

Friday, 18 September 2015

Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
12/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Dear Sir or Madam,

Response to the Consultation Paper on Review of the ESG Reporting Guide

We welcome the opportunity to respond to your consultation on the proposed changes to the Environmental, Social and Governance Reporting Guide (hereafter the “ESG Guide” or “Guide”). We would like to first express our strong support for your objective to strengthen environmental, social and governance (ESG) disclosure requirements.

By way of introduction, the Climate Disclosure Standards Board (CDSB) is a consortium of businesses and environmental organisations, formed at the World Economic Forum in 2007. We are an international organisation committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We do this by offering companies a framework for reporting environmental information with the same rigour as financial information in mainstream reports, such as the annual report.

CDSB’s work is designed to deliver the transparency and accountability needed for decisions to be made and capital to be deployed in support of a low carbon economy, in keeping with traditions of accounting and financial stability standards setters.

The CDSB Framework for reporting environmental information¹ helps issuers fulfil the “environmental” section of ESG reporting by providing guidance on reporting robust, clear and comparable information to investors. We would therefore like to request that the Exchange list us as a recommended method of compliance for reporting environmental information.

Our specific and general comments on the consultation follow in the appendices below. Please do not hesitate to contact us if you have any further queries.

Kind regards,

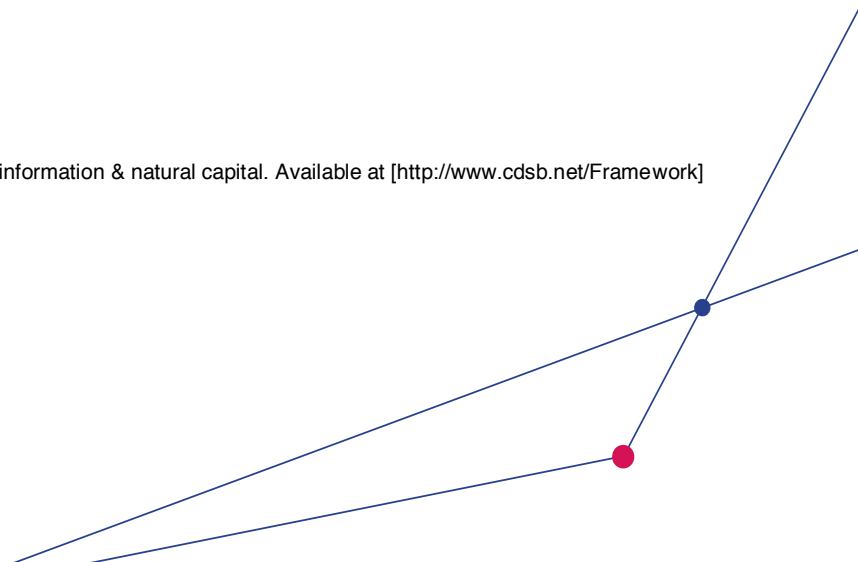


Michael Zimonyi
Senior Project Officer
Climate Disclosure Standards Board

¹ CDSB (2015) CDSB Framework for reporting environmental information & natural capital. Available at [<http://www.cdsb.net/Framework>]

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Appendix I – General comments

CDSB welcomes and congratulates the Hong Kong Stock Exchange's recognition of the importance to "align itself with international best practice"². We agree with the assertion that "It is increasingly recognised that an "informed market" calls for both non-financial and financial information."³ As CDSB's report indicates, "stock exchanges have a powerful role to play in protecting stock market actors...[and] are in a unique and influential position to initiate or develop their contributions to the protection of financial markets".⁴ Furthermore, encouraging environmental disclosures acquires reputational capital for the stock exchanges themselves.⁵

Comply or explain

The upgrade of requirement in certain areas from voluntary to "comply or explain" is a positive step. We suggest that the guide stresses the need for faithful representation⁶; that information is complete, neutral and free from error, to ensure that the provided information is useful for investor decision-making.

