of Chartered Certified Accountants
- 41 Association of Executive Search and Leadership Consultants
- 42 Hong Kong Association of Banks
- 43 Hong Kong Confederation of Trade Unions and 8 other industry associations
- 44 Hong Kong Institute of Certified Public Accountants
- 45 Hong Kong Institute of Directors
- 46 Hong Kong Institute of Qualified Environmental Professionals Ltd
- 47 Out Leadership
- 48 Principles for Responsible Investment
- 49 The British Chamber of Commerce in Hong Kong
- 50 The Canadian Chamber of Commerce in Hong Kong
- 51 The Chamber of Hong Kong Listed Companies
- 52 The Hong Kong Institute of Chartered Secretaries
- 53 The Hong Kong Society of Financial Analysts
- 54 The Law Society of Hong Kong

#### C. Market Practitioners (45 in total)

- 55 Allied Environmental Consultants Ltd
- 56 APG Investments Asia Ltd
- 57 Baillie Gifford & Co

58	BCT Group
59	BlackRock
60	BMO Global Asset Management EMEA
61	British Columbia Investment Management Corporation
62	California Public Employees' Retirement System
63	Carbon Care Asia
64	Creative Investment Research
65	Crowe Horwath (HK) Consulting & Valuation Limited
66	CSR-Today
67	Deloitte Touche Tohmatsu
68	East Capital International AB
69	Energy Use Strategy Advisors
70	Ernst & Young
71	Fidelity Worldwide Investment
72	Fleishman Hillard Hong Kong Limited
73	Glass Lewis & Co
74	Harvey Nash Executive Search
75	Hermes Investment Management
76	Investec Asset Management
77	KPMG
78	Legal & General Investment Management
79	Local Authority Pension Fund Forum
80	MN
81	Norges Bank Investment Management
82	PricewaterhouseCoopers
83	Rainbow Consultancy Limited
84	Red Links Limited
85	RS Group
86	Sedgwick Richardson (Hong Kong) Limited
87	SHINEWING Risk Services Limited
88	Teachers Insurance and Annuity Association of America and College Retirement Equities Fund
89	The Purpose Business Limited
90	USS Investment Management
91-99	9 market practitioners requested anonymity

**D. Non-governmental / Charitable Organisations (18 in total)**

100	Business Environment Council
101	Catalyst
102	Ceres
103	Civic Exchange
104	Climate Disclosure Standards Board
105	Community Business Ltd
106	Greenpeace East Asia
107	GRI
108	Oxfam Hong Kong
109	The Women's Foundation Limited
110	Women in Finance Asia
111	World Green Organisation
112	WWF- Hong Kong

113-117 5 Non-governmental / charitable organisations requested anonymity

**E. Other Institutions (14 in total)**

- 118 American Express International Inc.
- 119 British Council HK
- 120 Community Investment and Inclusion Fund
- 121 Consumer Council
- 122 Direct Link Worldwide Company Limited
- 123 Equal Opportunities Commission
- 124 FTSE Russell
- 125 Fuji Xerox (Hong Kong) Limited
- 126 Occupational Safety & Health Council
- 127 The Hong Kong Council of Social Service
- 128 The University of Hong Kong (Centre for Comparative and Public Law)
- 129-131 3 other institutions requested anonymity

**INDIVIDUALS**

**F. Listed Company Staff (17 in total)**

- 132 Ben Ridley
- 133 Justin Li
- 134 Kimberley Cole
- 135 Rando Wang To Yuen
- 136 Rosanna Hu
- 137 Vincent C.Y. Kong
- 138-148 11 listed company staff requested anonymity

**G. HKEx Participant Staff (1 in total)**

- 149 Sunita Subramoniam

**H. Retail Investors (13 in total)**

- 150 Elaine Young
- 151 Tiffany Cheng
- 152-162 11 retail investors requested anonymity

**I. Other Individuals (41 in total)**

- 163 Amanda Yik
- 164 Anju Singh
- 165 Ben Ami Capell Cohen
- 166 Carmen Ng
- 167 Hanah Paik
- 168 Hon Emily Lau, JP
- 169 Hon Kenneth Leung
- 170 J Robert Gibson
- 171 Joseph Tong
- 172 Leung Sze Man
- 173 Lily Siu
- 174 Nicola Roseman
- 175 Pang Hoi Yan
- 176 Rosemary Halfhead

177 楊建霞

178-203 26 other individuals requested anonymity

*Remarks:*

- 1. One submission is counted as one response.*
- 2. The total number of responses is calculated according to the number of submissions received and not the underlying members that they represent.*

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# APPENDIX II: LISTING RULE AMENDMENTS

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## MAIN BOARD LISTING RULES

### Chapter 13

#### EQUITY SECURITIES

#### CONTINUING OBLIGATIONS

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#### Environmental and Social Matters

- 13.91 (1) The Environmental, Social and Governance (“ESG”) Reporting Guide in Appendix 27 comprises two levels of disclosure obligations: (a) “comply or explain” provisions; and (b) recommended disclosures.
- (2) Issuers must state whether they have complied with the “comply or explain” provisions set out in the ESG Reporting Guide for the relevant financial year in their annual reports or in separate ESG reports.
- (3) Where the issuer deviates from the “comply or explain” provisions, it must give considered reasons in its ESG report.
- (4) Issuers are encouraged, but not required, to report on the recommended disclosures of the ESG Reporting Guide.
- (5) Issuers must publish their ESG reports ~~are encouraged to include information set out in Appendix 27 in the annual report~~ on an annual basis and regarding the same period covered in ~~the~~ their annual reports, ~~or as a separate report.~~

#### Notes:

- (1) ~~Where the An ESG report may be presented as information is included in the issuer’s annual report, in a separate report, or on the issuer’s website, an~~ Where not presented in the issuer’s annual report, the issuer is free to report on any period but should consistently report on the same period so that the information can be comparable. However, the Exchange encourages an issuer to report regarding the same period as in the annual report ~~should publish this information as close as possible to, and in any event no later than three months after, the publication of the issuer’s annual report.~~
- (2) As regards “Subject Area A. Environmental” of the ESG Reporting Guide, the upgrade of the Key Performance Indicators to “comply or explain” will come into effect for issuers’ financial years beginning on or after 1 January 2017.

