

Summary of SEHK Consultation Conclusions on ESG Reporting and updated FAQ

I. Summary of changes to Listing Rules

(1) Listing Rule 13.91

- (a) Issuers to disclose in annual reports or ESG reports whether complied with the “comply or explain” provisions in the ESG Guide. It must give considered reasons if not complied.
- (b) Issuers to report on ESG annually; regarding the same period covered in its annual report. ESG report may be presented as information in annual report, in a separate report, or on the issuer’s website. It should publish the ESG report as close as possible to, and no later than three months after, the annual report.

See FAQ series 18 :

- Q3 — gave examples of how the timing works for different financial year-end.

(2) Revised ESG Guide (Appendix 27 of Listing Rules)

Overall approach

(Note: (a) to (c) below are not subject to “comply or explain”)

- (a) (Paragraph 6) in addition to the “comply or explain” matters, SEHK encourages issuers to identify and disclose additional ESG matters (including recommended disclosures) that reflect their significant environmental and social impact; or substantially influence the assessments and decisions of stakeholders. In assessing these matters, issuers should engage stakeholders.
- (b) (Paragraph 7) issuers may adopt international reporting guidance so long as it includes comparable disclosure provisions to the “comply or explain” provisions in the ESG Guide.

See FAQ series 18 :

- Qs 2 — adopting international reporting standards that contain comparable provisions to the ESG Guide should be sufficient compliance with the Guide without the need for further explanation. However, issuers should make clear which “comply or explain” provisions and recommended disclosures in the Guide they are reporting on
- Q6 — it lists corresponding provisions of some international ESG guidelines

- (c) (Paragraph 7) issuers may consider obtaining third party assurance on its ESG report.

ESG strategy and reporting

- (d) the board's roles:
- (Paragraph 8 of ESG Guide) has overall responsibility for an issuer's ESG strategy and reporting
 - (Paragraph 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
 - (Paragraph 10) management should provide a confirmation to the board on the effectiveness of these systems
- (e) (Paragraph 10) The ESG report should state the issuer's ESG management approach, strategy, priorities and objectives and explain how they relate to its business
- (f) (Paragraph 10) It would be useful to discuss the issuer's management, measurement and monitoring system employed to implement its ESG strategy
- (g) (Paragraph 10) the report should also state which entities in the issuer's group and/or which operations have been included in the report

See FAQ series 18 :

- Q4 — The Guide does not prescribe which entities in an issuer's group /or which operations should be included in the ESG report. Issuers should decide on the operational boundaries of its ESG Report in view of its individual circumstances

ESG reporting principles

- (h) (Paragraph 11) Four ESG reporting principles:
- Materiality
 - Quantitative
 - Balance
 - Consistency
- (i) (Paragraph 12) The ESG report complements ESG discussions in the "business review" section of the directors' report under the new Companies Ordinance (which will apply to all listed issuers regardless of their place of incorporation, pursuant to revised paragraph 28 of Appendix 16 of the Listing Rule)

See FAQ series 18

(item 9 on p.33) — a mere cross referencing to ESG report does not satisfy an issuer's "business review" requirements under Appendix 16 paragraph 28(2)(d). The Appendix 16 requirements are "separate and distinct" from the information required under the ESG Guide. The former requires discussions of "certain ESG matters "set

out in Schedule 5 of the new Companies Ordinance, whereas the ESG Guide calls for “greater details including data in relation to the environmental and social performance” of the issuer.

To upgrade “General Disclosures” and some KPIs to “comply or explain”:
(see p. 37-52 of the Consultation Conclusions for details on “General Disclosures” and KPIs)

- (j) “General Disclosures” for each “Aspect” of the Guide
- (k) KPIs in (Subject Area A) “Environmental”
 - “emissions” (Aspect A.1 — 6 KPIs)
 - “use of resources” (Aspect A.2 — 5 KPIs)
 - “the environment and natural resources” (Aspect A.3 — 1 KPI)

II. Timing in implementation

- (1) Rule amendments and the upgrade of the general disclosures in the Guide from “comply or explain” will be effective for financial years commencing on or after 1 January 2016. So, for issuers with a financial year commencing 1 January, these amendments will first affect their financial year ending on 31 December 2016.
- (2) Upgrade of KPIs in the “Environment” Subject Area will be effective for financial years commencing on or after 1 January 2017. So, for issuers with a financial year commencing 1 January, these amendments will affect their financial year commencing 1 January 2017.