In a recent review⁷ with Oxford University Saïd Business School about the effectiveness of "comply or explain" using the example of the UK Companies Act, CDSB found that the majority of the companies reviewed disclosed environmental information. Only a small percentage chose to explain why they did not disclose, with an even smaller proportion doing neither. The research would suggest that, based on the UK's example, the "comply or explain" approach can be an effective tool for increasing ESG disclosure.

Consistency

The review also indicates the need for further encouragement for companies to disclose reliably and consistently over a period of several years. The efficiency with which markets are able to allocate capital to its most productive uses over the medium to long term is undermined, for as long as climate change - and ESG in general - related information lacks reliability, consistency and comparability. As such, there is a pertinent need for reporting ESG information with the same accuracy as financial information. We encourage the Exchange to support its issuers in achieving this accuracy.

Education

We particularly support the Exchange's efforts to educate its issuers⁸, and would like to offer our support to collaborate on future training.

² Chapter 2 para 71 p 17 of consultation paper

³ Chapter 2 para 51 p 13 of consultation paper

⁴ CDSB (2015) *Climate resilient stock markets: Climate change reporting proposals for adoption or support by stock exchanges*. Available at [http://www.cdsb.net/sites/cdsbnet/files/cdsb_climate_resilient_stock_markets_0.pdf]

⁵ OECD (2008) *The Role of Stock Exchanges in Corporate Governance*. Available at [<http://www.oecd.org/finance/financial-markets/43169104.pdf>]

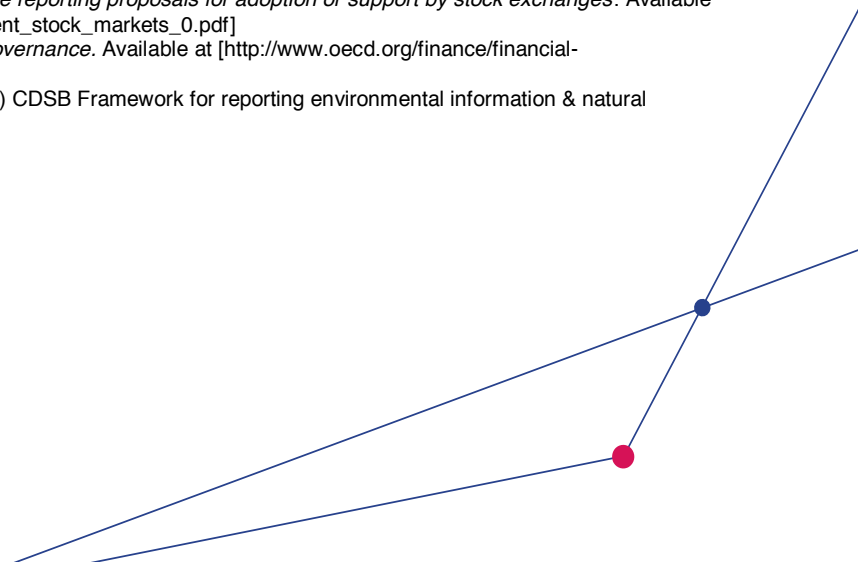
⁶ See p. 14, Principle 2 of the CDSB Framework. CDSB (2015) CDSB Framework for reporting environmental information & natural capital. Available at [<http://www.cdsb.net/Framework>]

⁷ Unpublished research at the time of writing this response.

⁸ Chapter 1 para 20 p 5 of consultation paper

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Currently, CDSB is in the process of developing a course specifically focused on the reporting of environmental information in mainstream reports and would welcome the opportunity to work with the Exchange on providing training on environmental reporting in the annual report to its issuers.

