CONSULTATION PAPER

REVIEW OF THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

July 2015

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

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APPENDICES

HOW TO RESPOND TO THIS CONSULTATION PAPER

The Exchange, a wholly-owned subsidiary of HKEx, invites written comments on the changes proposed in this paper, or comments on related matters that might have an impact upon the changes proposed in this paper, on or before 18 September 2015. You can respond by completing the questionnaire which is available at: http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201507q.doc

Written comments may be sent:

By mail or hand delivery to	Corporate Communications Department Hong Kong Exchanges and Clearing Limited 12/F, 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 ESG Reporting Guide**

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

Respondents are reminded that the Exchange will publish responses on a named basis in the intended consultation conclusions. If you do not wish your name to be disclosed to members of the public, please state so when responding to this paper. Our policy on handling personal data is set out in **Appendix IV**.

Submissions received during the consultation period by 18 September 2015 will be taken into account before the Exchange decides upon any appropriate further action. The Exchange will develop a consultation conclusions paper which will be published in due course.

EXECUTIVE SUMMARY

1. This consultation paper seeks views and comments on proposed changes to the Environmental, Social and Governance Reporting Guide (the "**ESG Guide**" or "**Guide**").[1] The proposed changes aim 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. Our proposals seek to encourage more widespread and standardised ESG reporting amongst issuers, and to help issuers meet greater demand and expectations for non-financial information from investors and other stakeholders. In formulating the proposed changes, the Exchange considered Hong Kong and international developments on ESG reporting.

2. The Guide is organised into subject areas ("**Subject Areas**"). 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 their ESG performance.

3. In the *Consultation Conclusions on Environmental, Social and Governance Reporting Guide* published in August 2012[2], we stated that the Guide (compliance with which is currently voluntary) was intended for issuers looking for a starting point from which to begin work on ESG reporting. We also indicated that, subject to consultation, we would raise the level of obligation of some recommended disclosures to "comply or explain".

4. Since the introduction of the Guide in 2012, we have provided ample training to issuers, including training webcasts on the HKEx website. An increasing number of issuers have begun to report on ESG matters by adopting the Guide and/or other ESG reporting standards or guidelines. Although statistics show that only about half of our issuers are reporting, we believe that with the changing regulatory landscape, and as more issuers begin to see the positive effects of ESG reporting, the level and standard of reporting will undoubtedly improve.

5. The Exchange's role is to ensure an orderly, fair and informed market. It is increasingly recognised that an "informed market" calls for both non-financial and financial information. Our approach is therefore to focus on issuers' reporting obligations. To this end, we propose to:

   - amend Listing Rule 13.91 to require the issuer to state in its annual report or ESG report whether it has complied with the "comply or explain" provisions set out in the ESG Guide for the relevant financial year. Where the issuer deviates from the "comply or explain" provisions, it must give considered reasons in its ESG report;

   - revise the introductory section of the Guide to provide more guidance on reporting and to be more in line with international standards;

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[1] Appendix 27 to the Main Board Rules and Appendix 20 to the GEM Rules.

[2] See the "*Consultation Conclusions on Environmental, Social and Governance Reporting Guide*" at: http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201112cc.pdf.

- re-arrange the Guide into two Subject Areas: **A. Environmental** and **B. Social**;

- upgrade the General Disclosures under each of the Aspects to "comply or explain" and revise certain wording to be consistent with the directors' report requirements under the new Companies Ordinance (Cap 622) ("**CO**") (incorporated in the Main Board Listing Rules under paragraph 28(2)(d) of Appendix 16)[3];

- upgrade the KPIs under the Subject Area "Environmental" to "comply or explain"; and

- revise the wording of the voluntary provisions of the Guide (i.e. the recommended disclosures) to bring it more in line with international standards of ESG reporting by incorporating disclosure of gender diversity.

6. The proposed new Guide will continue to give issuers flexibility due to the nature of the "comply or explain" provisions. An ESG report may be presented as information in the issuer's annual report, in a separate report, or on the issuer's website. Issuers may also use international standards or guidelines that they consider appropriate. Furthermore, disclosures may be provided at the group level, rather than by each subsidiary within a group. Issuers should carefully consider the practice that best suits them and explain their choice in their ESG reports.

7. We do not propose to upgrade all the recommended disclosures in the ESG Guide at this stage, as we consider that setting the reporting bar too high prematurely may have an adverse effect on the overall quality of the ESG reporting amongst our issuers. For instance, it may encourage box-ticking or treating non-compliance as a norm.

8. Consequential amendments to the Rules following implementation of the new CO mean that starting from next year all issuers will be required to discuss their ESG policies and performance, and their compliance with relevant laws and regulations that have a significant impact on them in their directors' reports. The proposal to upgrade the Guide and revise the current wording to align with the new requirements should enable directors to be better informed in preparing their directors' reports. In this regard, we believe the proposals complement the new statutory and Rule requirements.

9. Accordingly, subject to responses to this consultation, we intend to implement the new Rules and new Guide for financial years commencing on or after 1 January 2016, whereupon issuers would need to start gathering the necessary information for the purpose of publishing their ESG reports under the new Guide in 2017.

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[3] Following a public consultation carried out between August and October 2014, this new requirement was adopted in the "*Consultation Conclusions on Review of Listing Rules on Disclosure of Financial Information with reference to the New Companies Ordinance and Hong Kong Financial Reporting Standards and Proposed Minor/Housekeeping Rule Amendments*" published in February 2015 (see: http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201408cc.pdf).

10. Whilst this consultation paper focuses on the Main Board Listing Rules, it applies equally to the GEM Listing Rules. We will make equivalent amendments to the GEM Listing Rules. The proposed amendments to the Rules form **Appendix I** and a table setting out the comparison of the proposed new Guide and the current Guide ("Proposed new Guide compared with the current Guide") forms **Appendix II**.

CHAPTER 1: OVERVIEW

Background

Introduction

11. The ESG Guide came into effect for issuers' 2013 reporting year. This followed from the publication of the *Consultation Paper on Environmental, Social and Governance Reporting Guide* in December 2011 ("**2011 consultation paper**") and the resulting consultation conclusions in August 2012.

12. The Guide was intended to be the first step in an evolutionary process, with the longer term goal of achieving better and more comprehensive ESG reporting amongst our issuers. In light of the responses from the market to the 2011 consultation paper, we indicated that subject to consultation we would consider upgrading some of the recommended disclosures to "comply or explain".

Current ESG Guide

13. The Guide is currently a recommended practice, i.e. reporting in accordance with the Guide is voluntary. It is organised into four ESG Subject Areas, with each Subject Area containing various Aspects. For each relevant Aspect, an issuer may report on the General Disclosures and KPIs that demonstrate its performance.

14. The issuer is encouraged to identify and report on relevant ESG Subject Areas, Aspects and KPIs that have material environmental and social impacts, both in terms of the impacts that the issuer's operations have on the environment and society, and vice versa.

15. The Guide clearly states that it does not provide a definition for each KPI. Instead, the issuer is encouraged to explain how it calculates the KPIs and include information that is necessary for interpreting the KPIs. The Guide provides a basic framework to facilitate ESG disclosure so that investors and stakeholders can understand the issuer's ESG performance and practices, and respond accordingly.

Current Reporting Level

16. In June 2014, we sent a letter to all issuers requesting their participation in a survey ("**ESG survey**") to gauge the extent to which issuers had complied with the ESG Guide (or other ESG reporting guidelines or frameworks, such as those of the Global Reporting Initiative ("**GRI**"), Carbon Disclosure Project ("**CDP**"), International Organization for Standardization ("**ISO**") 26000 or Dow Jones Sustainability Indices ("**DJSI**")). Despite a reminder in August 2014, the response rate was low, at 21%, and out of approximately two-thirds that did respond indicated they were not at that time reporting on ESG issues.

17. We note from a study conducted by Bloomberg in April 2015 that approximately 46.4% of the Sample Issuers[4] had reported their ESG performance for the 2013 financial year (see **Appendix III**).

18. Approximately 80% of the issuers with very large market capitalisation reported on ESG, with the percentage dropping substantially to 50% for issuers with large market capitalisation and 34% for those with mid-market capitalisation. 36% of the issuers with small market capitalisation had carried out ESG reporting for 2013.[5] We also note that 83% of the H-share issuers within the Sample Issuers had reported on ESG, as compared to 38% of the Hong Kong incorporated companies.[6] The main reason for the high level of ESG reporting by H-share issuers may be due to the Mainland exchanges' requirements for ESG reporting.[7]

19. Separately, according to Hong Kong's Environmental Protection Department ("**EPD**"), a total of 66 issuers are disclosing greenhouse gas emissions data on its Carbon Footprint Repository ("**CFR**") webpage, which was launched in December 2014.[8]

Issuer Education

20. We are keenly aware of the need for issuer education in this area and believe that it is integral to the wider adoption of ESG reporting. We have hosted, organised and taken part in numerous ESG training events since early 2011, prior to the publication of the 2011 consultation paper in December of that year. We have also posted a series of training webcasts, along with other training materials and resources, on a dedicated ESG webpage on the HKEx website.[9] Through such efforts we have aimed to familiarise issuers with ESG matters and make the Guide as user-friendly and accessible to them as possible.

