

**Standard Setting Department
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong**

22nd April 2014

Dear Sir/ Madam,

RE: Comment on Exposure Draft of Accounting Bulletin 5 Guidance for the Preparation of a Business Review under the Hong Kong Companies Ordinance ("CO") Cap. 622

SusDev Global is a Hong Kong based service provider helping organisations to produce stakeholder-friendly sustainability/ CSR/ ESG reports. Our team comprises of experienced professionals who have a complementary range and depth of experience in reporting, sustainability, academia, government and business, primarily in the Asia Pacific. We are pleased to offer these comments on the Exposure Draft of Accounting Bulletin 5.

General remarks

Financial reporting has conventionally focused on presentation and analysis of historical data. In contrast, sustainability reporting frameworks, such as the Global Reporting Initiative ("GRI") Sustainability Reporting Guidelines ("Guidelines"), are designed to assist stakeholders to evaluate how long-term profitability of any organisation can go hand-in-hand with social justice and protection of the environment. The guidelines are universally applicable to all organisations, large and small, and are widely accepted as the de facto international standard for sustainability reporting¹. The current generation of the Guidelines is referred to as G4 Guidelines ("G4"). More information can be found on the website at <https://g4.globalreporting.org/>

We agree with the statement (para 32) that the Business Review should not be seen as a replacement for other forms of reporting, such as a sustainability report. Nonetheless, awareness of the G4, which comprises of underlying principles on content and quality of reports as well as standard disclosures, would assist reporting entities under section 388 of the CO to prepare the Business Review. It is not necessary for reporting entities to prepare a full sustainability report in order to benefit from the Guidelines. However, we believe that if reporting entities are able to offer their stakeholders a sustainability report prepared in accordance with the Guidelines, this would be highly complementary to the objectives of section 388 of the Companies Ordinance and could help to ensure that the information disclosed in Business Review is consistent with any separate sustainability report. For Hong Kong incorporated companies that are also listed on the Stock Exchange of Hong Kong, adoption of the Guidelines would also facilitate adoption of the Environment, Social and Governance Reporting Guide (Appendix 27 of the Listing Rules) which

¹ *GRI Guidelines are used by 78 out of the 100 largest companies by revenue across 41 countries, that compile a sustainability report, per KPMG survey of CSR reporting 2013*

supports issuers that want to adopt a higher level of ESG reporting, based on international guidance and standards.

Para. 17 Guiding principles

The Accounting Bulletin could make more exacting reference to (including the disclosure of the determination of) the principle of Materiality. According to G4, Materiality is the threshold at which topics become sufficiently important that they should be reported on.

G4 offers the following important remarks on implementation of this principle: It is crucial to document the process for defining report content, including the organisation's methodologies, assumptions and decisions taken. Inevitably the process for defining report content requires subjective judgements but the organisation is expected to be transparent about its judgements. Accurate records enable the organisation to explain its chosen approach to reporting on some sustainability impacts rather than others, importantly it also facilitates independent assurance of the process for defining report content.

Comprehensive information about how organisations define what is material per GRI is on the G4 website at <https://g4.globalreporting.org/how-you-should-report/how-to-define-what-is-material/>

Para. 22 Enhancing overall corporate disclosure

According to the Accounting Bulletin, the auditor of a company's financial statement has a duty of care to identify if the directors' report is inconsistent with financial statements; however this implies that information about financial and non-financial KPIs from the Business Review will not be audited.

The Accounting Bulletin could draw attention to the approach taken by the GRI, which acknowledges that organisations may use a variety of approaches to enhance the credibility of the information disclosed in sustainability reports. GRI recommends the use of external assurance, which refers to activities designed to result in published conclusions on the quality of the report and the qualitative and quantitative information contained within it. Disclosure G4-33 requires organisations to report on the policy and current practice with regard to seeking external assurance. G4 also requires organisations to disclose which of the reported KPIs have been externally assured and which ones have not.