...

## Appendix 16

### DISCLOSURE OF FINANCIAL INFORMATION

...

#### Information in annual reports

6. ...

6.1 ...

...

6.4 Issuers must publish ESG reports in accordance with Rule 13.91 and the ESG Reporting Guide contained in Appendix 27.

...

#### Recommended additional disclosure

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53. ~~Issuers are encouraged to include information set out in Appendix 27 in the annual report regarding the same period covered in the annual report, or as a separate report.~~

~~53.1: Where the information is included in a separate report, an issuer is free to report on any period but should consistently report on the same period so that the information can be comparable. However, the Exchange encourages an issuer to report regarding the same period as in the annual report.~~  
[Repealed 1 January 2016]

...

## Appendix 27

### Environmental, Social and Governance Reporting Guide

New Guide	Current Guide
<b>The Guide</b>	<b>Introduction</b>
<p>1. This Guide comprises two levels of disclosure obligations: (a) “comply or explain” provisions; and (b) recommended disclosures.</p>	
<p>2. An issuer must report on the “comply or explain” provisions of this Guide. If the issuer does not report on one or more of these provisions, it must provide reasons in its ESG report. The issuer is encouraged, but not required, to report on the recommended disclosures of this Guide. For guidance on the “comply or explain” approach, issuers may refer to the “<i>What is “comply or explain”?</i>” section of the Corporate Governance Code and Corporate Governance Report (“Corporate Governance Code”) in Appendix 14 of the Main Board Listing Rules.</p>	
<p>3. An issuer must disclose ESG information on an annual basis and regarding the same period covered in its annual report. An ESG report may be presented as information in the issuer’s annual report, in a separate report, or on the issuer’s website. Regardless of the format adopted, the ESG report should be published on the Exchange’s website and the issuer’s website. Where not presented in the issuer’s annual report, the issuer should publish this information as close as possible to, and in any event no later than three months after, the publication of the issuer’s annual report.</p>	<p>4. An issuer may disclose the ESG information in its annual report regarding the same period covered in the annual report, or in a separate report, in print or on its website. Where the information is included in a separate report, an issuer is free to report on any period. However, the Exchange encourages an issuer to report regarding the same period as in the annual report.</p>
<b>Overall Approach</b>	
<p>4. This Guide is organised into two ESG subject areas (“Subject Areas”): Environmental (Subject Area A) and Social (Subject Area B). Corporate governance is addressed separately in the</p>	<p>7. There are four ESG subject areas: Workplace Quality, Environmental Protection, Operating Practices and</p>

New Guide	Current Guide
<p>Corporate Governance Code.</p>	<p>Community Involvement. Corporate Governance is not included as it is dealt with separately in Appendix 14 of the Main Board Listing Rules.</p>
<p>5. Each Subject Area has various aspects (“Aspects”). Each Aspect sets out general disclosures (“General Disclosures”) and key performance indicators (“KPIs”) for issuers to report on in order to demonstrate how they have performed.</p>	<p>1. This guide sets out Environmental, Social and Governance (“ESG”) subject areas, aspects, general disclosure and key performance indicators (“KPIs”).</p> <p>8. Each subject area has various aspects. For each relevant aspect, an issuer could report on the general disclosure and KPIs that indicate its performance.</p>
<p>6. In addition to the “comply or explain” matters set out in this Guide, the Exchange encourages an issuer to identify and disclose additional ESG issues and KPIs, including recommended disclosures, that reflect the issuer’s significant environmental and social impacts; or substantially influence the assessments and decisions of stakeholders. In assessing these matters the issuer should engage stakeholders on an ongoing basis in order to understand their views and better meet their expectations.</p>	<p>12. It is important to engage stakeholders periodically to identify material aspects and KPIs and understand their views. Stakeholders are parties that have interests in or are affected by the decisions and activities of an issuer. They may include shareholders (including independent shareholders), business partners, employees, suppliers, sub-contractors, consumers, regulators and the public.</p> <p>13. The ESG report could disclose the issuer’s stakeholders and the basis for their identification. It may also disclose the activities the issuer has arranged to engage stakeholders, the objectives and how it has responded to stakeholders’ views. Stakeholder engagement may be conducted through</p>



New Guide	Current Guide
	<p>meetings (e.g. personal or annual general meetings), conferences, workshops, advisory committees, round-table discussions, focus groups, questionnaires, web-based forums and written consultations.</p> <p>14. The ESG report may also disclose a mechanism for stakeholders to provide feedback.</p>
<p>7. This Guide is not comprehensive and the issuer may refer to existing international ESG reporting guidance for its relevant industry or sector. The issuer may adopt international ESG reporting guidance so long as it includes comparable disclosure provisions to the “comply or explain” provisions set out in this Guide. The issuer may also consider obtaining assurance on its ESG report.</p>	<p>2. This guide is not comprehensive. The Exchange encourages an issuer to identify and disclose additional ESG issues and KPIs that are relevant to its business. It may also refer to existing international ESG reporting guidance for its relevant industry or sector.</p> <p>3. An issuer may adopt a higher level of ESG reporting based on international guidance and standards.</p> <p>6. Issuers may consider offering assurance on the ESG report.</p>
<p><i>ESG strategy and reporting</i></p>	
<p>8. The board has overall responsibility for an issuer’s ESG strategy and reporting.</p>	<p>5. It is important to involve the board of directors in preparing the ESG report. The board of directors is responsible for ESG reporting but it may delegate the task of compiling the ESG report to its employees or a</p>