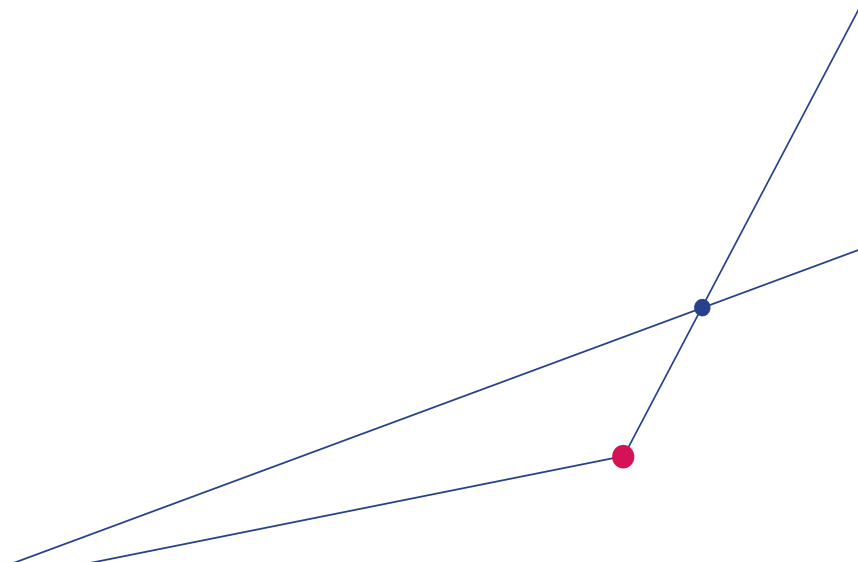
Assurance

Furthermore, we agree with the need for the development of a generally accepted approach to the assurance of ESG reports.⁹ CDSB seeks to support and encourage assurance activity through the specification of requirements and principles representing suitable criteria that may be used to support assurance activities.

⁹ Chapter 1 para 50 p 17 of consultation paper

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QUESTIONNAIRE ON REVIEW OF THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

We invite interested parties to respond to the Consultation Paper on Review of the Environmental, Social and Governance Reporting Guide (**Consultation Paper**), which can be downloaded from the HKEx website at:

<http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201507.pdf>

This Questionnaire contains the Privacy Policy Statement; Part A: General Information of Respondents; and Part B: Consultation Questions.

All responses should be made in writing by completing and returning to HKEx both Part A and Part B of this Questionnaire no later than **18 September 2015** by one of the following methods:

By mail 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 Review of the ESG Reporting
Guide**

By fax to: (852) 2524-0149

By e-mail to: response@hkex.com.hk

Please mark in the subject line:

Re: CP on Review of the ESG Reporting Guide

Our submission enquiry number is (852) 2840-3844.

The names of persons who submit comments together with the whole or part of their submissions may be disclosed to members of the public. If you do not wish your name to be published please indicate so in Part A.

Privacy Policy Statement

Hong Kong Exchanges and Clearing Limited and from time to time, its subsidiaries, affiliated companies controlling it or under common control with it and its joint ventures (each such entity, from time to time, being "**HKEx**", "**we**", "**us**" or an "**affiliate**" for the purposes of this Privacy Policy Statement as appropriate) recognises its responsibilities in relation to the collection, holding, processing, use and/or transfer of personal data under the Personal Data (Privacy) Ordinance (Cap. 486) ("**PDPO**"). Personal data will be collected only for lawful and relevant purposes and all practicable steps will be taken to ensure that personal data held by HKEx is accurate. HKEx will use your personal data in accordance with this Privacy Policy Statement.

We regularly review this Privacy Policy Statement and may from time to time revise it or add specific instructions, policies and terms. Where any changes to this Privacy Policy Statement are material, we will notify you using the contact details you have provided us with and, as required by the PDPO, give you the opportunity to opt out of these changes by means notified to you at that time. Otherwise, in relation to personal data supplied to us through the HKEx website, continued use by you of the HKEx website shall be deemed to be your acceptance of and consent to this Privacy Policy Statement.

If you have any questions about this Privacy Policy Statement or how we use your personal data, please contact us through one of the communication channels below.

HKEx will take all practicable steps to ensure the security of the personal data and to avoid unauthorised or accidental access, erasure or other use. This includes physical, technical and procedural security methods, where appropriate, to ensure that the personal data may only be accessed by authorised personnel.

Please note that if you do not provide us with your personal data (or relevant personal data relating to persons appointed by you to act on your behalf) we may not be able to provide the information, products or services you have asked for or process your request.