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[4] Sample Issuers are the 330 issuers examined by Bloomberg in a study conducted in April 2015. Sample Issuers represent 20% of randomly selected issuers from four categories of market capitalisation: Very large, large, mid and small market capitalisation. See Appendix III for details of the methodology employed and statistics.

[5] Market capitalisation categories are defined as follows: (i) Very large market capitalisation = greater than HK$10 billion; (ii) large market capitalisation = greater than HK$5 billion and less than or equal to HK$10 billion; (iii) mid-market capitalisation = greater than HK$1 billion and less than or equal to HK$5 billion; and (iv) small market capitalisation = less than or equal to HK$1 billion.

[6] See Appendix III.

[7] SSE issued the "*Notice on Strengthening Listed Companies' Assumption of Social Responsibility*" and "*Guidelines on Listed Companies' Environmental Information Disclosure*" in 2008, and SZSE issued the "*Social Responsibility Instructions for Listed Companies*" in 2006. SSE has mandated reporting of ESG information for companies included in the SSE Corporate Governance Index, companies with overseas listed shares and financial companies, while SZSE has mandated ESG reporting for companies included in the Shenzhen 100 Index. See Harvard Business School, "*The Consequences of Mandatory Corporate Sustainability Reporting: Evidence from Four Countries*", Ioannou and Serafeim, 20 August 2014, pages 8-9.

[8] The Carbon Footprint Repository for Listed Companies in Hong Kong can be found at: http://www.carbon-footprint.hk/.

[9] See the "Environmental, Social and Governance (ESG)" webpage on the HKEx website at: http://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/esg/index.htm.

Hong Kong

Companies Ordinance (Cap 622)

21. In 2014, Hong Kong reached an important milestone in ESG disclosure. The new CO, which came into effect in March 2014, requires all Hong Kong incorporated companies (unless exempted) to include in the business review section of their annual directors' reports[10]:

    (a) a discussion of their environmental policies and performance (CO Schedule 5, section 2(b)(i));

    (b) a discussion of their compliance with relevant laws and regulations that have a significant impact on them (CO Schedule 5, section 2(b)(ii)); and

    (c) an account of their key relationships with employees, customers and suppliers and others that have a significant impact on them and on which their success depends (CO Schedule 5, section 2(c)).[11]

Developments in Appendix 16 on Disclosure of Financial Information

22. This disclosure requirement under the new CO has been incorporated under paragraph 28(2)(d) of Appendix 16 to the Main Board Rules and will apply to all issuers listed on the Exchange for financial years ending on or after 31 December 2015.[12] This means that starting in 2016, it will be mandatory for issuers to include in their annual directors' reports the matters set out in paragraph 21.

Principles of Responsible Ownership

23. In March 2015, the SFC published a *Consultation Paper on the Principles of Responsible Ownership* ("**Principles**") aimed at guiding investors to determine how best to meet their ownership responsibilities in relation to their investment in listed companies. One of the proposed Principles states that investors should engage with investee companies if they have concerns about certain matters, including social and environmental matters. This proposal is in line with principles in similar codes adopted in other jurisdictions.[13] The proposed Principles also recommend investors to encourage

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[10] For financial reporting years beginning on or after 3 March 2014.

[11] This requirement comes into effect for the first financial reporting year beginning on or after 3 March 2014. This means that Hong Kong incorporated companies will have to comply with this requirement for the financial year ending on or after 31 March 2015.

[12] See paragraph 12 of the "*Consultation Conclusions on Review of Listing Rules on Disclosure of Financial Information with reference to the New Companies Ordinance and Hong Kong Financial Reporting Standards and Proposed Minor/Housekeeping Rule Amendments*" at: http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201408cc.pdf.

[13] See, for example, Principle 4 in the UK Stewardship Code and Principle 3 in Japan's Principles for Responsible Institutional Investors, which state that investors should monitor a company's strategy, performance, governance, remuneration and approach to risks, including those that may arise from social and environmental matters.

their investee companies to have ESG policies. This, however, is not in the other similar codes that we examined.

24. The proposed Principles are still at consultation stage and, if adopted, more ESG disclosure might be called-for.[14]

International Practice

25. Globally, there has been a marked increase in recent years in the amount of policy and regulation calling for ESG reporting. We find that most countries with policies in this area adopt a combination of laws, listing rules, "comply or explain" and/or voluntary guidelines to regulate the disclosure of ESG information. However, an important trend to highlight is that these policies are increasingly subject to higher levels of obligation (i.e. "comply or explain" and/or mandatory). Some of these policies are codified in legislation, whilst others are adopted at the stock exchange level.

26. We summarise below what we understand to be the practice in Mainland China, the European Union ("**EU**"), the United Kingdom ("**UK**"), Australia, the United States ("**US**"), South Africa and other Asian countries where there have been new developments in this area.

Mainland China

27. Mainland company law was amended in 2006 to provide that companies must undertake social responsibility in the course of business.[15] Following this, the Shanghai Stock Exchange ("**SSE**") and Shenzhen Stock Exchange ("**SZSE**") mandated certain listed companies to disclose ESG information starting for financial year end in December 2008.[16]

28. Also, the State-owned Assets Supervision and Administration Commission ("**SASAC**") requires state-owned enterprises to publish social responsibility reports.[17]

29. The Mainland has also taken important steps to strengthen its environmental protection measures, as demonstrated by the "Green Securities Policy" launched in 2008[18] and the recent overhaul of its Environmental Protection Law. The revised law, which came into force on 1 January 2015, encapsulates existing regulations on information disclosure and public participation, and promotes increased transparency by requiring companies

[14] Consultation conclusions are yet to be published as at the date of this paper.
[15] *Companies Law of the People's Republic of China*, Article 5.
[16] See footnote 7 above.
[17] *The* "*Guidelines to the State-Owned Enterprises Directly under the Central Government on Fulfilling Corporate Social Responsibilities*" issued by SASAC in January 2008 strongly encourages state-owned enterprises to publish social responsibility or sustainability reports. This directive is considered a powerful regulatory instrument that essentially makes ESG reporting mandatory for state-owned enterprises (see *Corporate Social Responsibility in Contemporary China*, Zhao Jingchen, January 2014, page 195).
[18] See "*Environmental Disclosure in China: An Examination of the Green Securities Policy*", Wang and Bernell, The Journal of Environment and Development, December 2013.

to disclose pollution data and holding government agencies responsible for disseminating information publicly.[19]

30. In respect of emissions, the Mainland's Environmental Protection Law requires entities that discharge certain key pollutants to disclose information on their emissions, such as concentration and total volume.[20]

31. A new study co-sponsored by the People's Bank of China and the United Nations Environment Programme entitled "Establishing China's Green Financial System", published in April 2015, demonstrates the Mainland's growing focus on the financial market's sustainability.[21] The study recommends introducing mandatory environmental reporting by all companies listed on Mainland exchanges.

EU

32. The EU Council adopted on 29 September 2014 the Directive on disclosure of non-financial and diversity information by large companies and groups. Under the Directive, large listed companies with more than 500 employees will be required to disclose in their management reports information on their policies, risks and results in respect of environmental matters, social and employee-related aspects, respect for human rights, anti-corruption and bribery issues, and diversity on boards of directors.[22]

33. There is a "comply or explain" element built into the Directive, which requires companies that do not have a specific policy in one or more of these areas to explain why this is the case.[23]

UK

34. In the UK, all quoted companies[24] have been required since 1 October 2013 to disclose information about greenhouse gas emissions, human rights and gender diversity, in addition to pre-existing requirements for the disclosure of information on environmental matters, employees, and social and community issues.[25] With the exception of gender diversity, disclosure in relation to these matters is subject to some flexibility, that is:

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19 An unofficial English translation of the revised *Environmental Protection Law* compiled by the EU – China Environmental Governance Programme is available at: https://www.chinadialogue.net/Environmental-Protection-Law-2014-eversion.pdf.

20 Mainland China's *Environmental Protection Law*, Articles 44, 45 and 55.

21 Published in April 2015, "Establishing China's Green Financial System" is a study co-sponsored by the Research Bureau of the People's Bank of China and the United Nations Environment Programme Inquiry into the Design of a Sustainable Financial System. A preliminary synthesis report on the study is available at: http://www.iisd.org/publications/greening-chinas-financial-system.

22 Member States will have two years to transpose the Directive into national legislation. Companies concerned will start reporting as of their financial year 2017. (See news release published on 29 September 2014 at: http://europa.eu/rapid/press-release_STATEMENT-14-291_en.htm.)

23 See Articles 1(1)(a) and 1(2)(a) of the Amendments to Directive 78/660/EEC at: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013PC0207&from=EN.

24 UK quoted companies include those that are (a) incorporated in the UK; and (b) whose equity share capital is (i) officially listed on the Main Market of the London Stock Exchange; or (ii) officially listed in a European Economic Area State; or (iii) admitted for dealing on either the New York Stock Exchange or NASDAQ.