New Guide	Current Guide
	committee that reports to the board.
<p>9. In line with the Corporate Governance Code, the board is responsible for evaluating and determining the issuer’s ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. Management should provide a confirmation to the board on the effectiveness of these systems.</p>	<p>18. An ESG report could also discuss ESG opportunities, risks, challenges and how they are addressed. For example, a telecommunication company may see an opportunity to promote teleconferencing as an alternative to travel due to climate change concerns. An information and technology company may see the damage to its reputation from a breach in consumer privacy as an ESG risk.</p>
<p>10. The ESG report should state the issuer’s ESG management approach, strategy, priorities and objectives and explain how they relate to its business. It would be useful to discuss the issuer’s management, measurement and monitoring system employed to implement its ESG strategy. An ESG report should also state which entities in the issuer’s group and/or which operations have been included in the report. If there is a change in the scope, the issuer should explain the difference and reason for the change.</p>	<p>17. An ESG report could state the issuer’s ESG management approach, strategies, priorities, objectives and explain how they relate to its business. It could discuss the issuer’s management, measurement and monitoring system to implement its ESG strategies.</p> <p>15. An issuer is encouraged to state in its ESG report which entities in the group and/or which operations have been included for the report. If there is change in the scope, the issuer is encouraged to explain the difference and reason for change.</p>

New Guide	Current Guide
<p><b>Reporting Principles</b></p>	
<p>11. The following Reporting Principles underpin the preparation of an ESG report, informing the content of the report and how information is presented:</p> <p>(1) <b>Materiality</b> is the threshold at which ESG issues become sufficiently important to investors and other stakeholders that they should be reported.</p> <p>(2) <b>Quantitative:</b> KPIs need to be measurable. Targets can be set to reduce a particular impact. In this way the effectiveness of ESG policies and management systems can be evaluated and validated. Quantitative information should be accompanied by a narrative, explaining its purpose, impacts, and giving comparative data where appropriate.</p> <p>(3) <b>Balance:</b> The ESG report should provide an unbiased picture of the issuer’s performance. The report should avoid selections, omissions, or presentation formats that may inappropriately influence a decision or judgment by the report reader.</p> <p>(4) <b>Consistency:</b> The issuer should use consistent methodologies to allow for meaningful comparisons of ESG data over time. The issuer should disclose in the ESG report any changes to the methods used or any other relevant factors affecting a meaningful comparison.</p>	<p><b>On “Materiality”</b></p> <p>9. Not all ESG subject areas, aspects and KPIs in this Guide may be relevant to an issuer’s business. Also, some may be more important to an issuer’s business than others. For example, product responsibility, an ESG aspect, may be important to a retailer.</p> <p>10. An issuer is encouraged to prioritise ESG subject areas, aspects and KPIs that are material in the context of its corporate strategy, which could be given prominence in the report.</p> <p>11. It is unnecessary to report on all subject areas, aspects and KPIs. An issuer is encouraged to identify and report on relevant ESG subject areas, aspects and KPIs that have material environmental and social impacts. Materiality can be addressed in strategic, operational and financial terms.</p> <p><i>Also see paragraph 12 above.</i></p>

New Guide	Current Guide
	<p data-bbox="1435 229 1648 256"><b>On “Quantitative”</b></p> <p data-bbox="1355 325 2063 687">19. The Guide does not provide a definition for each KPI. An issuer is encouraged to explain how the KPIs are calculated and include information that is necessary for interpreting the KPIs. It may use the same definition and calculation method each period for comparison over time. If there is a change to the definition or calculation method, the issuer could explain the difference and reason for the change.</p> <p data-bbox="1355 759 2063 882">20. Over time, an issuer may present time series of data for comparison over a period already reported on. The time period used may be consistent for every report.</p> <p data-bbox="1355 954 2063 1027">21. An issuer may report line items with objective and representative industry benchmarks.</p> <p data-bbox="1355 1099 2063 1173">22. Quantitative information could be presented in a table format.</p> <p data-bbox="1435 1209 1648 1236"><b>On “Consistency”</b></p> <p data-bbox="1355 1308 2063 1382">16. Once an issuer starts reporting, it is encouraged to continue to do so regularly. The aspects and KPIs</p>

New Guide	Current Guide
	<p>reported could be consistent for each period or there could be an explanation of the changes. An issuer may also explain why some aspects and KPIs are not reported.</p> <p><i>Also see paragraph 15 above.</i></p>
<p><b>Complementing ESG discussions in the Business Review Section of the Directors' Report</b></p>	
<p>12. Pursuant to paragraph 28(2)(d) of Appendix 16 of the Main Board Listing Rules, an issuer's directors' report for a financial year must contain a business review in accordance with Schedule 5 to the Companies Ordinance. The business review must include, to the extent necessary for an understanding of the development, performance or position of the issuer's business:</p> <ul style="list-style-type: none"> <li>(i) a discussion of the issuer's environmental policies and performance;</li> <li>(ii) a discussion of the issuer's compliance with the relevant laws and regulations that have a significant impact on the issuer; and</li> <li>(iii) an account of the issuer's key relationships with its employees, customers and suppliers and others that have a significant impact on the issuer and on which the issuer's success depends.</li> </ul> <p>This Guide should complement the content requirements of the directors' report, as it calls for issuers to disclose information in respect of specific ESG areas.</p>	
<p><i>Note: As regards "Subject Area A. Environmental", the upgrade of the KPIs to "comply or explain" will come into effect for issuers' financial years beginning on or after 1 January 2017.</i></p>	