Purpose

From time to time we may collect your personal data such as your name, mailing address, telephone number, email address and login name for the following purposes:

1. to process your applications, subscriptions and registration for our products and services;
2. to perform or discharge the functions of HKEx and any company of which HKEx is the recognised exchange controller (as defined in the Securities and Futures Ordinance (Cap. 571));
3. to provide you with our products and services and administer your account in relation to such products and services;
4. to conduct research and statistical analysis; and
5. other purposes directly relating to any of the above.

Direct marketing

Except to the extent you have already opted out or in future opt out, we may also use your name, mailing address, telephone number and email address to send promotional materials to you and conduct direct marketing activities in relation to our financial services and information services, and related financial services and information services offered by our affiliates.

If you do not wish to receive any promotional and direct marketing materials from HKEx or do not wish to receive particular types of promotional and direct marketing materials or do not wish to receive such materials through any particular means of communication, please contact us through one of the communication channels below.

Identity Card Number

We may also collect your identity card number and process this as required under applicable law or regulation, as required by any regulator having authority over us and, subject to the PDPO, for the purpose of identifying you where it is reasonable for your identity card number to be used for this purpose.

Transfers of personal data for direct marketing purposes

Except to the extent you have already opted out or in future opt out, we may transfer your name, mailing address, telephone number and email address to our affiliates for the purpose of enabling our affiliates to send promotional materials to you and conduct direct marketing activities in relation to their financial services and information services.

Other transfers of personal data

For one or more of the purposes specified above, the personal data may be:

1. transferred to our affiliates and made available to appropriate persons in our affiliates, in Hong Kong or elsewhere and in this regard you consent to the transfer of your data outside of Hong Kong; and
2. supplied to any agent, contractor or third party who provides administrative or other services to HKEx and/or any of our affiliates in Hong Kong or elsewhere.

How we use cookies

If you access our information or services through the HKEx website, you should be aware that cookies are used. Cookies are data files stored on your browser. The HKEx website automatically installs and uses cookies on your browser when you access it. Two kinds of cookies are used on the HKEx website:

Session Cookies: temporary cookies that only remain in your browser until the time you leave the HKEx website, which are used to obtain and store configuration information and administer the HKEx website, including carrying information from one page to another as you browse the site so as to, for example, avoid you having to re-enter information on each page that you visit. Session cookies are also used to compile anonymous statistics about the use of the HKEx website.

Persistent Cookies: cookies that remain in your browser for a longer period of time for the purpose of compiling anonymous statistics about the use of the HKEx website or to track and record user preferences.

The cookies used in connection with the HKEx website do not contain personal data. You may refuse to accept cookies on your browser by modifying the settings in your browser or internet security software. However, if you do so you may not be able to utilise or activate certain functions available on the HKEx website.

Compliance with laws and regulations

You agree that HKEx and its affiliates may be required to retain, process and/or disclose your personal data in order to comply with applicable laws and regulations, or in order to comply with a court order, subpoena or other legal process, or to comply with a request by a government authority, law enforcement agency or similar body (whether situated in Hong Kong or elsewhere). You also agree that HKEx and its affiliates may need to disclose your personal data in order to enforce any agreement with you, protect our rights, property or safety, or the rights, property or safety of our affiliates and employees.

Corporate reorganisation

As HKEx continues to develop its business, we may reorganise our group structure, undergo a change of control or business combination. In these circumstances it may be the case that your personal data is transferred to a third party who will continue to operate our business or a similar service under either this Privacy Policy Statement or a different privacy policy statement which will be notified to you. Such a third party may be located, and use of your personal data may be made, outside of Hong Kong in connection with such acquisition or reorganisation.

Access and correction of personal data

Under the PDPO, you have the right to ascertain whether HKEx holds your personal data, to obtain a copy of the data, and to correct any data that is inaccurate. You may also request HKEx to inform you of the type of personal data held by it. All data access requests shall be made using the form prescribed by the Privacy Commissioner for Personal Data ("**Privacy Commissioner**") which may be found on the official website of the Office of the Privacy Commissioner.