25 UK *Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013*.

(a) where companies do not disclose information on environmental matters, employees, and/or social, community and human rights issues, they must state what information is missing in their annual strategic reports;[26] and

(b) where companies face practical difficulties in obtaining information for the disclosure of their greenhouse gas emissions, they must state what information is omitted and explain why in their directors' reports.[27]

35. The UK government also issued voluntary environmental reporting guidance in 2006 and carbon reporting guidelines in 2009.[28] More recently it issued updated environmental reporting guidelines to complement the implementation of the UK's mandatory greenhouse gas emissions disclosure requirement.[29]

36. Also, the UK Listing Authority's rules require issuers' annual management reports to contain, to the extent necessary for an understanding of the development, performance or position of an issuer's business, analysis using non-financial KPIs, including information relating to environmental and employee matters.[30]

Australia

37. The Australian Securities Exchange ("**ASX**") requires that companies, on a "comply or explain" basis, disclose whether they have any material exposure to economic, environmental and social sustainability risks, and if they do, how they manage those risks.[31] It is also a "comply or explain" requirement that a company should have and disclose a code of conduct (or a summary of it) for its directors, senior executives and employees. The code of conduct is expected to address ESG issues including respecting employees' human rights, creating a safe and non-discriminatory workplace, managing the supply chain, acting responsibly towards the environment, and engaging in ethical and responsible business practices.[32]

38. Also, Australian companies that meet certain thresholds in respect of their emissions, energy production and consumption must report on this information each year.[33]

39. Companies with more than 100 employees are required by law[34] to make annual filings with the Workplace Gender Equality Agency disclosing certain "gender equality

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26 UK *Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013*, Part 2, paragraph 3. See section 414C(7)(b) under *"Chapter 4A Strategic Report"*.

27 UK *Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013*, Part 3, paragraph 7(3). See section 15(4) under *"Part 7 Disclosures Concerning Greenhouse Gas Emissions"*.

28 UK Department for Environment, Food and Rural Affairs, "*Environmental Key Performance Indicators: Reporting Guidelines for UK Business*", 2006; and "*Guidance on how to measure and report your greenhouse gas emissions*", 2009.

29 UK Department for Environment, Food and Rural Affairs, "*Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance*", June 2013.

30 UK Listing Authority, Disclosure and Transparency Rule 4.1.9.

31 *Corporate Governance Principles and Recommendations*, ASX Corporate Governance Council, Third Edition, Principle 7: Recognise and manage risk, Recommendation 7.4.

32 *Corporate Governance Principles and Recommendations*, ASX Corporate Governance Council, Third Edition, Principle 3: Act ethically and responsibly, Recommendation 3.1 and Commentary.

33 Australia's *National Greenhouse and Energy Reporting Act 2007*.

indicators". ASX also has a "comply or explain" requirement that companies should have and disclose a diversity policy (or a summary of it), disclose measurable objectives for achieving gender diversity set by the board (or a board committee), and provide a gender breakdown across the whole organisation.[35]

US

40. Companies listed on US exchanges must file with the Securities and Exchange Commission ("**SEC**") annual reports ("**10-K filings**") containing information on a number of environmental matters, such as expenditures on environmental controls, and pending environmental litigation.[36] The SEC issued an interpretive guidance on climate disclosure in February 2010, which requires companies to disclose in their 10-K filings the impact that risks arising from climate change could have on their businesses.[37]

41. In the US, companies with large sources of emissions face disclosure obligations on greenhouse gases under the Environmental Protection Agency's Greenhouse Gas Reporting Rule.[38]

South Africa

42. When it comes to integrated reporting, South Africa is ahead of other jurisdictions. The Johannesburg Stock Exchange ("**JSE**") requires companies to make disclosures in respect of their compliance with the King Report on Corporate Governance Code ("**King Code**") on a "comply or explain" basis. The previous edition of the King Code (King II) expressly required companies to implement the practice of sustainability reporting as a core aspect of corporate governance. The latest version of the King Code (King III) takes this a step further by requiring integrated reporting as well as third party assurance.[39] In order to produce an integrated report, companies must describe financial, social and environmental factors in a holistic manner within a single report.

Singapore

43. The Singapore Exchange ("**SGX**") released a voluntary sustainability reporting guide in June 2011.[40] The exchange's CEO announced in October 2014 that SGX will make sustainability reporting mandatory in the near future, as it started a one year study to determine which guidelines to adopt for these reports.[41]

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[34] The Australian *Workplace Gender Equality Act*.

[35] *Corporate Governance Principles and Recommendations*, ASX Corporate Governance Council, Third Edition, Principle 1: Lay solid foundations for management and oversight, Recommendation 1.5.

[36] SEC Regulation S-K, Items 101 and 103.

[37] See "*Commission Guidance Regarding Disclosure Related to Climate Change*" at: https://www.sec.gov/rules/interp/2010/33-9106.pdf.

[38] The Greenhouse Gas Reporting Rule (40 CFR Part 98) requires reporting of greenhouse gases from large sources in the US that in general emit 25,000 metric tons or more of carbon dioxide equivalent per year.

[39] King III, Governance Element 9.

[40] The SGX "*Guide to Sustainability Reporting for Listed Companies*".

[41] See "*SGX to make sustainability reporting mandatory*", Eco-Business, 17 October 2014, at the following link: http://www.eco-business.com/news/sgx-make-sustainability-reporting-mandatory/.

44. Also, energy-intensive companies are required by law to report on greenhouse gas emissions, as well as on energy consumption, energy management strategies and conservation plans.[42]

Malaysia

45. Bursa Malaysia provides under its listing rules that companies must include in their annual reports a description of the corporate social responsibility ("**CSR**") activities or practices they (and their subsidiaries) have undertaken or if there are none, a statement to that effect.[43]

46. Bursa Malaysia issued a voluntary guide on CSR reporting in 2006 to help companies define their CSR priorities, implementation and reporting. This was followed by the exchange's publication in 2010 of a guide to assist boards in applying the principles and good practices of corporate responsibility and sustainability.[44] It has recently indicated that it would consult the market on upgrading the obligation to report on ESG from voluntary to "comply or explain".

Taiwan ROC

47. Taiwan's Financial Supervisory Commission recently made it mandatory for certain listed companies to publish CSR reports.[45] Further, the Taiwan stock exchanges require listed companies to report under Corporate Social Responsibility Best Practice Principles on a "comply or explain" basis.[46]

Other ESG Reporting Developments

Integrated reporting

48. Integrated reporting is another notable trend developing in this area. As mentioned above (see paragraph 42), JSE has already moved towards requiring its listed companies to produce integrated reports. The idea behind integrated reporting is that it can provide a more holistic, comprehensive picture to investors and other stakeholders of how companies create and maintain value in the short, medium and long term. The

[42] Singapore's *Energy Conservation Act 2012*.

[43] *Main Market Listing Requirements*, Bursa Malaysia, Appendix 9c, Part A (29).

[44] The CSR Framework (2006) (see: http://www.bursamalaysia.com/market/sustainability/frameworks/bursa-malaysias-csr-framework/) and Powering Business Sustainability – A Guide for Directors (2010) (see: http://www.bursamalaysia.com/misc/sustainability_guide_for_directors.pdf).

[45] The requirement applies to listed companies in Taiwan in the food industry, in a group of specific companies with dining service revenue at over 50% of total revenue in the most recent year, in the financial service industries, in the chemical industry and companies with paid-in capital above NT$10 billion (HK$2.7 billion). See "*Requiring certain listed companies to compile Corporate Social Responsibility Reports*", September 2014, on the Financial Supervisory Commission website at: http://www.fsc.gov.tw/en/home.jsp?id=54&parentpath=0,2&mcustomize=multimessage_view.jsp&dataserno=201409240002&aplistdn=ou=news,ou=multisite,ou=english,ou=ap_root,o=fsc,c=tw&toolsflag=Y.

[46] See the Taiwan Stock Exchange's press release on 19 July 2011 at: http://www.twse.com.tw/en/about/press_room/tsec_news_detail.php?id=8212.

International Integrated Reporting Council ("**IIRC**") in December 2013 published its *Integrated Reporting Framework* in an effort to push the integrated reporting trend forward.

49. While we will monitor developments in this area, we note that integrated reporting is a step higher on the evolutionary ladder than ESG reporting on its own. A handful of our issuers have produced integrated reports, with some doing so as part of an IIRC pilot programme. However, there are views that the Hong Kong market is not prepared at this point in time for integrated reporting on a broader scale as a substantial number of issuers have only just started ESG reporting.

Third party assurance

50. Third party assurance is another important topic in this area. As the demand for credible ESG data increases globally, the topic of external assurance of sustainability reports gains significance.[47] However, there is a wide range of assurance providers, standards and approaches in different regions,[48] which poses a significant challenge to the overall usefulness and reliability of assurance. This highlights the need for a generally accepted approach to assurance of ESG reports to be developed. In the context of Hong Kong, we intend to leave third party assurance to the discretion of the reporting issuers at this stage.

[47] *Carrots and Sticks: Sustainability reporting policies worldwide – today's best practice, tomorrow's trends,* UN Environment Programme, GRI, KPMG and the Centre for Corporate Governance in Africa, 2013 Edition, page 80.

[48] The Hong Kong Testing and Certification Council (established by the Hong Kong Government) provides accreditation for assurance providers on ESG data. Accessible at: http://www.hkctc.gov.hk/en/company_add_value.html.

CHAPTER 2: WHY PROMOTE ESG?

Role of Stock Exchanges

51. Under the Securities and Futures Ordinance (Cap 571), the role of the Exchange is to ensure an orderly, fair and informed market.[49] It is increasingly recognised that an "informed market" calls for both non-financial and financial information. Investors are becoming more aware that corporate financial statements alone are not necessarily sufficient in determining the company's access to capital, cost of capital, the likely environmental and social risks that it may face, and the way in which these risks are managed. Whilst in the past investors may have made decisions based largely on a company's track record, they are increasingly looking to the future. ESG reporting reflects management strength and the long-term prospects of the company.