New Guide			Current Guide	
	“Comply or explain” Provisions	Recommended Disclosures	All Recommended Disclosures	
<b>A. Environmental</b>			<b>B. Environmental protection</b>	
<b>Aspect A1 : Emissions</b>	<p>General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.</p> <p><i>Note: Air emissions include NO<sub>x</sub>, SO<sub>x</sub>, and other pollutants regulated under national laws and regulations.</i></p> <p><i>Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.</i></p> <p><i>Hazardous wastes are those defined by national regulations.</i></p>		<b>Aspect B1</b>	<b>Emissions</b>
	KPI A1.1	The types of emissions and respective emissions data.	KPI B1.1	[Same wording adopted in proposed KPI A1.1]
	KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	KPI B1.2	[Same wording adopted in proposed KPI A1.2]
			General disclosure	<p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance and material non-compliance with relevant standards, rules and regulations</p> <p>on air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.</p> <p>Air emissions include NO<sub>x</sub>, SO<sub>x</sub>, and other pollutants regulated under national laws and regulations.</p> <p>Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.</p> <p>Hazardous wastes are those defined by national regulations.</p>

New Guide			Current Guide		
	“Comply or explain” Provisions		Recommended Disclosures	All Recommended Disclosures	
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		KPI B1.3	[Same wording adopted in proposed KPI A1.3]
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		KPI B1.4	[Same wording adopted in proposed KPI A1.4]
	KPI A1.5	Description of measures to mitigate emissions and results achieved.		KPI B1.5	[Same wording adopted in proposed KPI A1.5]
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.		KPI B1.6	[Same wording adopted in proposed KPI A1.6]
<b>Aspect A2: Use of Resources</b>	<p>General Disclosure</p> <p>Policies on the efficient use of resources, including energy, water and other raw materials.</p> <p><i>Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.</i></p>			<b>Aspect B2</b>	<b>Use of resources</b>
	KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per		General Disclosure	<p>Policies on efficient use of resources including energy, water and other raw materials.</p> <p>Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.</p>
				KPI B2.1	[Same wording adopted in proposed KPI A2.1]

New Guide			Current Guide		
	“Comply or explain” Provisions		Recommended Disclosures	All Recommended Disclosures	
		facility).			
	KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).		KPI B2.2	[Same wording adopted in proposed KPI A2.2]
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.		KPI B2.3	[Same wording adopted in proposed KPI A2.3]
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.		KPI B2.4	[Same wording adopted in proposed KPI A2.4]
	KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.		KPI B2.5	[Same wording adopted in proposed KPI A2.5]
<b>Aspect A3: The Environment and Natural Resources</b>	General Disclosure : Policies on minimising the issuer’s significant impact on the environment and natural resources.			<b>Aspect B3</b>	<b>The environment and natural resources</b>
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.		General Disclosure	Policies on minimising the operation’s significant impact on the environment and natural resources.
				KPI B3.1	[Same wording adopted in proposed KPI A3.1]



New Guide			Current Guide		
	“Comply or explain” Provisions	Recommended Disclosures		All Recommended Disclosures	
<b>B. Social</b>					
<b>Employment and Labour Practices</b>				<b>A. Workplace quality</b>	
<b>Aspect B1: Employment</b>	<p>General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.</p>			<p><b>Aspect A1</b></p> <p>General disclosure</p> <p><b>Working conditions</b></p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance and material non-compliance with relevant standards, rules and regulations</p> <p>on compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity and other benefits and welfare.</p>	
		KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	KPI A1.1	Total workforce by employment type, age group and geographical region.
		KPI B1.2	Employee turnover rate by gender, age group and geographical region.	KPI A1.2	Employee turnover rate by age group and geographical region.
<b>Aspect B2: Health and Safety</b>	<p>General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer.</p> <p>relating to providing a safe working environment and protecting employees from occupational hazards.</p>			<p><b>Aspect A2</b></p> <p>General disclosure</p> <p><b>Health and safety</b></p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance and material non-compliance with relevant standards, rules and regulations</p> <p>on providing a safe working environment and protecting employees from occupational hazards.</p>	

New Guide				Current Guide	
	“Comply or explain” Provisions	Recommended Disclosures		All Recommended Disclosures	
		KPI B2.1	Number and rate of work-related fatalities.	KPI A2.1	[Same wording adopted in proposed KPI B2.1]
		KPI B2.2	Lost days due to work injury.	KPI A2.2	[Same wording adopted in proposed KPI B2.2]
		KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	KPI A2.3	[Same wording adopted in proposed KPI B2.3]
<b>Aspect B3: Development and Training</b>	<p>General Disclosure</p> <p>Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities.</p> <p><i>Note: Training refers to vocational training. It may include internal and external courses paid by the employer.</i></p>			<b>Aspect A3</b>	<b>Development and training</b>
				General disclosure	Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities.
					Training refers to vocational training. It may include internal and external courses paid by the employer.
		KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	KPI A3.1	The percentage of employees trained by employee category (e.g. senior management, middle management, etc.).
		KPI B3.2	The average training hours completed per employee by gender and employee category.	KPI A3.2	The average training hours completed per employee by employee category.