Requests for access and correction or for information regarding policies and practices and kinds of data held by HKEx should be addressed in writing and sent by post to us (see contact details below).

A reasonable fee may be charged to offset HKEx's administrative and actual costs incurred in complying with your data access requests.

Termination or cancellation

Should your account with us be cancelled or terminated at any time, we shall cease processing your personal data as soon as reasonably practicable following such cancellation or termination, provided that we may keep copies of your data as is reasonably required for archival purposes, for use in relation to any actual or potential dispute, for the purpose of compliance with applicable laws and regulations and for the purpose of enforcing any agreement we have with you, for protecting our rights, property or safety, or the rights, property or safety of our affiliates and employees.

Contact us

By Post:

Personal Data Privacy Officer
Hong Kong Exchanges and Clearing Limited
12/F., One International Finance Centre
1 Harbour View Street
Central
Hong Kong

By Email:

pdp@hkex.com.hk

Part A General Information of the Respondent

- (1) Please state whether your response represents your personal or your company/entity's view by checking () the boxes below and filling in the information as appropriate:

Company/Entity view

Company/Entity name*: Climate Disclosure Standards Board	
Company/Entity type*: <i>HKEx Participant</i> :- <input type="checkbox"/> SEHK <input type="checkbox"/> HKFE <input type="checkbox"/> HKSCC <input type="checkbox"/> SEOCH <input type="checkbox"/> HKCC <input type="checkbox"/> Listed company <input type="checkbox"/> Professional body / Industry association <input type="checkbox"/> Market practitioner (Type: _____) <input checked="" type="checkbox"/> None of the above	
Contact person*: Mr	Michael Zimonyi
Title: Senior Project Officer	
Phone no.*: +44(0)20 381 83939	Email address: michael.zimonyi@cdsb.net

Personal view

Respondent's full name*: Mr / Ms / Mrs _____		
Phone no.*: _____	Email address: _____	
Among the following, please select the one best describing your position*:		
<input type="checkbox"/> Listed company staff	<input type="checkbox"/> HKEx participant staff	<input type="checkbox"/> Retail investor
<input type="checkbox"/> Institutional investor staff	<input type="checkbox"/> None of the above	

Important note: All fields marked with an asterisk (*) are mandatory. HKEx may use the contact information above to verify the identity of the respondent. Responses without valid contact details may be treated as invalid.

- (2) Disclosure of identity

HKEx may publish the identity of the respondent together with Part B of this response to the members of public. Respondents who do not wish their identities to be published should check the box below:

I/We do not wish to disclose my/our identity to the members of the public.

Signature (with Company/Entity Chop if the response represents company/entity view)

Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below on the proposed change discussed in the Consultation Paper downloadable from the HKEx website at: <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201507.pdf>

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

1. Do you agree with our proposal 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, they must give considered reasons in the ESG reports?

Yes

No

Please give reasons for your views.

CDSB welcomes the move to upgrade ESG disclosures from voluntary to a “comply or explain” basis, as our research shows this is an effective method of encouraging more companies to report on these matters. However, we strongly recommend that material information relating to environmental and other matters is integrated into the annual report rather than, or in addition to, being presented in a separate document. This encourages consistency and comparability between financial and ESG information, as well as ensuring the investor focus of this information.

It is unclear how this rule relates to the New Company Ordinance which will already request this information, therefore more explanation on the matter would be welcome.

2. Do you agree with our proposal to amend Rule 13.91 to require the issuer to report on ESG annually and regarding the same period covered in its annual report?

Yes

No

Please give reasons for your views.

Yes, we consider this to be an essential component of providing suitable information to investors. Information is only consistent and actionable when it applies to the same period as covered in the annual report.

3. Do you agree with our proposal to include a Note under Rule 13.91 to clarify that:

- (i) an ESG report may be presented as information in its annual report, in a separate report, or on the issuer’s website; and
- (ii) 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?

Yes

No

Please give reasons for your views.