52. There is an increasing demand for stock exchanges to step up their efforts to encourage companies to consider ESG issues more seriously.[50] According to GRI, stock exchanges act as gateways to the capital markets and are uniquely placed to introduce informed sustainability reporting policies for listed companies that are good for markets, good for companies and, ultimately, good for wider society by ensuring the transparency of corporate decisions.[51]

53. In recent years, a growing number of exchanges have introduced sustainability-related requirements either on a mandatory, "comply or explain" or voluntary basis (see "International Practice" in Chapter 1). The Sustainable Stock Exchanges Initiative[52] is calling on policymakers and regulators to support the introduction of guiding principles to enhance ESG disclosure by companies in their markets.

54. Exchanges are also ranked on the basis of ESG reporting amongst their listed issuers. According to one recent study[53], Hong Kong ranked 17th in sustainability disclosure amongst 46 stock exchanges, jumping up six places from a ranking of 23rd the previous year. This improvement in ranking may be an indication that, since the implementation of the ESG Guide, issuers listed on the Exchange have been improving in the level of their ESG reporting, both in terms of quantitative and qualitative disclosures.

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[49] Section 21, "*Duties of recognised exchange company*", Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

[50] See "*Stock Exchanges urged to make ESG Demands*", Financial Times, 23 April 2012.

[51] See "*GRI Position Paper - A role for market regulators and operators in advancing corporate transparency on sustainability*", accessible at: https://www.globalreporting.org/resourcelibrary/Paper-Market-Regulators-and-Operators.pdf.

[52] The Sustainable Stock Exchanges Initiative was created by the United Nations in 2009. It provides a platform for partner exchanges to explore how exchanges can work together with investors, regulators and companies to enhance ESG performance and disclosure.

[53] "*Measuring Sustainability Disclosure: Ranking the World's Stock Exchanges*", Corporate Knights Capital, 14 October 2014.

ESG Performance and Reporting Enhances Company Value

55. Numerous studies have found that while increased ESG regulation might impose costs on some companies, the overall effect of the regulation on companies has been value-enhancing rather than value-destroying.[54]

56. How does managing ESG performance and reporting enhance company value? We summarise the most cited reasons below.

Risk management

57. Companies can strengthen their risk management and control by reporting on ESG issues. The process of reporting acts as a catalyst that prompts issuers to assess the environmental and social risks that may impact their businesses and vice versa. What follows as a result is that companies are better prepared to manage these risks. A 2013 report shows that companies that undertake ESG reporting do a better job of weathering crises, both in terms of mitigating the actual impact on their businesses and helping to maintain a positive public perception.[55] Many investors, including asset managers, have observed that non-financial risk can, if not managed properly, become financial risk.

58. There have been numerous well-known incidents that demonstrate how social risks may affect a company's bottom-line. The collapse of factory buildings in Bangladesh, the use of child labour to produce branded products, and inadequate or dangerous working conditions have all had a significant negative impact on the reputation and businesses of some multi-national companies.[56]

59. Once, environmental risks such as climate change, depletion of natural resources (e.g. energy and fuel, and water), ecosystem decline and deforestation were seen as irrelevant factors (i.e. someone else's problem) from a business perspective. But now their disruptive impacts on business are becoming unavoidable and increasingly significant. According to a recent study, there is a set of ten global sustainability "megaforces", the core of which is climate change, which will affect the future of every business over the next two decades.[57] Companies with ESG practices embedded in their corporate culture will likely be much better placed to respond to the impacts of these megaforces.

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[54] Ioannou and Serafeim, 2014; University of Oxford, "*From the Stockholder to the Stakeholder – How sustainability can drive financial outperformance*", Clark, Feiner and Viehs, September 2014; also see a report published by Deutche Bank's Climate Change Advisors, "*Sustainable Investing: Establishing Long-Term Value and Performance, 2012*". The report, which reviewed 100 academic studies of sustainable investing, as well as 56 research papers amongst others, found that nearly 90 percent of studies showed companies with high ESG ratings outperformed both operationally and in market terms.

[55] "*Finding the Value in Environmental, Social, and Governance Performance*", *Deloitte Review*, Issue 12, 2013, pages 108-109.

[56] "*Nike accused of tolerating sweatshops*", The Observer, 20 May 2001; and "*How Nike Solved its Sweatshop Problem*", Business Insider, 9 May 2013.

[57] The ten global sustainability megaforces comprise climate change, energy and fuel, material resource scarcity, water scarcity, population growth, wealth, urbanisation, food security, ecosystem decline and deforestation. See "*Expect the Unexpected*", KPMG, 2012, accessible at: http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/building-business-

Improved access to capital

60. There is growing awareness that ESG reporting is relevant to investors. This is evident from the significant rise in responsible investment that has occurred in recent years. The UN Principles for Responsible Investment now has 1,383 signatories representing approximately US$45 trillion in assets; and CDP, another investor-driven initiative, works with 822 institutional investors holding US$95 trillion in assets. Investors increasingly treat responsible investment strategies as mainstream. For example, the biggest US pension fund, CalPERS [58], includes ESG factors in its "Investment Beliefs".[59]

61. Many studies indicate that ESG reporting helps to improve access to capital.[60] One of the reasons given is that ESG reporting may lead to a company's shares attracting a higher valuation, resulting in a lower cost of capital for the company. Another reason is that companies reporting on ESG issues are seen as being better able to identify and manage risks, and as a result can procure financing from lenders more easily.

Supply chain demand

62. ESG reporting is also essential for effective supply chain management, and this in turn has important implications for suppliers and potential suppliers. Global companies are looking beyond their own boundaries as they seek to reduce exposure to risks caused by climate change, resource availability and labour policies, amongst other factors. Such multi-nationals are increasingly vigilant with respect to the ESG practices of their suppliers. To understand why this is the case, we need look no further than recent reports of supply chain failures such as rotten meat at fast-food restaurants, repeated labour violations by suppliers, and imports of gutter oil and melamine tainted milk powder, amongst others. These supply chain risks, if not handled properly, can lead to reputational damage which will ultimately affect the company's bottom-line.

Improved reputation

63. ESG reporting can also have an impact on companies' reputation, which may lead to greater profitability, given the rise of environmental and social awareness amongst consumers. According to a survey published in 2013, a majority of companies that published ESG reports found that those reports helped improve their reputation.[61]

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value.pdf.

[58] The California Public Employees' Retirement System.

[59] CalPER's Investment Beliefs, adopted on 16 September 2013, accessible at: https://www.calpers.ca.gov/docs/forms-publications/calpers-beliefs.pdf. Also in a July 2014 report, the UK Law Commission stated that the law permits pension fund trustees to base investment decisions on non-financial factors; and further, that where trustees think ESG issues are financially material, they *should* take them into account. See UK Law Commission Report, "*Fiduciary Duties of Investment Intermediaries*", 1 July 2014, accessible at: http://lawcommission.justice.gov.uk/publications/fiduciary_duties.htm.

[60] "*Corporate Social Responsibility and Access to Finance*", Cheng, Ioannou and Serafeim, 19 May 2011.

[61] "*Value of sustainability reporting*", Ernst & Young and Boston College Centre for Corporate Citizenship, 2013, page 3.

Similarly, the 2013 report (discussed in paragraph 57) described the "ESG halo" effect, whereby companies with a positive ESG reputation enjoyed greater brand reputation.[62]

Cost savings and increased profit margins

64. Collecting and disclosing data on consumption of resources such as energy and water are the first steps in enabling companies to review their efficiency in these areas and develop reduction initiatives. This leads to savings on overall costs and expenses.

Encourage innovation

65. ESG reporting can help companies recognise and capitalise on new business opportunities, which in turn drives innovation. For example, by measuring its own resource use and developing conservation strategies, a company may be able to develop greener, more resource-efficient products to sell to its customers. For example, laundry detergent that requires lower temperature and less water, dry shampoo, etc. This kind of innovation not only promotes companies' businesses, but also benefits the environment.

Talent retention

66. Increased employee loyalty is another important benefit of ESG reporting. Good ESG performance and reporting helps to attract and retain high-calibre employees, as a company's ESG reputation has increasingly become an important factor in an employee's choice of employer.[63]

Licence to operate

67. Last but not least, for a business organisation to have legitimacy to operate, its stakeholders must perceive it to be responsible and to act in accordance with societal norms. A company that is transparent about how it manages its environmental and social impacts, and takes steps to minimise its negative impacts, can improve relations with regulators and the society in which it operates.

The Potential Challenges of ESG Reporting

68. The most common argument put forward against an upgrade of the ESG reporting requirements in Hong Kong is that it would increase costs and impose a greater administrative burden on issuers, particularly smaller issuers. The advantages of ESG reporting for these issuers (for instance, the cost savings) may not be as compelling, especially when weighed against the resources required to put data collection systems in place and to hire suitable personnel to help with the reporting process.

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[62] "*Finding the Value in Environmental, Social, and Governance Performance*", Deloitte Review, Issue 12, 2013, page 101.

[63] *"Value of sustainability reporting"* conducted by Boston College Center for Corporate Citizenship and Ernst & Young in 2013.