Para. 23 Ensuring the Business Review is understandable

The Accounting Bulletin could make particular reference to sustainability/ CSR/ ESG reports; if a reporting entity has produced a report of this kind then cross referencing its content from the Business Review would be necessary to improve transparency and to promote better understanding of the issues.

The Accounting Bulletin could also draw attention to the fact that when preparing the Business Review to focus on relevant information and promote understanding by avoiding too much information which may obscure judgements, reporting entities should consider the implications for para 19 ensuring consistency of scope: According to G4, depending on the outcomes of the process for defining report content, it may be entirely consistent with the Guidelines to exclude some entities or groups of entities from the reporting boundaries if sustainability impacts associated with

those entities are not material for the organisation as a whole. At the same time, Disclosure G4-17 states that sustainability reports should disclose by name which entity(ies) included in the organisation's consolidated financial statements has not covered in the sustainability report.

Para 32 Exemption from disclosures

According to Schedule 5, reporting entities are not required to disclose any information about impending developments or matters in the course of negotiation if the disclosure would be seriously prejudicial to the company's interest. A company's stakeholders might be concerned that this offers directors a potentially worrying 'opt out' and could result in failure of a reporting entity to disclose material issues in its Business Review, such as negative environmental impacts or negative developments in the company's relationship with key stakeholders.

In order to address this concern, the Accounting Bulletin could encourage reporting entities to adopt the approach taken by the GRI towards reasons for omission. In exceptional circumstances, if it is not possible to disclose certain required information, the report should clearly identify the information that has been omitted and explain the reasons why the information has been omitted. In addition the applicable explanation of the omission from the list below should be provided:

- The information is subject to specific confidentiality constraints; those constraints are to be disclosed by the organization
- The existence of specific legal prohibitions; a reference to the specific legal prohibitions should be made
- The information is currently unavailable. In the case of the unavailability of data, the organization should disclose the steps being taken to obtain the data and the expected timeframe for doing so

Para. 34 Fair view of the business and external environment

G4 provides an extensive list of circumstances of the reporting entity which would be relevant for directors to consider when deciding the level of detail to be disclosed about the organisation and its business environment. The Accounting Bulletin could draw reporting entities' attention to the list of disclosures and the supporting guidance available in G4 General Disclosures G4-6 to G4-13. In particular we would like to draw particular attention to:

G4-9 Scale of the organisation

- Total number of employees
- Total number of operations
- Net sales or net revenues
- Total capitalisation
- Quantity of products or services provided

G4-13 Significant changes during the reporting period

- Facility openings, closings and expansions
- Share capital and other capital formation
- Location of suppliers, structure of the supply chain or relationships with suppliers

Para 44 Fair view of environmental policies and performance

The Accounting Bulletin could refer reporting entities to additional guidance that is available in G4 about due process for determining which environmental impacts are significant and should be disclosed to its stakeholders. Please refer to our comment on Para. 17 regarding the principle of Materiality.

Para 45 Fair view of reporting entities key relationships

The Accounting Bulletin could draw attention to the following definition from G4:

“Stakeholders are defined as entities or individuals that can reasonably be expected to be significantly affected by the organization’s activities, products, and services; and whose actions can reasonably be expected to affect the ability of the organization to successfully implement its strategies and achieve its objectives. This includes entities or individuals whose rights under law or international conventions provide them with legitimate claims vis-à-vis the organization.

Stakeholders can include those who are invested in the organization (such as employees, shareholders, suppliers) as well as those who have other relationships to the organization (such as vulnerable groups within local communities, civil society).”

Stakeholder Inclusiveness is another key principle of the G4; the Accounting Bulletin could draw reporting entities’ attention to General Disclosures G4-24 to G4-27 relating to Stakeholder Engagement.

IG1 Introduction to KPIs

The Accounting Bulletin acknowledges that its suggestions for financial KPIs and non-financial KPIs are non-exhaustive and many further KPIs exist within different industries. In order to provide additional support for its readers, the Accounting Bulletin could draw attention to the comprehensive set of indicators that are available in the G4. The Guidelines organise the Indicators into three categories, Economic, Environmental and Social. Table 1 summarises the universe of subjects that are covered by the Guidelines and for which indicators are available in G4.

