New Hong Kong ESG Reporting Guide – Highlights

Prepared by ACGA, January 8, 2016

Key features of the revised Guide include:

1. The Guide has two parts: a set of “comply or explain” provisions and a number of “recommended disclosures”. The Listing Rules will be amended to require listed companies to disclose whether or not they have complied with the “comply or explain" provisions. They will be encouraged to report on the recommended disclosures. (Previously, the Guide was entirely voluntary.)
2. The Guide has been rearranged into two subject areas: Environmental and Social. Each subject area sets out "general disclosure" points and key performance indicators. The general disclosure points under both subject areas will be upgraded to comply or explain. After one year, the Environmental KPIs will also be upgraded to comply or explain for financial years beginning on or after January 1, 2017. (Note: The Exchange will return to the question of upgrading the Social KPIs at a later date. Meanwhile, there is no Governance section in the Guide, as this is covered separately under the Exchange’s Corporate Governance Code.)
3. An ESG report does not need to be part of an annual report. It can be published as a separate report or on a company’s website, but it must cover the same period as the annual report. Companies will have up to three months after the publication of the annual report to release their ESG Report (i.e., a total of seven months from financial year end).
4. The board of directors has overall responsibility for a company’s ESG strategy and reporting. This is not intended to a functional or passive process. The board must take leadership in this area and, among other things, evaluate the materiality of ESG risks, ensure proper control systems are in place to mitigate and manage these risks, and understand how ESG strategy and priorities relate to the firm’s business.
5. The recommended disclosure section of the Guide has been reworded to include gender diversity.

In terms of the type of information to be included in an ESG Report, companies are required to follow four principles: **materiality** (information that is “important" to shareholders and stakeholders); **quantitative** (KPIs need to be measurable); **balance** (reporting should be unbiased); and **consistency** (data should be comparable over time).

In terms of what did not get into the revised Guide:

- A “roadmap” for the next stage of ESG reporting (i.e., on Social KPIs and other areas of ESG risk): This was something ACGA had recommended in our submission to the Exchange, but it has decided to give the market time to absorb the new version of the Guide before raising standards further.

- Our recommendation that ESG reports be published at the same time as annual reports (i.e., within four months of year end): While the Exchange understands the merits of this proposal, it has chosen to stick with its original seven-month

timeframe as a "fair balance between opposing views". Some respondents felt that smaller companies might need more than seven months to report.

- Requiring ESG reports to be audited: The Exchange felt this a step too far and an unnecessary cost at this stage, but may reconsider it in future along with the principle of “reliability” of information generally.

Overall, we are impressed with the improvements made to the Guide and believe they form the basis for more substantive reporting on ESG risks by Hong Kong-listed companies.

Finally, one positive feature of the consultation process was the stronger-than-usual participation of market practitioners, especially pension funds and investment managers, as well as professional bodies, listed companies and others. The list of respondents includes many ACGA members.