69. Similarly, issuers that do not tend to attract institutional investors will likely not find the argument that ESG reporting will enhance their share value and lead to higher levels of investment persuasive.

70. Another concern may be that there is a limited pool of personnel that are suitably qualified and capable of guiding companies through the ESG reporting process.

The Exchange's View

71. After considering the challenges described above, we believe that, on balance, the long term benefits that ESG reporting can bring to issuers, as well as to the quality, sustainability and reputation of our market, outweigh the disadvantages. It is also important for Hong Kong to align itself with international best practice in this area.

72. Despite the low response rate of the ESG survey (discussed in paragraph 16), market feedback indicates that many issuers are waiting for the recommended disclosures of the ESG Guide to be upgraded to "comply or explain" before they begin to report. In light of these comments, we consider that it is an appropriate time to consider imposing a higher level of reporting obligation on issuers. This is further supported by recent developments in Hong Kong and other jurisdictions with regard to ESG disclosure (discussed in Chapter 1).

CHAPTER 3: PROPOSALS AND CONSULTATION QUESTIONS

Our Approach

73. As we consider upgrading the recommended disclosures in the ESG Guide, we appreciate that issuers vary significantly in their individual characteristics, including size, business model, industry and complexity of operations, amongst others. Some may be experienced ESG reporters, whilst others may be just starting out or, as the results of the ESG survey suggest, have not yet given ESG reporting serious consideration. In the circumstances, we consider it appropriate to continue with the incremental approach we have been taking.

74. We remain mindful of the risks of setting the ESG reporting bar too high prematurely. To do so could have an adverse effect, as less experienced issuers may adopt a box-ticking attitude in order to comply, albeit perfunctorily, with the ESG Guide. Another possible scenario is that issuers would begin to treat non-compliance with the "comply or explain" provisions (i.e. choosing to explain rather than comply) as a normal practice. This could happen if a substantial number of issuers were to adopt such an approach.

75. It may be argued that complying with ESG reporting regulations by "the letter" (e.g. by box-ticking) rather than "the spirit" can be the first step in an issuer's evolution towards becoming an advanced reporter. However, in order for this transition to occur, we believe issuers should be afforded the space and flexibility to develop their expertise.

Why "Comply or Explain"?

76. Research indicates that the "comply or explain" approach is an effective tool to encourage ESG reporting.[64] The advantage of this approach, as in the case of our Corporate Governance Code ("**CG Code**")[65], is that it affords companies the space to develop their practice and decide on the scope of their reporting. It enables companies to focus on relevant areas with impacts on their investors and stakeholders, as well as on their own businesses, and decide on the ESG reporting guidelines/frameworks that best fit their own circumstances. Further, the flexibility of this approach enables companies that are just beginning to report to develop their competency and practices through first-hand experience, with a view to cultivating their expertise and quality of reporting over time.

77. The purpose of the "comply or explain" provisions is not to prescribe hard and fast rules; they should be seen as a means to facilitate communication between the company and its investors and stakeholders. The disclosure, or the explanation, is aimed at providing sufficient information to investors and stakeholders so that they can understand the company's ESG performance and practices, and respond accordingly.

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[64] Harvard Business School, "*The Consequences of Mandatory Corporate Sustainability Reporting: Evidence from Four Countries*", Ioannou and Serafeim, 20 August 2014.

[65] Appendix 14 of the Main Board Listing Rules and Appendix 15 of the GEM Listing Rules.

78. In light of the considerations set out above, we consider that it is important to guard against imposing undue regulatory burden on issuers. We are therefore proposing to upgrade only some of the recommended disclosures in the Guide to "comply or explain".

Resources Available for ESG Reporting

79. The Exchange provides ample training, resources and materials to assist issuers with their reporting. We have a dedicated webpage[66] on the HKEx website where we post relevant materials. These include an ESG reporting toolkit, training webcasts and links to other useful resources.

80. In addition to the launch of the CFR for listed issuers (see paragraph 19), the EPD has also issued practical guidelines for reporting on greenhouse gas emissions in Hong Kong.[67] The guidelines have been formulated by reference to internationally recognised protocols[68] to ensure their consistency with international practice.

81. The Hong Kong Government has also launched and implemented a number of free environmental initiatives under the "Hong Kong Awards for Environmental Excellence" scheme, which aim to help issuers further enhance their environmental performance.[69] A newly launched "Sustainable Business HK", being a part of the Government's Caring Company Scheme, promotes cross-business-sector dialogues and collaborative actions to address sustainability challenges in Hong Kong.[70] These initiatives provide support for issuers looking to strengthen their reports prepared in accordance with the ESG Guide, and also enable issuers to gain recognition in different environmental and social aspects.

82. Government initiatives and resources are supported by professional bodies, industry groups and market practitioners' efforts to provide companies with training sessions and materials. For instance, the Business Environment Council has published an ESG Handbook in 2014, which was designed to help companies understand which elements of the ESG Guide to report on based on what is "material" to their business.[71]

83. Numerous internationally recognised standards/guidelines for ESG reporting can provide further guidance and instruction to companies on how to report on environmental and other ESG issues. These include, but are not limited to, the GRI, ISO 26000, CDP and DJSI.

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[66] See link: http://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/esg/index.htm.

[67] See the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong" (2010 edition) at: http://www.epd.gov.hk/epd/english/climate_change/files/Guidelines_English_2010.pdf. Also see "How to report" on EPD's carbon footprint repository website: http://www.carbon-footprint.hk/node/94.

[68] "The Greenhouse Gas Protocol – A Corporate Accounting and Reporting Standard" of the World Resources Institute/World Business Council on Sustainable Development and ISO 14064-1.

[69] For more information, please refer to the website: http://www.hkaee.org.hk or contact the Hong Kong Productivity Council.

[70] For more details, see: http://sustainablebusiness.org.hk/.

[71] "*Understanding Materiality for Environmental Social Governance Reporting*", Business Environment Council, 2014.

Discussion of Proposals

Proposed amendments to Main Board Rule 13.91

84. Existing Rule 13.91 addresses "Environmental and Social Matters". It encourages issuers to disclose information set out in the ESG Guide either in the annual report or in a separate report.

85. We propose to amend this Rule to state that the issuer must disclose in its annual report or ESG report whether it has complied with the "comply or explain" provisions in the ESG Guide for the relevant financial year. Where the issuer deviates from the "comply or explain" provisions, it must give considered reasons in its ESG report. Issuers are encouraged, but not required, to report on the recommended disclosures of the ESG Guide.

86. We also propose that issuers must disclose ESG information set out in the ESG Guide on an annual basis and regarding the same period covered in their annual reports.

87. In addition, we propose to include a Note under the Rule to state that an ESG report may be presented as information in its annual report, in a separate report, or on the issuer's website. Moreover, the issuer should publish the ESG report as close as possible to, but in any event no later than three months after, the publication of the issuer's annual report.

88. Consequent to our proposed amendments to Rule 13.91, we propose to remove paragraph 53 of Appendix 16, which currently duplicates existing Rule 13.91, and replace it with a note that refers to the proposed Rule 13.91.

Why upgrade the reporting obligation of some provisions in the Guide to "comply or explain"?

89. We explain our thinking behind the "comply or explain" approach in paragraphs 73 to 78.

Why do we require the ESG reporting period to be the same as the annual report?

90. We consider it appropriate for the ESG report to cover the same period as the annual report. We believe this approach will present investors and other stakeholders with a more holistic and comprehensive view of the issuer's performance, both in terms of financial and non-financial information.

Note to clarify what constitutes an ESG Report

91. Whilst many issuers publish their ESG information as a part of the annual report, some issuers opt for publishing this information on their websites or in standalone reports. A substantial number of issuers publish ESG information in more than one format (see Appendix III). We propose to maintain the approach adopted in the current Guide (i.e. to allow multiple formats of ESG reporting) so as to give issuers the flexibility to issue ESG reports in the form that most suits their own circumstances.

Why do we encourage the issuer to publish an ESG report within three months of the publication of the annual report?

92. We appreciate that, due to resource constraints, some issuers may wish to have an interval between the publication of the annual report and the ESG report. However, in order for the ESG report to be meaningful and its ESG data to be relatively current, we encourage the issuer to publish its ESG report as close as possible to, and in any event no later than three months after, the publication of the annual report.

Consultation Questions

Question 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?

Question 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 as discussed in paragraphs 86 and 90?

Question 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 as discussed in paragraph 91; 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 as discussed in paragraph 92?

Proposed amendments to the Guide

93. We propose to amend the Guide by:

A. Revamping the introductory section of the Guide;

B. Re-arranging the General Disclosures and KPIs into two Subject Areas (from four in the current Guide);

C. Upgrading the General Disclosures under each of the Aspects;

D. Upgrading the KPIs in Subject Area A. Environmental; and

E. Including gender disclosure in the existing recommended disclosures.

A. Revamping the introductory section of the Guide

94. We propose to divide the introductory section of the Guide into four areas:

- The Guide;
- Overall Approach;
- Reporting Principles; and
- Complementing ESG discussions in the Business Review Section of the Directors' Report.

95. The aim is to provide clarity and guidance on: (i) the issuer's reporting obligations, the scope, format, timing and frequency of reporting, as well as encouraging the publication of the ESG report on the issuer's and the Exchange's website; (ii) the role of the board, including its responsibility to ensure that the issuer has effective ESG risk management and internal control systems in place; and (iii) the reporting principles. Lastly, we propose to link the Guide to the new Rule in Main Board Appendix 16 which will require issuers to discuss ESG matters in their directors' reports.