New Guide			Current Guide		
	“Comply or explain” Provisions	Recommended Disclosures		All Recommended Disclosures	
<b>Aspect B4: Labour Standards</b>	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer  relating to preventing child and forced labour.			<b>Aspect A4 General disclosure</b>	<b>Labour standards</b> Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on preventing child or forced labour.
		KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	KPI A4.1	[Same wording adopted in proposed KPI B4.1]
		KPI B4.2	Description of steps taken to eliminate such practices when discovered.	KPI A4.2	[Same wording adopted in proposed KPI B4.2]
<b>Operating Practices</b>			<i>C. Operating practices</i>		
<b>Aspect B5: Supply Chain Management</b>	General Disclosure Policies on managing environmental and social risks of the supply chain.			<b>Aspect C1 General disclosure</b>	<b>Supply chain management</b> Policies on managing environmental and social risks of supply chain.
		KPI B5.1	Number of suppliers by geographical region.	KPI C1.1	[Same wording adopted in proposed KPI B5.1]
		KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	KPI C1.2	[Same wording adopted in proposed KPI B5.2]

New Guide			Current Guide		
	“Comply or explain” Provisions	Recommended Disclosures		All Recommended Disclosures	
<b>Aspect B6: Product Responsibility</b>	<p>General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.</p>			<b>Aspect C2</b>	<b>Product responsibility</b>
				General disclosure	<p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance and material non-compliance with relevant standards, rules and regulations</p> <p>on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.</p>
		KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	KPI C2.1	[Same wording adopted in proposed KPI B6.1]
		KPI B6.2	Number of products and service related complaints received and how they are dealt with.	KPI C2.2	[Same wording adopted in proposed KPI B6.2]
		KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	KPI C2.3	[Same wording adopted in proposed KPI B6.3]
		KPI B6.4	Description of quality assurance process and recall procedures.	KPI C2.4	[Same wording adopted in proposed KPI B6.4]
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	KPI C2.5	[Same wording adopted in proposed KPI B6.5]	

New Guide			Current Guide		
	“Comply or explain” Provisions	Recommended Disclosures		All Recommended Disclosures	
<b>Aspect B7: Anti-corruption</b>	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer  relating to bribery, extortion, fraud and money laundering.			<b>Aspect C3 General disclosure</b>	<b>Anti-corruption</b> Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on bribery, extortion, fraud and money laundering.
		KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	KPI C3.1	[Same wording adopted in proposed KPI B7.1]
		KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	KPI C3.2	[Same wording adopted in proposed KPI B7.2]
<b>Community</b>			<i>D. Community involvement</i>		
<b>Aspect B8: Community Investment</b>	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities’ interests.			<b>Aspect D1 General disclosure</b>	<b>Community investment</b> Policies on community engagement to understand the community’s needs where it operates and to ensure its activities take into consideration communities’ interests.
		KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	KPI D1.1	[Same wording adopted in proposed KPI B8.1]

New Guide			Current Guide		
	“Comply or explain” Provisions	Recommended Disclosures		All Recommended Disclosures	
		KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	KPI D1.2	[Same wording adopted in proposed KPI B8.2]

# GEM LISTING RULES

## Chapter 17

### EQUITY SECURITIES

#### CONTINUING OBLIGATIONS

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#### Environmental and Social Matters

- 17.103 (1) The Environmental, Social and Governance (“ESG”) Reporting Guide in Appendix 20 comprises two levels of disclosure obligations: (a) “comply or explain” provisions; and (b) recommended disclosures.
- (2) Issuers must state whether they have complied with the “comply or explain” provisions set out in the ESG Reporting Guide for the relevant financial year in their annual reports or in separate ESG reports.
- (3) Where the issuer deviates from the “comply or explain” provisions, it must give considered reasons in its ESG report.
- (4) Issuers are encouraged, but not required, to report on the recommended disclosures of the ESG Reporting Guide.
- (5) Issuers must publish their ESG reports ~~are encouraged to include information set out in Appendix 20 in the annual report~~ on an annual basis and regarding the same period covered in ~~the their~~ annual reports, ~~or as a separate report.~~

*Notes:*

- (1) ~~Where the An ESG report may be presented as information is included in the issuer’s annual report, in a separate report, or on the issuer’s website.~~ ~~an~~ ~~Where not presented in the issuer’s annual report, the issuer is free to report on any period but should consistently report on the same period so that the information can be comparable. However, the Exchange encourages an issuer to report regarding the same period as in the annual report should publish this information as close as possible to, and in any event no later than three months after, the publication of the issuer’s annual report.~~
- (2) As regards “Subject Area A. Environmental” of the ESG Reporting Guide, the upgrade of the Key Performance Indicators to “comply or explain” will come into effect for issuers’ financial years beginning on or after 1 January 2017.

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# Chapter 18

## EQUITY SECURITIES

### FINANCIAL INFORMATION

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#### Annual reports

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*Information to accompany directors' report and annual financial statements*

18.07 ...

*Notes: 1 ...*

...

5 Issuers must publish ESG reports in accordance with Rule 17.103 and the ESG Reporting Guide contained in Appendix 20.

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#### Recommended additional disclosure

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18.84 ~~Issuers are encouraged to include information set out in Appendix 20 in the annual report regarding the same period covered in the annual report, or as a separate report.~~

~~*Note: Where the information is included in a separate report, an issuer is free to report on any period but should consistently report on the same period so that the information can be comparable. However, the Exchange encourages an issuer to report regarding the same period as in the annual report.*~~  
[Repealed 1 January 2016]