CDSB considers that publishing such information in exclusively a separate report to be a hindrance to its usability by investors. When published separately, ESG information is made less connected to the remainder of the information regarding corporate performance that is reported to them.

We believe that, to be actionable and relevant, non-financial information should be reported with the same rigor, in the same place and at the same time as financial information as both are equally relevant to an assessment of corporate performance.

4. Do you agree with our proposal to revise the introductory section of the Guide into four areas (i.e. “The Guide”, “Overall Approach”, “Reporting Principles” and “Complementing ESG Discussions in the Business Review Section of the Directors’ Report”), and with the wording set out in Appendix II to the Consultation Paper?

Yes

No

Please give reasons for your views.

CDSB has no comment on this matter.

5. Do you agree with the proposed wording of the Reporting Principles (i.e. “Materiality”, “Quantitative”, “Balance” and “Consistency”) in the introductory section of the Guide, as set out in Appendix II to the Consultation Paper?

Yes

No

Please give reasons for your views.

CDSB would like to commend the inclusion of the principle of materiality, which we believe to be key to good reporting. We would propose that the definition of “materiality” be taken from the International Accounting Standards Board. For reference, please consult Principle 1 of the CDSB Framework for a definition of materiality that is based upon the International Accounting Standards. In this principle, we also explain the importance of materiality and define its precepts. [Source: CDSB framework p. 11]

6. Do you agree with the proposed wording in the Guide linking it to Appendix 16 to the Main Board Listing Rules (in relation to the requirement for ESG discussions in the business review section of the directors’ report), as set out in Appendix II to the Consultation Paper?

Yes

No

Please give reasons for your views.

7. Do you agree with the proposal to re-arrange the Guide into two Subject Areas (A. Environmental and B. Social) and re-categorise “Workplace Quality”, “Operating Practices” and “Community Involvement” under Subject Area B?

Yes

No

Please give reasons for your views.

We agree to including explicitly the subject area of 'Environmental' as this is not currently included in the Guide.

8. Do you agree with the proposal to change the heading “Workplace Quality” to “Employment and Labour Standards”?

Yes

No

Please give reasons for your views.

CDSB has no comment on this matter.

9. Do you agree with our proposal to upgrade the General Disclosures for each Aspect of the ESG Guide to “comply or explain”?

Yes

No

Please give reasons for your views.

CDSB considers this upgrade to be a positive measure. Our research looking at the outcomes of United Kingdom’s implementation of its greenhouse gas reporting requirements shows that an upgrade from voluntary to “comply or explain” leads to increased reporting from companies.

10. Do you agree with our proposal to amend 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 “compliance with relevant laws and regulations that have a significant impact on the issuer...” in order to align it with the language of the relevant provisions of the Companies Ordinance?

Yes

No

Please give reasons for your views.

CDSB has no comment on this matter.

11. Do you agree with our proposal to revise proposed Aspect A1 (“Emissions”) by upgrading to “comply or explain” the current KPIs B1.1, B1.2, B1.4 and B1.5, re-numbered KPIs A1.1, A1.2, A1.4 and A1.5, concerning disclosure of emissions and non-hazardous waste?

Yes

No

Please give reasons for your views.

12. Do you agree with our proposal to upgrade to “comply or explain” the current KPIs B1.3 and B1.6, re-numbered KPIs A1.3 and A1.6, concerning disclosure of hazardous waste?

Yes

No

Please give reasons for your views.

13. Do you agree with our proposal to upgrade to “comply or explain” the KPIs under the current Aspect B2, re-numbered Aspect A2, “Use of Resources”?

Yes

No

Please give reasons for your views.

14. Do you agree with our proposal to upgrade to “comply or explain” the current KPI B3.1, re-numbered KPI A3.1, concerning disclosure of the significant impacts of activities on the environment and natural resources?

Yes

No

Please give reasons for your views.

15. Do you agree with our proposal to incorporate gender disclosure in proposed Subject Area B. Social, under the sub-heading “Employment and Labour Standards”?

Yes

No

Please give reasons for your views.

CDSB has no comment on this matter.

- End -