96. The proposed "Reporting Principles" will contain four principles: (i) Materiality; (ii) Quantitative; (iii) Balance; and (iv) Consistency. To a large extent, these principles are already in the current Guide[72], but we propose to re-word them to provide greater clarity and to align them with international guidelines.

97. The principles contain broad concepts, leaving room for issuers to develop their own policies. Issuers are not required to "comply or explain" each of the individual principles, but should demonstrate in their ESG reports that due consideration has been given to the principles.

98. The new section that links the Guide to Appendix 16 is intended to clarify that the Guide calls for greater details including data in relation to the environmental and social performance of the company, whilst Appendix 16 requires a high level discussion in the business review section of the directors' report. Reporting on the Guide will therefore provide the issuers with substance and information to enable the directors to discuss these matters in the directors' reports. The disclosure under the Guide will complement rather than duplicate the information provided in a business review.

Consultation Questions

Question 4: Do you agree with our proposal to revise the introductory section of the Guide into four areas as discussed in paragraphs 94 and 95, and with the wording set out in Appendix II?

Question 5: Do you agree with the proposed wording of the Reporting Principles in the introductory section of the Guide as discussed in paragraphs 96 and 97, and with the wording set out in Appendix II?

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[72] For instance, "materiality" is explained in paragraphs 9 to 14, and "quantitative" is largely covered by paragraphs 19 to 22 of the current Guide. "Accuracy and balance" is impliedly covered by the requirement to provide accurate and complete corporate communications in Listing Rule 2.13, and the concept of "consistency" is present in paragraphs 15 and 16 of the current Guide.

Question 6: Do you agree with the proposed wording in the Guide linking it to Appendix 16 as discussed in paragraph 98, and with the wording set out in Appendix II?

B. Re-arranging the Guide

99. We propose to re-arrange the Guide into two Subject Areas: Subject Area **A. Environmental** and Subject Area **B. Social**. The current Subject Areas "Workplace Quality", "Operating Practices" and "Community Involvement" will, with some modifications, come under Subject Area B.

100. We propose to change the heading "Workplace Quality" to "Employment and Labour Standards".

101. The proposed changes are in line with leading international guidelines and the new CO. Adopting a more consistent approach and similar terminology to that used in international guidelines and the statute will help to reduce the burden on issuers that report on multiple guidelines, and the resulting reports should better meet the needs of globally diversified investors and other stakeholders.

Consultation Questions

Question 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 as discussed in paragraph 99?

Question 8: Do you agree with the proposal to change the heading "Workplace Quality" to "Employment and Labour Standards" as discussed in paragraphs 100 and 101?

C. Upgrading the General Disclosures

102. We propose to upgrade to "comply or explain" the General Disclosures for each Aspect of the ESG Guide.

103. Each General Disclosure asks issuers for their policies or information on their policies in respect of the Aspect to which it relates. Some of the General Disclosures (see paragraph (b) under Aspects A1, A2, A4, B1, C2 and C3 of the current Guide) also call for information on "compliance and material non-compliance with standards, rules and regulations…" relating to the relevant Aspect.

104. In order to align with the recent changes to the CO and related amendments to the Rules (see paragraphs 21 and 22), we propose to amend this wording to "compliance with relevant laws and regulations that have a significant impact on the issuer…". This matches the language of the relevant provisions of the new CO (incorporated under paragraph 28(2)(d) of Appendix 16 to the Rules) (see paragraph 21(b) and the proposed changes in Appendix II).

105. Requiring companies on a "comply or explain" basis to disclose their policies or information on their policies in respect of ESG issues, as well as their compliance records with relevant laws and regulations, should enhance transparency and raise the overall level of stakeholder communication. Disclosing this information (or explaining why they have not) is an essential first step for issuers to take in order to begin incorporating ESG practices into their business operations.

106. Further, setting out specific policies regarding each of the ESG Aspects will enable directors to write meaningful discussions in the business review section of their annual directors' reports, as required under Appendix 16 to the Rules.

107. We consider that upgrading the General Disclosures to "comply or explain" should not impose any undue burden or cost on issuers. Issuers should already have in place policies on certain ESG matters that are relevant to their operations. They should also know what laws and regulations have a significant impact on them. If any particular General Disclosure called upon by the Guide is not relevant to the issuer, it should explain this in the ESG report. The General Disclosures are narrative in nature. They do not require any collection or analysis of data. This narrative approach is adopted in several overseas jurisdictions as well (see discussions in Chapter 1 of the requirements in the EU and UK, and those of ASX, JSE and Bursa Malaysia).

Consultation Questions

Question 9: Do you agree with our proposal to upgrade the General Disclosures for each Aspect of the ESG Guide to "comply or explain"?

Question 10: Do you agree with the proposed amendments to 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, as discussed in paragraphs 103 to 104?

D. Upgrading the KPIs in Subject Area A. Environmental

108. We propose to move the current Subject Area B (Environmental Protection) to Subject Area A and revise the heading to "Environmental". We propose to upgrade to "comply or explain" the proposed new Subject Area A, including all of the KPIs. Proposed Subject Area A comprises three Aspects:

- Emissions (current Aspect B1, renumbered Aspect A1);
- Use of Resources (current Aspect B2, renumbered Aspect A2); and
- The Environment and Natural Resources (current Aspect B3, renumbered Aspect A3).

Aspect A1. Emissions

109. Proposed Aspect A1 contains recommendations for disclosure concerning emissions and wastes. This is because waste production and disposal are linked to the production of emissions. We propose to upgrade to "comply or explain" all KPIs under this Aspect.

110. The "Proposed new Guide compared with the current Guide" in Appendix II sets out the proposed changes.

Why upgrade the disclosure obligations on emissions?

111. Cutting emissions is becoming a matter of increasing urgency globally as well as in Hong Kong. Mainland issuers represent approximately 59% of the Exchange's total market capitalisation and 68% of its equity turnover.[73] Data shows that Mainland China was the largest carbon emitter in 2013, accounting for 28% of the global total.[74] According to this data, the Mainland is on track to exceed the US, EU and India combined in emissions by 2019. Further, the Mainland surpassed the EU for the first time in emissions per head of population, which are now 45% above the global average.

112. The Hong Kong Government is taking steps to improve Hong Kong's environmental performance by encouraging listed companies to disclose their carbon footprint (see paragraph 19).

113. Those Mainland companies listed on the Exchange are already required by Mainland law and/or stock exchange regulations to disclose information on their emissions and/or a wider scope of environmental and social information.[75] We believe that the close nexus between Hong Kong and the Mainland and the large proportion of Mainland issuers listed on the Exchange is an important factor to bear in mind as we consider raising the level of obligation of these KPIs.

114. Further, as noted above (see discussions under "International Practice" in Chapter 1), many countries now have legislation that requires companies meeting certain criteria to disclose key environmental information, particularly greenhouse gas emissions. Mainland China, the UK, Australia, the US and Singapore all have such legislation in place.

Scope classifications of emissions

115. For the sake of clarity and comparability, we would encourage issuers to employ international accounting tools for reporting on greenhouse gas emissions.[76] We set out below a summary of how greenhouse gas emissions are commonly scoped:[77]

"Scope 1" covers direct emissions from operations that are owned or controlled by the company;

[73] HKEx data as at end of September 2014.
[74] Carbon Budget 2014 may be downloaded from the Global Carbon Budget website at: http://www.globalcarbonproject.org/carbonbudget/.
[75] For example, companies face disclosure obligations under the Environmental Protection Law, SSE and SZSE requirements, and the SASAC guidelines. Also see footnotes 7, 17 and 19 above.
[76] This is the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard developed by the World Resources Institute and World Business Council for Sustainable Development.
[77] Also see EPD's website on "How to report" on GHG emissions, accessible at: http://www.carbon-footprint.hk/node/94.

"Scope 2" covers "energy indirect" emissions resulting from the generation of purchased or acquired electricity, heating, cooling and steam consumed within the company; and

"Scope 3" covers all other indirect emissions that occur outside the company, including both upstream and downstream emissions. It captures emissions from a wide range of activities (e.g. employee business travel, transporting fuel and the use of a company's products).

116. We propose to introduce a Frequently Asked Question[78] to explain the scopes and encourage issuers to report in accordance with the scope classifications.

Why upgrade the disclosure obligations on wastes?

117. Research shows that in developed countries, the waste sector contributes as much as 8% to total greenhouse gas emissions.[79]

118. International standards of ESG reporting (including reporting guidelines issued by Mainland bodies) call for disclosures relating to waste production and disposal.[80]

Whether to upgrade the disclosure obligations on hazardous wastes?

119. During preliminary discussions with stakeholders, we received diverse views on this issue. Supporters of an upgrade of the current KPIs B1.3 and B1.6 (relating to total hazardous waste produced and how it is handled) from recommended disclosures to "comply or explain" provisions argued that (i) hazardous waste is a major risk factor for companies where this is relevant; and (ii) the upgrade should not impose an undue burden on most issuers, as most do not produce such waste. Opponents to the upgrade contended that it is difficult for companies to identify and separate hazardous waste from non-hazardous waste. Given these diverse views, we propose to seek market views on this issue.