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## Appendix 20

### Environmental, Social and Governance Reporting Guide

New Guide	Current Guide
<b>The Guide</b>	<b>Introduction</b>
1. This Guide comprises two levels of disclosure obligations: (a) “comply or explain” provisions; and (b) recommended disclosures.	
2. An issuer must report on the “comply or explain” provisions of this Guide. If the issuer does not report on one or more of these provisions, it must provide reasons in its ESG report. The issuer is encouraged, but not required, to report on the recommended disclosures of this Guide. For guidance on the “comply or explain” approach, issuers may refer to the “ <i>What is “comply or explain”?</i> ” section of the Corporate Governance Code and Corporate Governance Report (“Corporate Governance Code”) in Appendix 15 of the GEM Listing Rules.	
3. An issuer must disclose ESG information on an annual basis and regarding the same period covered in its annual report. An ESG report may be presented as information in the issuer’s annual report, in a separate report, or on the issuer’s website. Regardless of the format adopted, the ESG report should be published on the Exchange’s website and the issuer’s website. Where not presented in the issuer’s annual report, the issuer should publish this information as close as possible to, and in any event no later than three months after, the publication of the issuer’s annual report.	4. An issuer may disclose the ESG information in its annual report regarding the same period covered in the annual report, or in a separate report, in print or on its website. Where the information is included in a separate report, an issuer is free to report on any period. However, the Exchange encourages an issuer to report regarding the same period as in the annual report.
<b>Overall Approach</b>	
4. This Guide is organised into two ESG subject areas (“Subject Areas”): Environmental (Subject Area A) and Social (Subject Area B). Corporate governance is addressed separately in the	7. There are four ESG subject areas: Workplace Quality, Environmental Protection, Operating Practices and

New Guide	Current Guide
<p>Corporate Governance Code.</p>	<p>Community Involvement. Corporate Governance is not included as it is dealt with separately in Appendix 15 of the GEM Listing Rules.</p>
<p>5. Each Subject Area has various aspects (“Aspects”). Each Aspect sets out general disclosures (“General Disclosures”) and key performance indicators (“KPIs”) for issuers to report on in order to demonstrate how they have performed.</p>	<p>1. This guide sets out Environmental, Social and Governance (“ESG”) subject areas, aspects, general disclosure and key performance indicators (“KPIs”).</p> <p>8. Each subject area has various aspects. For each relevant aspect, an issuer could report on the general disclosure and KPIs that indicate its performance.</p>
<p>6. In addition to the “comply or explain” matters set out in this Guide, the Exchange encourages an issuer to identify and disclose additional ESG issues and KPIs, including recommended disclosures, that reflect the issuer’s significant environmental and social impacts; or substantially influence the assessments and decisions of stakeholders. In assessing these matters the issuer should engage stakeholders on an ongoing basis in order to understand their views and better meet their expectations.</p>	<p>12. It is important to engage stakeholders periodically to identify material aspects and KPIs and understand their views. Stakeholders are parties that have interests in or are affected by the decisions and activities of an issuer. They may include shareholders (including independent shareholders), business partners, employees, suppliers, sub-contractors, consumers, regulators and the public.</p> <p>13. The ESG report could disclose the issuer’s stakeholders and the basis for their identification. It may also disclose the activities the issuer has arranged to engage stakeholders, the objectives and how it has responded to stakeholders’ views. Stakeholder engagement may be conducted through</p>

New Guide	Current Guide
	<p>meetings (e.g. personal or annual general meetings), conferences, workshops, advisory committees, round-table discussions, focus groups, questionnaires, web-based forums and written consultations.</p> <p>14. The ESG report may also disclose a mechanism for stakeholders to provide feedback.</p>
<p>7. This Guide is not comprehensive and the issuer may refer to existing international ESG reporting guidance for its relevant industry or sector. The issuer may adopt international ESG reporting guidance so long as it includes comparable disclosure provisions to the “comply or explain” provisions set out in this Guide. The issuer may also consider obtaining assurance on its ESG report.</p>	<p>2. This guide is not comprehensive. The Exchange encourages an issuer to identify and disclose additional ESG issues and KPIs that are relevant to its business. It may also refer to existing international ESG reporting guidance for its relevant industry or sector.</p> <p>3. An issuer may adopt a higher level of ESG reporting based on international guidance and standards.</p> <p>6. Issuers may consider offering assurance on the ESG report.</p>
<p><i>ESG strategy and reporting</i></p>	
<p>8. The board has overall responsibility for an issuer’s ESG strategy and reporting.</p>	<p>5. It is important to involve the board of directors in preparing the ESG report. The board of directors is responsible for ESG reporting but it may delegate the task of compiling the ESG report to its employees or a</p>

New Guide	Current Guide
	committee that reports to the board.
<p>9. In line with the Corporate Governance Code, the board is responsible for evaluating and determining the issuer’s ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. Management should provide a confirmation to the board on the effectiveness of these systems.</p>	<p>18. An ESG report could also discuss ESG opportunities, risks, challenges and how they are addressed. For example, a telecommunication company may see an opportunity to promote teleconferencing as an alternative to travel due to climate change concerns. An information and technology company may see the damage to its reputation from a breach in consumer privacy as an ESG risk.</p>
<p>10. The ESG report should state the issuer’s ESG management approach, strategy, priorities and objectives and explain how they relate to its business. It would be useful to discuss the issuer’s management, measurement and monitoring system employed to implement its ESG strategy. An ESG report should also state which entities in the issuer’s group and/or which operations have been included in the report. If there is a change in the scope, the issuer should explain the difference and reason for the change.</p>	<p>17. An ESG report could state the issuer’s ESG management approach, strategies, priorities, objectives and explain how they relate to its business. It could discuss the issuer’s management, measurement and monitoring system to implement its ESG strategies.</p> <p>15. An issuer is encouraged to state in its ESG report which entities in the group and/or which operations have been included for the report. If there is change in the scope, the issuer is encouraged to explain the difference and reason for change.</p>

