

3 April 2012

Mr Mark Dickens, JP  
Executive Vice President  
Head of Listing Division  
Hong Kong Exchanges and Clearing Limited  
11/F, One International Finance Centre  
1 Harbour View Street, Central  
Hong Kong

Dear Mr Dickens,

**Re: Consultation on Environmental, Social and Governance Reporting Guide**

The Hong Kong General Chamber of Commerce would like to present our views in response to the consultation document of the Hong Kong Exchanges and Clearing Limited (“HKEx”) on the proposed Environmental, Social and Governance Reporting Guide (“ESG Guide”).

It is generally believed that Hong Kong, being one of the world’s major financial centres, could benefit from improved sustainability reporting and performance in its listed companies. We welcome the HKEx’s efforts to encourage issuers listed in Hong Kong to standardize and improve disclosure of ESG factors in line with international market practices, and support the adoption of the ESG Guide on a voluntary basis. While adopting the internationally accepted practice as the framework, the HKEx should adapt the ESG Guide to conform to local market circumstances, in particular with respect to provisions for small cap companies.

We appreciate that the HKEx had conducted a series of engagement exercises and encourage a continual engagement approach to boost the capacity of listed issuers to understand and adopt the ESG Guide. Our views and recommendations are further elaborated in the attached paper, and we hope that they would be useful to the HKEx in the drive towards sustainability reporting for Hong Kong.

Yours sincerely,

Shirley Yuen  
CEO

Att.

## **Consultation on Environmental, Social and Governance Reporting Guide**

The Hong Kong General Chamber of Commerce would like to present our views in response to the consultation document of the Hong Kong Exchanges and Clearing Limited (“HKEx”) on the proposed Environmental, Social and Governance Reporting Guide (“ESG Guide”) in the following manner:

### **Right Step to Move Forward**

1. We welcome the HKEx’s efforts to encourage issuers listed in Hong Kong to standardise and improve disclosure of ESG factors in line with international market practices. A more structured disclosure framework will enable companies to identify opportunities for improvement in these areas, which may enhance issuers’ governance and improve their general management. However, opinions on whether the ESG Guide should go beyond this objective of more standardised disclosure, and seek to improve performance in the area of ESG, through the use of KPIs, are divided. Some members have no problem in general with the concept of KPIs, subject to clarification of certain points such as those set out in the last section of this paper. Some other members, on the other hand, opine that the concept of “performance” in the field of ESG cannot be quantified and measured objectively. What may be good performance to one issuer may not be good enough, or even too much, in the eyes of another.
2. Hong Kong, being one of the world’s major financial centres, should at least benefit from improved sustainability reporting in its listed companies. The Hang Seng Corporate Sustainability Index is a first step to establish best practice benchmarks, and the ESG Guide would provide a good complement to raise the disclosure bar across the board. The establishment of best practice guidelines for ESG reporting should support Hong Kong’s global positioning.

### **Content of Environmental, Social and Governance Reporting Guide**

3. We support that the ESG Guide be adopted on a voluntary basis initially. Such implementation should be supported by a concerted programme of education and training particularly for listed SMEs to build their capacity to report in consonance with the ESG Guide. Nevertheless, while some members encourage the HKEx to lay out a roadmap for eventual implementation through a code provision at a future targeted date, some other members worry that the ESG Guide may later become legally binding rules adding an extra layer of requirements for issuers. Accordingly, a cost-benefit analysis may be warranted to determine if there is any value added for the subsequent implementation of the ESG Guide.
4. With regard to the content of the ESG Guide, we note that both ISO26000 and the Global Reporting Initiative (“GRI”) as well as other ESG reporting mechanisms have been developed through rigorous multi-stakeholder processes, with relevance across markets. Therefore, where possible, the ESG Guide should build on the knowledge and standards of such guidelines, thereby not only saving issuers administrative burdens of reporting along multiple guidelines but also aligning Hong Kong with internationally recognised platforms.

5. While adopting the internationally accepted practice as the framework, the HKEx should adapt it to local market circumstances, in particular with respect to provisions for small cap companies. In fact, it may take advantage of GRI's classification of certain indicators as its "core indicators" as well as the GRI progression for comprehensiveness of the report (C thru A).
6. With regard to verification and assurance of the ESG report, some members see benefits to recommend issuers seeking external assurance on their ESG performance data, where feasible, in order to enhance the confidence of this non-financial data to stakeholders. They consider this should help reinforce the need for companies to begin developing systems, processes and controls to manage the new data stream, and provide accurate and complete information to stakeholders. On the other hand, some other members consider third party assurance as not necessary. In their view, issuers should base on their own business needs to conduct all sorts of Corporate Social Responsibility or emission audits, and any mandatory audit requirement may only add financial burden to issuers.

### **Continual Engagement Process**

7. We appreciate that the HKEx had conducted a series of seminars and workshops to raise awareness and help equip issuers with tools for reporting. An issuer needs to put systems in place in order to collect relevant data and it takes time before the issuer can meaningfully report on some Key Performance Indicators ("KPIs"). Therefore, we encourage the HKEx to adopt a continual engagement approach to boost the capacity of listed issuers to understand and adopt the ESG Guide and in doing so, benefit from enhancement to their performance.
8. There will be questions as to how the various KPIs are interpreted and reported, since the ESG Guide is itself not totally clear on the scope of the KPIs. Standardisation of definitions facilitates comparability of data, and so it is not generally preferable for each company to interpret the KPIs individually as is recommended in some of the ESG Guide KPIs. We encourage the HKEx to consider aligning its KPIs with those set out by GRI, as the KPIs under GRI are supported by standard definitions accepted internationally. This would avoid a lot of confusion and administrative burdens for reporting entities.
9. A number of large companies in Hong Kong have already adopted the aforementioned international reporting mechanisms. The HKEx should build on these best practices to guide other issuers to follow.

### **Key Performance Indicators**

10. With regard to the ESG Guide itself, we would like to seek clarifications on the following proposed KPIs:  
  
KPI A1.1: We question whether it is appropriate to report the information on total workforce by "age group". We suggest to adopt a similar standard as in GRI, i.e. LA1: "total workforce by employment type, employment contract and region, broken down by gender."

Aspect B1: What is the definition of “national regulations” on disclosing information of hazardous waste? In fact, elsewhere in the ESG Guide, there is no consistent mention of “national regulations” and in some cases “national” is used whereas in other cases “relevant” is used.

KPI B2.5: What is the definition of “total packaging material”? It is not clear as to what it specifically refers to.

KPI C1.1: The “number of suppliers by geographical region” may not truly reflect the total quantity of procurement from a particular region for a listed company.

Aspect C1: Should “supply chain management” be replaced by “code of procurement” to better reflect what is being reported?

Aspect C2: “Product responsibility” should also cover services to take into account the fact that some companies are producing services and some are producing physical products, but both should be adhering to the same standards of responsibility. Note that this is also the reference used by GRI as well as ISO26000.

Aspect D1: Policies and activities on community involvement are not limited solely to “investment” but could mean various forms of outreach and community development activities.