Consultation Questions

Question 11: Do you agree with our proposal to revise Aspect A1 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, as discussed in paragraphs 109 to 114, and 117 to 118?

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78 Frequently Asked Questions are available on the HKEx website at: http://www.hkex.com.hk/eng/rulesreg/listrules/listrulesfaq/faq.htm.

79 See "*Climate Change and Waste – Gas emissions from waste disposal*" on the website of GRID-Arendal, A Centre Collaborating with the United Nations Environment Programme, at: http://www.grida.no/publications/vg/waste/page/2871.aspx.

80 GRI G4 Guidelines, G4EN23 and G4EN25; ISO 26000, clause 6.5.3; KPIs for ESG 3.0 published by DVFA Society of Investment Professionals in Germany and EFFAS European Federation of Financial Analysts Societies, E04-01 to E06-01. Article 19(6) of the "*Measures on Open Environmental Information (for Trial Implementation)*" promulgated by the Ministry of Environmental Protection and effective from 1 May 2008. Disclosure of information on waste production and disposal has also been incorporated under Article 3(6) of the SSE "*Guidelines on Listed Companies' Environmental Information Disclosure*".

Question 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, as discussed in paragraph 119?

Aspect A2. Use of Resources

120. We propose to upgrade to "comply or explain" the KPIs under "Use of Resources" (current Aspect B2, re-numbered Aspect A2). The "Proposed new Guide compared with the current Guide" in Appendix II summarises the proposed changes.

Why upgrade the disclosure obligations on use of resources?

121. The depletion of resources, including energy, water and other raw materials, is a growing concern closely linked to the effects of climate change. This issue also affects the long term sustainability of many businesses. The disclosure recommendations in this section of the Guide are in line with international guidelines. Moreover, in the Mainland, some listed companies are required under guidelines for environmental disclosure issued by the SSE to disclose their total annual resource consumption.[81]

122. Energy is another core focus of environmental legislation around the world. For example, Australia and Singapore require disclosure of energy production, consumption, management and conservation strategies under their respective environmental laws.

Consultation Question

Question 13: Do you agree with our proposal to upgrade to "comply or explain" the KPIs under the current Aspect B2, re-numbered Aspect A2 as discussed in paragraphs 120 to 122?

Aspect A3. The Environment and Natural Resources

123. This Aspect comprises only one KPI, which asks for a description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them (current KPI B3.1, re-numbered KPI A3.1). We consider it appropriate to upgrade this KPI to "comply or explain" for the reasons discussed below.

124. The aim of this KPI is to prompt companies to consider how their performance in respect of emissions, waste production and disposal, and use of resources impacts the environment and how to minimise these impacts and communicate this information to stakeholders.

125. The disclosure required by this KPI is largely complementary to that of the KPIs under the re-numbered Aspects A1 and A2. It calls for a narrative statement to give meaning to the quantitative disclosures under the other KPIs in this Subject Area.

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[81] Article 19(2) of the Ministry of Environmental Protection's "Measures on Open Environmental Information (for Trial Implementation)" (incorporated in Article 3(2) of the SSE "*Guidelines on Listed Companies' Environmental Information Disclosure*").

Consultation Question

Question 14: Do you agree with our proposal to upgrade to "comply or explain" the current KPI B3.1, re-numbered KPI A3.1, as discussed in paragraphs 123 to 125?

E. Gender Disclosure

126. We propose to amend the wording of the existing ESG Guide to incorporate gender disclosure in proposed Subject Area B, under the sub-heading "Employment and Labour Standards". These proposed amendments relate only to the voluntary provisions (i.e. the recommended disclosures) of the Guide that we are not proposing to upgrade to "comply or explain".

127. Please refer to Appendix II for the revised wording.

Why recommend gender disclosure?

128. Gender is broadly accepted as a core aspect of demographics and its absence from the Guide has been highlighted by stakeholders, who consider it a key indicator of diversity.[82] Gender diversity is an important factor to consider in order to understand a company's composition and may provide insight into a company's hiring philosophy. Its inclusion in the Guide is also consistent with most international ESG reporting standards (e.g. GRI, DJSI).

129. The importance of gender disclosure is reflected in other jurisdictions' requirements for ESG disclosure as well. For example, in the UK, quoted companies must disclose in their annual strategic reports a gender breakdown showing at the end of the financial year the number of persons of each sex who were directors, senior managers and employees. In Australia, companies are required both by law (if they have more than 100 employees) and at the exchange level to disclose gender diversity information in respect of the whole organisation. Disclosure of information on board diversity (including gender diversity) policies is also required under the EU's Directive on disclosure of non-financial and diversity information. Canada has implemented new disclosure rules, effective on 31 December 2014, regarding the representation of women on corporate boards and in senior management.

130. Including gender disclosure in the ESG Guide is also in line with our CG Code, which provides that issuers should have a policy concerning diversity of board members and disclose that policy in their corporate governance reports.[83] Though "diversity" is not defined as such, the CG Code states that it can be achieved through consideration of a number of factors, including, but not limited to, gender, age, cultural and educational background, or professional experience.

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82 See paragraph 48 of the "*Consultation Conclusions on Environmental, Social and Governance Reporting Guide*" at: http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201112cc.pdf.

83 Main Board Appendix 14 and GEM Appendix 15, Code Provision A.5.6.

131. The CG Code addresses diversity only at the board level, however. We consider that it is appropriate to include gender disclosure in the ESG Guide, as it will give companies the opportunity to provide a fuller picture of the diversity within their entire work force.

132. Further, statistics show that only 11% of directors in Hong Kong are female.[84] Disclosing gender data at every level of employment may have the added benefit of helping to create a pipeline for women to move up the corporate ladder to more senior positions.

Consultation Question

Question 15: Do you agree with our proposal to incorporate gender disclosure in Subject Area B under the sub-heading "Employment and Labour Standards"?

[84] HKEx data.

APPENDIX I: DRAFT AMENDMENTS TO LISTING RULES

Chapter 13

EQUITY SECURITIES

CONTINUING OBLIGATIONS

…

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 disclose ESG ~~are encouraged to include~~ information set out in the ESG Reporting Guide ~~Appendix 27~~ on an annual basis and regarding the same period covered in ~~the~~ their annual reports~~, or as a separate report~~.

Note: ~~*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*.

…

Appendix 16

DISCLOSURE OF FINANCIAL INFORMATION

…

Information in annual reports

6. …

6.1 …

…

6.4 Issuers must, in accordance with Rule 13.91, disclose the ESG information set out in Appendix 27.

…

Recommended additional disclosure

…

~~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.*~~

APPENDIX II: PROPOSED NEW GUIDE COMPARED WITH THE CURRENT GUIDE

Proposed New Guide	Current Guide
The Guide	**Introduction**
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.	
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. Whichever format is 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.
Overall Approach	
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 Appendix 14 of	7. There are four ESG subject areas: Workplace Quality, Environmental Protection, Operating Practices and

Proposed New Guide	Current Guide
the Main Board Listing Rules.	Community Involvement. Corporate Governance is not included as it is dealt with separately in Appendix 14 of the Main Board Listing Rules.
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.	1. This guide sets out Environmental, Social and Governance (“ESG”) subject areas, aspects, general disclosure and key performance indicators (“KPIs”). 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.
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.	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. 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 meetings (e.g. personal or annual general meetings), conferences, workshops, advisory committees, round-table discussions, focus groups,

Proposed New Guide	Current Guide
	questionnaires, web-based forums and written consultations. 14. The ESG report may also disclose a mechanism for stakeholders to provide feedback.
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.	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. 3. An issuer may adopt a higher level of ESG reporting based on international guidance and standards. 6. Issuers may consider offering assurance on the ESG report.
ESG strategy and reporting	
8. The board has overall responsibility for an issuer's ESG strategy and reporting.	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 committee that reports to the board.
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.	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

Proposed New Guide	Current Guide
	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.
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.	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. 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.
Reporting Principles	
11. The following Reporting Principles underpin the preparation of an ESG report, informing the content of the report and how information is presented: **(1)** **Materiality** is the threshold at which ESG issues become sufficiently important to investors and other stakeholders that they should be reported. **(2)** **Quantitative:** 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. **(3)** **Balance:** The ESG report should provide an unbiased picture of the issuer's performance.	**On "Materiality"** 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. 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

Proposed New Guide	Current Guide
The report should avoid selections, omissions, or presentation formats that may inappropriately influence a decision or judgment by the report reader. **(4)** **Consistency:** 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.	the report. 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. *Also see paragraph 12 above.* **On "Quantitative"** 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. 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. 21. An issuer may report line items with objective and representative industry benchmarks. 22. Quantitative information could be presented in a table

Proposed New Guide	Current Guide
	format. **On "Consistency"** 16. Once an issuer starts reporting, it is encouraged to continue to do so regularly. The aspects and KPIs 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. *Also see paragraph 15 above.*
Complementing ESG discussions in the Business Review Section of the Directors' Report	
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: (i) a discussion of the issuer's environmental policies and performance; (ii) a discussion of the issuer's compliance with the relevant laws and regulations that have a significant impact on the issuer; and (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. 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.	