New Guide	Current Guide
<p><b>Reporting Principles</b></p>	
<p>11. The following Reporting Principles underpin the preparation of an ESG report, informing the content of the report and how information is presented:</p> <ol style="list-style-type: none"> <li>(1) <b>Materiality</b> is the threshold at which ESG issues become sufficiently important to investors and other stakeholders that they should be reported.</li> <li>(2) <b>Quantitative:</b> KPIs need to be measurable. Targets can be set to reduce a particular impact. In this way the effectiveness of ESG policies and management systems can be evaluated and validated. Quantitative information should be accompanied by a narrative, explaining its purpose, impacts, and giving comparative data where appropriate.</li> <li>(3) <b>Balance:</b> The ESG report should provide an unbiased picture of the issuer’s performance. The report should avoid selections, omissions, or presentation formats that may inappropriately influence a decision or judgment by the report reader.</li> <li>(4) <b>Consistency:</b> The issuer should use consistent methodologies to allow for meaningful comparisons of ESG data over time. The issuer should disclose in the ESG report any changes to the methods used or any other relevant factors affecting a meaningful comparison.</li> </ol>	<p><b>On “Materiality”</b></p> <ol style="list-style-type: none"> <li>9. Not all ESG subject areas, aspects and KPIs in this Guide may be relevant to an issuer’s business. Also, some may be more important to an issuer’s business than others. For example, product responsibility, an ESG aspect, may be important to a retailer.</li> <li>10. An issuer is encouraged to prioritise ESG subject areas, aspects and KPIs that are material in the context of its corporate strategy, which could be given prominence in the report.</li> <li>11. It is unnecessary to report on all subject areas, aspects and KPIs. An issuer is encouraged to identify and report on relevant ESG subject areas, aspects and KPIs that have material environmental and social impacts. Materiality can be addressed in strategic, operational and financial terms.</li> </ol> <p><i>Also see paragraph 12 above.</i></p>

New Guide	Current Guide
	<p data-bbox="1435 229 1648 256"><b>On “Quantitative”</b></p> <p data-bbox="1355 325 2063 687">19. The Guide does not provide a definition for each KPI. An issuer is encouraged to explain how the KPIs are calculated and include information that is necessary for interpreting the KPIs. It may use the same definition and calculation method each period for comparison over time. If there is a change to the definition or calculation method, the issuer could explain the difference and reason for the change.</p> <p data-bbox="1355 759 2063 882">20. Over time, an issuer may present time series of data for comparison over a period already reported on. The time period used may be consistent for every report.</p> <p data-bbox="1355 954 2063 1027">21. An issuer may report line items with objective and representative industry benchmarks.</p> <p data-bbox="1355 1099 2063 1173">22. Quantitative information could be presented in a table format.</p> <p data-bbox="1435 1209 1648 1236"><b>On “Consistency”</b></p> <p data-bbox="1355 1308 2063 1382">16. Once an issuer starts reporting, it is encouraged to continue to do so regularly. The aspects and KPIs</p>

New Guide	Current Guide
	<p>reported could be consistent for each period or there could be an explanation of the changes. An issuer may also explain why some aspects and KPIs are not reported.</p> <p><i>Also see paragraph 15 above.</i></p>
<p><b>Complementing ESG discussions in the Business Review Section of the Directors' Report</b></p>	
<p>12. Pursuant to rule 18.07A(2)(d), an issuer's directors' report for a financial year must contain a business review in accordance with Schedule 5 to the Companies Ordinance. The business review must include, to the extent necessary for an understanding of the development, performance or position of the issuer's business:</p> <ul style="list-style-type: none"> <li>(i) a discussion of the issuer's environmental policies and performance;</li> <li>(ii) a discussion of the issuer's compliance with the relevant laws and regulations that have a significant impact on the issuer; and</li> <li>(iii) an account of the issuer's key relationships with its employees, customers and suppliers and others that have a significant impact on the issuer and on which the issuer's success depends.</li> </ul> <p>This Guide should complement the content requirements of the directors' report, as it calls for issuers to disclose information in respect of specific ESG areas.</p>	
<p><i>Note: As regards "Subject Area A. Environmental", the upgrade of the KPIs to "comply or explain" will come into effect for issuers' financial years beginning on or after 1 January 2017.</i></p>	

New Guide			Current Guide	
	“Comply or explain” Provisions	Recommended Disclosures	All Recommended Disclosures	
<b>A. Environmental</b>			<b>B. Environmental protection</b>	
<b>Aspect A1 : Emissions</b>	<p>General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.</p> <p><i>Note: Air emissions include NO<sub>x</sub>, SO<sub>x</sub>, and other pollutants regulated under national laws and regulations.</i></p> <p><i>Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.</i></p> <p><i>Hazardous wastes are those defined by national regulations.</i></p>		<b>Aspect B1</b>	<b>Emissions</b>
	KPI A1.1	The types of emissions and respective emissions data.	KPI B1.1	[Same wording adopted in proposed KPI A1.1]
	KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	KPI B1.2	[Same wording adopted in proposed KPI A1.2]



New Guide			Current Guide		
	“Comply or explain” Provisions		Recommended Disclosures	All Recommended Disclosures	
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		KPI B1.3	[Same wording adopted in proposed KPI A1.3]
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		KPI B1.4	[Same wording adopted in proposed KPI A1.4]
	KPI A1.5	Description of measures to mitigate emissions and results achieved.		KPI B1.5	[Same wording adopted in proposed KPI A1.5]
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.		KPI B1.6	[Same wording adopted in proposed KPI A1.6]
<b>Aspect A2: Use of Resources</b>	<p>General Disclosure</p> <p>Policies on the efficient use of resources, including energy, water and other raw materials.</p> <p><i>Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.</i></p>			<b>Aspect B2</b>	<b>Use of resources</b>
	KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per		General Disclosure	<p>Policies on efficient use of resources including energy, water and other raw materials.</p> <p>Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.</p>
				KPI B2.1	[Same wording adopted in proposed KPI A2.1]

