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[online version](http://www.charltonslaw.com/hong-kong-stock-exchange-publishes-consultation-paper-on-environmental-social-and-governance-reporting-guide/)

# Hong Kong Stock Exchange Publishes Consultation Paper On Environmental, Social And Governance Reporting Guide

## Introduction

The Stock Exchange of Hong Kong (**SEHK** or the **Exchange**) published a consultation paper (the **Consultation Paper**) in December 2011 to seek views and comments on its proposed Environmental, Social and Governance Reporting Guide (the **ESG Guide**) for issuers listed in Hong Kong. The ESG Guide serves as an introduction to ESG issues and aims to raise awareness and encourage Hong Kong issuers to start ESG reporting. The consultation will end on 9 April 2012.

The proposed ESG Guide is divided into four areas: (A) Workplace Quality, (B) Environmental Protection, (C) Operating Practices and (D) Community Involvement. Each of the areas is divided into three sections: aspects, general disclosure recommendations and key performance indicators (**KPIs**). An issuer is not required to report on all KPIs, it may choose to report those KPIs that are material and relevant to its business.

The Consultation Paper does not propose disclosure be mandatory at this stage. Instead, the general disclosure and KPIs would be recommended best practices. The Exchange may however consider raising the level of obligation to “comply or explain” in the future.

The [consultation paper](http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201112.pdf) ([see archive](cp201112.pdf)) is available on the Exchange website. To assist issuers to start reporting, the draft ESG Reporting Guide, seminar and workshop materials, frequently asked questions and answers, and an ESG reporting toolkit hat been published on the [Exchange website](http://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/esg/material.htm).

## Background

#### ESG reporting

In addition to economic profitability, a company is taken to be responsible for its impact on society and the environment. Therefore, it should operate in a sustainable manner and create long-term value for shareholders as well as stakeholders by integrating sustainable practices into its operation. In other words, companies should bear Corporate Social Responsibility (**CSR**).

CSR includes environmental, social and governance (**ESG**) issues. Examples of ESG issues include corporate governance, environmental protection, labour practices, community involvement, consumer issues, anti-corruption and supply chain management. The list is neither definitive nor exhaustive as ESG issues may vary from place to place and from industry to industry. Also, ESG priorities may shift over time.

A company may disclose non-financial ESG information relevant to its business in a report in order to address CSR. Such report may be referred to with various names such as “corporate social responsibility report”, “corporate citizenship report”, “sustainability report” and “ESG report”.

#### Growing importance

It is observed that there is a growing trend for companies to disclose ESG information in recent years with more ESG reports published. The Exchange notes that a key driver for ESG reporting is the growth of responsible investment as more investors include ESG criteria into valuations and investment strategies.

On the other hand, many exchanges are introducing different measures to encourage or require ESG reporting, such as the London Stock Exchange, New York Stock Exchange, Australian Securities Exchange and the Mainland stock exchanges.

Moreover, ESG performance and reporting is considered beneficial to companies in terms of stronger brand, trust and reputation, greater employee motivation, better risk management and higher management efficiency.

#### Current status in Hong Kong

The following are measures Hong Kong currently adopts to address ESG issues:

* Code on Corporate Governance Practices (the **Corporate Governance Code** or **CGC**), Appendix 14 to the Listing Rules, sets out the principles of good corporate governance and obliges the issuers to report on a “comply or explain” basis.
* Paragraph 52 of Appendix 16 to the Main Board Rules (Rule 18.83 of the GEM Rules) encourages issuers to disclose in the management discussion and analysis section of their interim/annual reports additional information such as business risks and risks management policy, policies and performance on environmental, community, social, ethical and reputational issues and key relationships with employees, customers, suppliers and others.
* For mineral companies, Rule 18.05(6) of the Main Board Rules requires listing documents of such companies to disclose social and environmental matters including risks arising from environmental, social and health and safety issues.

As for general ESG disclosure, it is observed that some issuers listed in Hong Kong disclose a certain level of environmental and/or sustainability information. However, the Exchange notes that most Hong Kong issuers are not actively engaging in ESG performance and reporting.

#### Standpoint of the Exchange

The Exchange notes that CSR has always been an integral part of its business strategy and management approach, and one of its roles is to ensure that sufficient and relevant information is disclosed by issuers for investors to make informed decisions. Therefore, the Exchange proposes to introduce the ESG Guide on what should be disclosed under each ESG subject area. The main objectives are to raise ESG awareness among Hong Kong issuers and to encourage them to start ESG reporting.