<table>
<tr><th colspan="4">Proposed New Guide</th><th colspan="2">Current Guide</th></tr>
<tr><td></td><td colspan="2">“Comply or explain”</td><td>Recommended Disclosures</td><td colspan="2">All Recommended Disclosures</td></tr>
<tr><td colspan="4">A. Environmental</td><td colspan="2">B. Environmental protection</td></tr>
<tr><td rowspan="3">Aspect A1 :
Emissions</td><td colspan="2">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 air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.
Note: Air emissions include NO_x, SO_x, and other pollutants regulated under national laws and regulations.
Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.
Hazardous wastes are those defined by national regulations.</td><td rowspan="3"></td><td>Aspect B1
General disclosure</td><td>Emissions
Information on:
(a) the policies; and
(b) compliance and material non-compliance with relevant standards, rules and regulations
on air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.
Air emissions include NO_x, SO_x, and other pollutants regulated under national laws and regulations.
Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.
Hazardous wastes are those defined by national regulations.</td></tr>
<tr><td>KPI A1.1:</td><td>The types of emissions and respective emissions data.</td><td>KPI B1.1</td><td>[Same wording adopted in proposed KPI A1.1]</td></tr>
<tr><td>KPI A1.2:</td><td>Greenhouse gas emissions in total (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).</td><td>KPI B1.2</td><td>[Same wording adopted in proposed KPI A1.2]</td></tr>
</table>

Proposed New Guide				Current Guide	
	"Comply or explain"		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 A.1.5	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].
Aspect A2: **Use of Resources**	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. *Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.*			**Aspect B2** General Disclosure	**Use of resources** Policies on efficient use of resources including energy, water and other raw materials. Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.

Proposed New Guide				Current Guide	
	"Comply or explain"		Recommended Disclosures	All Recommended Disclosures	
	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 facility).		KPI B2.1	[Same wording adopted in proposed KPI A2.1]
	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 B.2.3	[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 B.2.4	[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]
Aspect A3: The Environment and Natural Resources	General Disclosure : Policies on minimising the issuer's significant impact on the environment and natural resources.			**Aspect B3** General Disclosure	**The environment and natural resources** Policies on minimising the operation's significant impact on the environment and natural resources.

Proposed New Guide					Current Guide	
	"Comply or explain"		**Recommended Disclosures**		**All Recommended Disclosures**	
	KPI A3.1:	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.			KPI B3.1	[Same wording adopted in proposed KPI A3.1]
B. Social						
Employment and Labour Standards					*A. Workplace quality*	
Aspect B1: Employment	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 compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.				**Aspect A1** General disclosure	**Working conditions** Information on: (a) the policies; and (b) compliance and material non-compliance with relevant standards, rules and regulations on compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity and other benefits and welfare.
			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.
Aspect B2: Health and Safety	General Disclosure Information on: (a) the policies; and				**Aspect A2** General disclosure	**Health and safety** Information on: (a) the policies; and

Proposed New Guide				Current Guide	
	"Comply or explain"	**Recommended Disclosures**		**All Recommended Disclosures**	
	(b) compliance with relevant laws and regulations that have a significant impact on the issuer. relating to providing a safe working environment and protecting employees from occupational hazards.				(b) compliance and material non-compliance with relevant standards, rules and regulations on providing a safe working environment and protecting employees from occupational hazards
		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 A.2.3	[Same wording adopted in proposed KPI B2.3]
Aspect B3: Development and Training	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. *Note: Training refers to vocational training. It may include internal and external courses paid by the employer.*			**Aspect A3** General disclosure	**Development and training** 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.

Proposed New Guide				Current Guide	
	“Comply or explain”	**Recommended Disclosures**		**All Recommended Disclosures**	
Aspect B4: Labour Standards	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.			**Aspect A4** General disclosure	**Labour standards** 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]
Operating Practices				*C. Operating practices*	
Aspect B5: Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.			**Aspect C1** General disclosure	**Supply chain management** 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]
Aspect B6: Product	General Disclosure Information on:			**Aspect C2** General	**Product responsibility** Information on:

Proposed New Guide				Current Guide	
	"Comply or explain"	**Recommended Disclosures**		**All Recommended Disclosures**	
Responsibility	(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.			disclosure	(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]

<table>
<tr><th colspan="4">Proposed New Guide</th><th colspan="2">Current Guide</th></tr>
<tr><td></td><td>“Comply or explain”</td><td colspan="2">Recommended Disclosures</td><td colspan="2">All Recommended Disclosures</td></tr>
<tr><td rowspan="3">Aspect B7:
Anti-corruption</td><td rowspan="3">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.</td><td></td><td></td><td>Aspect C3
General disclosure</td><td>Anti-corruption
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.</td></tr>
<tr><td>KPI B7.1:</td><td>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.</td><td>KPI C3.1</td><td>[Same wording adopted in proposed KPI B7.1]</td></tr>
<tr><td>KPI B7.2:</td><td>Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.</td><td>KPI C3.2</td><td>[Same wording adopted in proposed KPI B7.2]</td></tr>
<tr><td colspan="4">Community</td><td colspan="2">D. Community involvement</td></tr>
<tr><td rowspan="2">Aspect B8:
Community Investment</td><td rowspan="2">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.</td><td></td><td></td><td>Aspect D1
General disclosure</td><td>Community investment
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.</td></tr>
<tr><td>KPI B8.1:</td><td>Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).</td><td>KPI D1.1</td><td>[Same wording adopted in proposed KPI B8.1]</td></tr>
</table>

Proposed New Guide				Current Guide	
	"Comply or explain"	**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]

APPENDIX III: BLOOMBERG STATISTICS ON ISSUERS' ESG REPORTING

Key Findings

In April 2015, Bloomberg conducted a study of a group of randomly selected 330 issuers ("**Sample Issuers**"), representing approximately 20% of the issuer population as at 30 June 2014, regarding their 2013 ESG reporting[1]. Key findings include:

Overall reporting level

Almost half of the Sample Issuers had reported on ESG.

46.4%

Reported on ESG

Breakdown by market capitalisation ("market cap")

Amongst the Sample Issuers, those with very large market cap performed best. Approximately 80% of the very large market cap issuers in the sample had reported on ESG.

Market Capitalisation	Total number of issuers	Number of Sample Issuers	% of reporting issuers
Very Large Cap (> HKD10,000 million)	281	69	80%
Large Cap (> HKD5,000 million and ≤ HKD10,000 million)	191	38	50%
Mid Cap (> HKD1,000 million and ≤ HKD5,000 million)	491	105	34%
Small Cap (≤ HKD1,000 million)	695	118	36%
Total	1,658	330	46.4%

[1] For the purposes of the study, "ESG" was used interchangeably with the terms "sustainability" and "corporate social responsibility". The study covers public information provided by the Sample Issuers up to 31 March 2015.

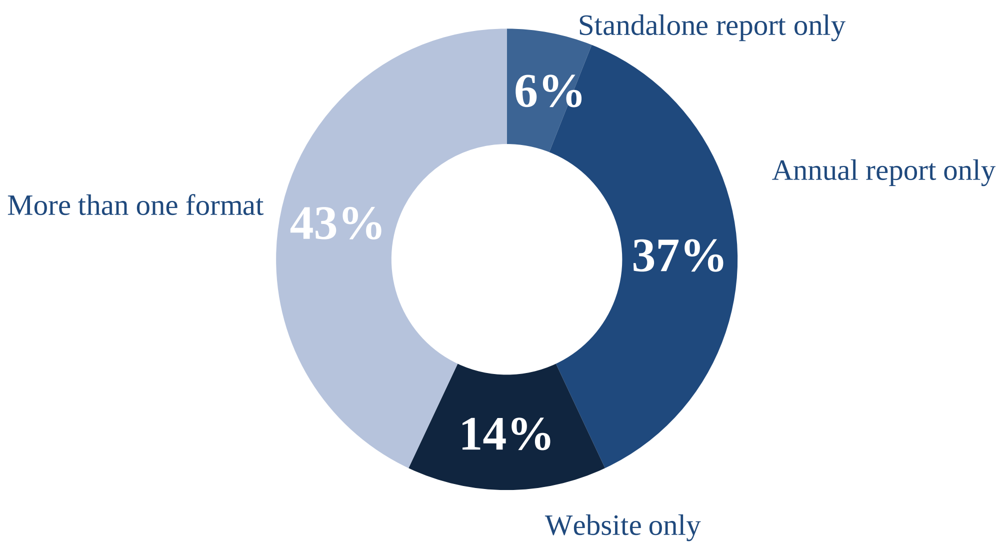
Breakdown by company type

The H-share issuers in the sample had the highest percentage of ESG reporting whilst the Hong Kong issuers had the lowest.

Classification	Number of Sample Issuers	% of reporting issuers
Hong Kong [2]	142	38%
H-shares [3]	42	83%
Red Chips [4]	20	40%
Mainland Private Enterprises [5]	103	43%
Others	23	52%
Total	330	46.4%

Where ESG information is found

The Sample Issuers reported on ESG in various formats. ESG disclosure in annual reports was more prevalent than in standalone reports or on official websites.



[2] Hong Kong issuers are established in Hong Kong and/or have headquarters in Hong Kong.

[3] H-shares are incorporated in the Mainland and controlled by either Mainland government entities or individuals.

[4] Red-chips are incorporated outside the Mainland and controlled by Mainland government entities.

[5] Mainland Private Enterprises are incorporated outside the Mainland and controlled by Mainland individuals.

APPENDIX IV: PRIVACY POLICY STATEMENT

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:
pdpo@hkex.com.hk