New Guide			Current Guide		
	“Comply or explain” Provisions		Recommended Disclosures	All Recommended Disclosures	
		facility).			
	KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).		KPI B2.2	[Same wording adopted in proposed KPI A2.2]
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.		KPI B2.3	[Same wording adopted in proposed KPI A2.3]
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.		KPI B2.4	[Same wording adopted in proposed KPI A2.4]
	KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.		KPI B2.5	[Same wording adopted in proposed KPI A2.5]
<b>Aspect A3: The Environment and Natural Resources</b>	General Disclosure : Policies on minimising the issuer’s significant impact on the environment and natural resources.			<b>Aspect B3</b>	<b>The environment and natural resources</b>
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.		General Disclosure	Policies on minimising the operation’s significant impact on the environment and natural resources.
				KPI B3.1	[Same wording adopted in proposed KPI A3.1]

New Guide			Current Guide		
	<b>“Comply or explain” Provisions</b>	<b>Recommended Disclosures</b>	<b>All Recommended Disclosures</b>		
<i>C. Social</i>					
<b>Employment and Labour Practices</b>			<i>B. Workplace quality</i>		
<b>Aspect B1: Employment</b>	<p>General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.</p>			<b>Aspect A1</b>	<b>Working conditions</b>
		KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	KPI A1.1	Total workforce by employment type, age group and geographical region.
		KPI B1.2	Employee turnover rate by gender, age group and geographical region.	KPI A1.2	Employee turnover rate by age group and geographical region.
<b>Aspect B2: Health and Safety</b>	<p>General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer.</p> <p>relating to providing a safe working environment and protecting employees from occupational hazards.</p>			<b>Aspect A2</b>	<b>Health and safety</b>
				General disclosure	<p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance and material non-compliance with relevant standards, rules and regulations</p> <p>on providing a safe working environment and protecting employees from occupational hazards.</p>

New Guide				Current Guide	
	“Comply or explain” Provisions	Recommended Disclosures		All Recommended Disclosures	
		KPI B2.1	Number and rate of work-related fatalities.	KPI A2.1	[Same wording adopted in proposed KPI B2.1]
		KPI B2.2	Lost days due to work injury.	KPI A2.2	[Same wording adopted in proposed KPI B2.2]
		KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	KPI A2.3	[Same wording adopted in proposed KPI B2.3]
<b>Aspect B3: Development and Training</b>	<p>General Disclosure</p> <p>Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities.</p> <p><i>Note: Training refers to vocational training. It may include internal and external courses paid by the employer.</i></p>			<b>Aspect A3</b>	<b>Development and training</b>
				General disclosure	Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities.
					Training refers to vocational training. It may include internal and external courses paid by the employer.
		KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	KPI A3.1	The percentage of employees trained by employee category (e.g. senior management, middle management, etc.).
		KPI B3.2	The average training hours completed per employee by gender and employee category.	KPI A3.2	The average training hours completed per employee by employee category.

New Guide			Current Guide		
	“Comply or explain” Provisions	Recommended Disclosures		All Recommended Disclosures	
<b>Aspect B4: Labour Standards</b>	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer  relating to preventing child and forced labour.			<b>Aspect A4</b>	<b>Labour standards</b>
		KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	KPI A4.1	Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on preventing child or forced labour.
		KPI B4.2	Description of steps taken to eliminate such practices when discovered.	KPI A4.2	[Same wording adopted in proposed KPI B4.2]
<b>Operating Practices</b>			<i>C. Operating practices</i>		
<b>Aspect B5: Supply Chain Management</b>	General Disclosure Policies on managing environmental and social risks of the supply chain.			<b>Aspect C1</b>	<b>Supply chain management</b>
		KPI B5.1	Number of suppliers by geographical region.	KPI C1.1	Policies on managing environmental and social risks of supply chain.
		KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	KPI C1.2	[Same wording adopted in proposed KPI B5.2]

New Guide			Current Guide		
	“Comply or explain” Provisions	Recommended Disclosures		All Recommended Disclosures	
<b>Aspect B6: Product Responsibility</b>	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer  relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.			<b>Aspect C2 General disclosure</b>	<b>Product responsibility</b> Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations  on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.
		KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	KPI C2.1	[Same wording adopted in proposed KPI B6.1]
		KPI B6.2	Number of products and service related complaints received and how they are dealt with.	KPI C2.2	[Same wording adopted in proposed KPI B6.2]
		KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	KPI C2.3	[Same wording adopted in proposed KPI B6.3]
		KPI B6.4	Description of quality assurance process and recall procedures.	KPI C2.4	[Same wording adopted in proposed KPI B6.4]
		KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	KPI C2.5	[Same wording adopted in proposed KPI B6.5]

New Guide			Current Guide		
	“Comply or explain” Provisions	Recommended Disclosures		All Recommended Disclosures	
<b>Aspect B7: Anti-corruption</b>	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer  relating to bribery, extortion, fraud and money laundering.			<b>Aspect C3 General disclosure</b>	<b>Anti-corruption</b> Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on bribery, extortion, fraud and money laundering.
		KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	KPI C3.1	[Same wording adopted in proposed KPI B7.1]
		KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	KPI C3.2	[Same wording adopted in proposed KPI B7.2]
<b>Community</b>			<i>D. Community involvement</i>		
<b>Aspect B8: Community Investment</b>	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities’ interests.			<b>Aspect D1 General disclosure</b>	<b>Community investment</b> Policies on community engagement to understand the community’s needs where it operates and to ensure its activities take into consideration communities’ interests.
		KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	KPI D1.1	[Same wording adopted in proposed KPI B8.1]

New Guide			Current Guide		
	“Comply or explain” Provisions	Recommended Disclosures		All Recommended Disclosures	
		KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	KPI D1.2	[Same wording adopted in proposed KPI B8.2]



