

Update on the Newly-released Consultation Paper on ESG Report by the HKEx





The Hong Kong Stock Exchange (the "HKEx") has issued a consultation paper on "Review of the Environmental, Social and Governance ("ESG") Reporting Guide (the "Guide") and Related Listing Rules" ("Listing Rules") ("the consultation paper"). This is the second consultation on the revision of the Guide conducted by the HKEx since the launch of the Guide in 2013. The HKEx has proposed to implement the revised "Listing Rules" and the "Guide" for the fiscal year beginning on or after January 1, 2020.

Based on our extensive experience in ESG advisory, **AVISTA Risk Advisory** has summarized the major revisions in this consultation in comparison with the existing Guide:






Introduction of "Mandatory Disclosure Requirements"

Current Requirements	Proposed Amendments
Corporate Governance	
<p>The Board of Directors is fully responsible for the issuer's ESG strategy and reporting, including the assessment and determination of ESG-related risks, but this is not a mandatory requirement.</p>	<p>+ It is mandatory for the issuer to disclose a statement setting out the board's consideration of ESG issues, which should include the following:</p> <ol style="list-style-type: none"> 1. the board's oversight of ESG issues; 2. the process used to identify, evaluate and manage material ESG-related issues (including risks to the issuer's businesses); and 3. how the board reviews progress made against ESG-related goals and targets. <p>Note: The board's statement should include information on the issuer's current ESG management approach, strategy, priorities and goals/targets, and should address how they are related to the issuer's businesses.</p>

Reporting Principles	
The reporting principles include materiality, quantitative, balance and consistency, but it is not mandatory to explain the applications of these principles.	 It is mandatory for the issuer to explain how materiality, quantitative, balance and consistency are applied during the preparation of ESG reports as reporting principles, such as criteria for selecting material issue, methodology for calculating quantitative indicators and sources.
Reporting Boundary	
Issuer should describe the specific entities and/or scope of operations covered in the ESG report. If there is any change of scope, the issuer should explain the difference (s) and corresponding reason(s), but it is not mandatory to make such explanation.	 It is mandatory to include an explanation of the reporting boundary of the ESG report, describing the process used to identify which entities or operations are included. If there is a change in scope, the issuer should explain the difference(s) and corresponding reason(s).









Proposed amendments to environmental KPIs and introduction of climate change related aspect

Current Requirements	Proposed Amendments
Amendments to KPI A1.2	
Issuers are only required to disclose total Greenhouse Gas (“GHG”) emissions and intensity, but not required to disclose direct (scope 1) and energy indirect (scope 2) GHG emissions separately.	 Issuers are required to disclose direct (scope 1) and energy indirect (scope 2) GHG emissions separately .
Amendments to KPI A1.5 、 A1.6 、 A2.3 & A2.4	
Issuers are only required to disclose measures to mitigate emissions, waste reduction initiatives, energy and water efficiency initiatives, and results achieved, but they are not required to disclose targets set and steps taken to achieve them.	 Issuers are required to disclose targets set regarding emissions, energy use and water efficiency, waste reduction, etc. and steps taken to achieve them.
Introduction of Aspect A4. Climate Change & KPI A4.1	
Issuers are not required to disclose how climate change impacts them.	 To be disclosed on a “comply or explain” basis : General Disclosure - Policies on measures to identify and mitigate significant climate-related issues which have impacted, and those which may impact the issuers. KPI A4.1 - Description of the significant climate-related issues which have impacted, and those which may impact the issuer, and the actions taken to manage them.




Enhancement of disclosure responsibility and proposed amendments to social KPIs with an introduction of new KPIs

Current Requirements	Proposed Amendments
Enhancement of disclosure responsibility	
Social KPIs are recommended disclosure (i.e. voluntary) only.	 Disclosure of social KPIs is upgraded to "comply or explain" provisions.
Amendments to KPI B1.1	
Disclosure on "total workforce by gender, employment type, age group and geographical location" is recommended , but there is no specification for "employment type".	 The "employment type" is revised to be disclosed in the "full-time and part-time" classification.
Amendments to KPI B2.1	
"Number and rate of work-related fatalities" was recommended to be disclosed only.	 It is revised to "number and rate of work-related fatalities occurred in each of the past three years including the reporting year".
Introduction of KPI B5.3	
No such KPI.	 "Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored" are introduced.
Introduction of KPI B5.4	
No such KPI.	 "Description of practices used to promote environmentally preferable products and services when selecting suppliers, how they are implemented and monitored" are introduced.
Introduction of KPI B7.3	
No such KPI.	 "Anti-corruption training provided to directors and staff" is introduced.



Shortening the timeframe for publication of ESG report

Current Requirements	Proposed Amendments
<p>If the ESG report is not included in the issuer's annual report, the report shall be published no later than three months after the publication of the annual report.</p>	<p> It is required that issuers must publish ESG report within four months for Main Board issuers and three months for GEM issuers after the year-end date (i.e.: the same as the time limit for the publication of the issuer's annual report).</p>



Encouraging independent assurance to strengthen the credibility of ESG information disclosed

Click [here](#) to read the full report published by the HKEx.

ABOUT AVISTA GROUP

AVISTA Group is a leading professional valuation and financial advisory firm.

Headquartered in Hong Kong, our firm also has branch offices in Shanghai and Beijing.

Our firm is experienced in performing full range of valuation, financial advisory, ESG advisory, and Risk advisory services for various purposes.

Our team comes from globally-renowned valuation firms, consulting firms and international accounting firms with qualifications, such as CFA, HKICPA, CPA Australia and MHKIS.