## The Proposed ESG Guide

### Level of Issuers’ Obligations

It is not proposed that the ESG Guide be mandatory at this stage; instead, the general disclosure and KPIs of the ESG Guide would be recommended best practices. The Exchange proposes to conduct surveys periodically after implementation of the ESG Guide to assess the extent to which issuers are reporting on ESG. In the future, the Exchange may upgrade the reporting requirements to “comply or explain”, which is similar to the arrangement for the Corporate Governance Code.

The Exchange proposes appending the ESG Guide to the Listing Rules as it is concerned that issuers may easily ignore it if it is a purely voluntary guide separate from the Listing Rules, which could render it ineffective. The proposed amendments to the Listing Rules can be found in Appendix I to the Consultation Paper.

### Areas and Aspects of ESG

The ESG Guide sets out four key subject areas for reporting: (A) Workplace Quality, (B) Environmental Protection, (C) Operating Practices and (D) Community Involvement. Corporate governance is not included as it is dealt with separately by the CGC.

Under each area there are three sections: aspect(s), general disclosure recommendations and KPIs to measure ESG performance. The areas and aspects in the ESG Guide are as follows:

Area A Aspect A1 Aspect A2 Aspect A3 Aspect A4

Working Quality Working conditions Health and safety Development and training Labour standards

Area B Aspect B1Aspect B2 Aspect B3

Environmental Protection Emissions Use of resources The environmental and natural resources

Area C Aspect C1 Aspect C2 Aspect C3

Operating Practices Supply chain management Product responsibility Anti-corruption

Area D Aspect D1

Community Involvement Community investment

### Approach

#### Issuers to determine what to report

The ESG Guide is not sector specific, it is intended to include the areas and aspects that are considered to be applicable to most companies. It contains a total of 34 KPIs under the four areas and 11 aspects for ESG reporting. Issuers are not expected to report on all areas, aspects and KPIs: they may select and prioritise those areas, aspects and KPIs that are relevant to their business and those having material environmental and social impacts.

On the other hand, as the ESG Guide is not comprehensive, issuers may identify and disclose additional ESG matters and KPIs relevant to their business. Definitions are not provided for each KPI in the ESG Guide. Issuers may therefore explain how the KPIs are calculated and include information that is necessary for interpreting the KPIs.

#### Stakeholder engagement

When determining material aspects and KPIs to be reported on, issuers should involve stakeholders, i.e. parties that have interests in or are affected by issuers’ decisions and activities, such as shareholders, business partners, employees, suppliers, sub-contractors, consumers, regulators and the public. An issuer may disclose in the ESG report its stakeholders, the basis for their inclusion, activities it has arranged to engage the stakeholders and a feedback mechanism for them.

#### International guidelines and standards

The ESG Guide complements international disclosure guidelines. Nevertheless, capable issues are encouraged to adopt a higher level of ESG reporting based on international guidance and/or standards. The following are some examples of existing international guidelines and standards:

* Global Reporting Initiative (GRI) (www.globalreporting.org)
* Carbon Disclosure Project (www.cdproject.net)
* United Nations Global Compact (UNGC) (www.unglobalcompact.org)
* OECD Guidelines for Multinational Enterprises (www.oecd.org)
* ISO 26000 Guidance on Social Responsibility (www.iso.org/sr)

#### Director involvement

The issuer’s board of directors should be involved in preparing the ESG report, although the compilation of the report may be delegated to employees or a committee that reports to the board.

#### Reporting period

It is proposed that ESG information can be included in the annual report for the same period covered by the annual report. Alternatively, issuers could include the information in a separate report which need not be issued at the same time or cover the same period as the annual report. While an issuer would be free to report on any period, it should report consistently on the same period to allow comparability of information. The report could be published in printed form or on the issuer’s website.

### Assurance

The Exchange is mindful of the additional costs that may be imposed for obtaining external assurance on ESG reports, therefore the ESG Guide does not recommend that issuers seek external assurance for an ESG report.

## How To Respond To The Consultation

A [questionnaire](http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201112q.doc) ([see archive](cp201112q.doc)) in relation to the Consultation Paper is available on the Exchange's website.

Respondents may complete and submit the questionnaire no later than 9 April 2012 by one of the following methods:

By email to:

[response@hkex.com.hk](mailto:response@hkex.com.hk) **Re: Consultation Paper on ESG Reporting Guide**

By fax to:

+(852) 2524 0149

By post or hand delivery to:

Corporate Communications Department Hong Kong Exchanges and Clearing Limited 12th Floor, One International Finance Centre 1 Harbour View Street, Central Hong Kong **Re: Consultation Paper on ESG Reporting Guide**

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