CPA
Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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By email to : response@hkex.com.hk

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

Dear Sirs,

Consultation Paper on Environmental, Social and Governance (ESG) Reporting Guide

The Institute welcomes the HKEx initiative on developing ESG reporting guidelines. This recognizes the increasing importance of ESG issues to company valuations and of the development and implementation of areas of corporate reporting on these issues that is occurring globally. The Institute is pleased to have the opportunity to comment on the HKEx proposals.

Hong Kong will benefit from the introduction of a consistent approach to ESG reporting which is practical for low-cap companies. The HKEx proposals provide a welcome starting point. There are, however, a few areas that the Institute believes need to be further considered in formulating final guidance.

- The guide is mainly a list of Key Performance Indicators (KPI). There is risk that this will lead to a 'tick box' response where companies provide data without making it clear what their key ESG issues are.

- In preparing its ESG guide HKEx has taken items from different international standards. It notes that companies may adopt a 'higher standard' instead of the guide and mentions the Global Reporting Initiative (GRI), the UN Global Compact, ISO 26000 Guidance on Social Responsibility, OECD Guidelines for Multinational Enterprises and the Carbon Disclosure Project. This mixture of standards adds complexity and inconsistency. The Institute would encourage HKEx to make its ESG guide a subset of GRI's framework for two reasons. Firstly it is the only one of the 'international standards' quoted by HKEx which provides a comprehensive set of KPI definitions. Secondly, GRI has become the 'de facto' global standard for ESG reporting with many more companies following it than any other system.

  If the HKEx's reporting guideline is a subset of GRI then it is easier for companies using it to graduate to reporting to a GRI Application Level and thus gain greater credibility for their reporting.

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- HKEx leaves it for companies to define each KPI rather than providing supporting information. This makes the ESG guide more difficult to implement than adopting a subset of GRI where such guidance is provided. This re-inventing of the wheel is also likely to result in inconsistent reporting from one company to the next.

- HKEx should apply its successful approach to internal control and risk management to ESG reporting. Namely, it should ask for statements in Annual Reports that: 'the Board considers the Company's most significant ESG issues to be [ ]'. The statement should explain the process the Board followed to arrive at this conclusion and discuss the action that is being taken on the issues. This simple requirement will lead many Boards to ensure the management of their company has appropriate procedures for identifying and managing ESG issues.

- HKEx does not recommend companies to seek independent assurance on the ESG information they report given the cost of such assurance and the absence of other Stock Exchanges encouraging assurance. ESG information is, however, becoming increasingly important to company valuations and assurance improves its quality so it is difficult to see why independent assurance should not be a best practice.

Specific answers to the questions set out by the HKEx are attached and should be read in the overall context of the comments set out above. In respect of the questions on individual KPIs we have not provided answers as we believe the adoption of KPIs should be driven by the factors set out in our overall comments above.

If you require any clarification on the above comments, please do not hesitate to contact me at chris@hkicpa.org.hk.

Yours faithfully,

Chris Joy

Chris Joy
Executive Director

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