For each indicator, G4 provides the following types of guidance which may be helpful for reporting entities to consider when collecting and preparing data for the Business Review:

- Relevance
- Compilation
- Definitions
- Documentation sources
- References

CATEGORIES AND ASPECTS IN THE GUIDELINES

Category	Economic	Environmental			
Aspects ⁱⁱⁱ	<ul style="list-style-type: none"> • Economic Performance • Market Presence • Indirect Economic Impacts • Procurement Practices 	<ul style="list-style-type: none"> • Materials • Energy • Water • Biodiversity • Emissions • Effluents and Waste • Products and Services • Compliance • Transport • Overall • Supplier Environmental Assessment • Environmental Grievance Mechanisms 			
Category	Social				
Sub-Categories	Labor Practices and Decent Work	Human Rights	Society	Product Responsibility	
Aspects ⁱⁱⁱ	<ul style="list-style-type: none"> • Employment • Labor/Management Relations • Occupational Health and Safety • Training and Education • Diversity and Equal Opportunity • Equal Remuneration for Women and Men • Supplier Assessment for Labor Practices • Labor Practices Grievance Mechanisms 	<ul style="list-style-type: none"> • Investment • Non-discrimination • Freedom of Association and Collective Bargaining • Child Labor • Forced or Compulsory Labor • Security Practices • Indigenous Rights • Assessment • Supplier Human Rights Assessment • Human Rights Grievance Mechanisms 	<ul style="list-style-type: none"> • Local Communities • Anti-corruption • Public Policy • Anti-competitive Behavior • Compliance • Supplier Assessment for Impacts on Society • Grievance Mechanisms for Impacts on Society 	<ul style="list-style-type: none"> • Customer Health and Safety • Product and Service Labeling • Marketing Communications • Customer Privacy • Compliance 	

IG8 List of economic measures

The economic dimension of sustainability concerns the organisation's impact on the economic conditions of its stakeholders and on economic systems at local, national and global levels. G4 does not focus on the financial condition of the organisation however the Accounting Bulletin could draw reporting entities' attention to the list of Performance Indicators and the supporting guidance available in G4 General Disclosures G4-EC1 to G4-EC9.

IG12 List of environmental topics

To the extent that there is some consensus about the generic list of environmental concerns facing all companies, some additional issues which could be added to the list that has been provided in the Accounting Bulletin include:

- Materials used to produce and package the primary products/ services, including non-renewable materials, renewable materials and recycled materials
- Operational sites that are in or adjacent to protected areas and areas of high biodiversity value
- Significant actual or potential negative environmental impacts in the supply chain

The Accounting Bulletin could draw reporting entities' attention to the full list of Performance Indicators and the supporting guidance available in G4 General Disclosures G4-EN1 to G4-EN34.

IG21 List of employment topics

To the extent that there is some consensus about the generic list of employment and labour related concerns facing all companies, some additional issues which could be added to the list that has been provided in the Accounting Bulletin include:

- Labour/ Management relations
- Diversity and equal opportunity
- Equal remuneration for women and men

IG18 Areas of importance relating to suppliers

G4 General Disclosure G4-12 offers the following examples of elements that may define the structure and characteristics of an organization's relationships with its suppliers:

- Sequence of activities or parties that provides products and services to the organization
- Total number of suppliers engaged by the organization and estimated number of suppliers in the supply chain
- Location of suppliers by country or region
- Types of suppliers (such as contractors, brokers, wholesalers, licensees)
- Estimated monetary value of payments made to suppliers
- Sector-specific characteristics of the supply chain (such as labour intensity)

IG21 List of other measures that may reflect the current or future development in the business

Some additional issues which could be added to the list that has been provided in the Accounting Bulletin include:

- Anti-corruption
- Anti-competitive behaviour
- Customer Health & Safety
- Product service and labelling
- Marketing communications
- Customer privacy

Please do not hesitate to contact me regarding any questions about these comments.

On behalf of SusDev Global Limited, yours faithfully,

