

Newly-released ESG Guide Consultation Conclusions and ESG Disclosure Review by the HKEx




The Hong Kong Stock Exchange (HKEx) has recently published conclusions to its consultation on the 'Review of the Environmental, Social and Governance (ESG) Reporting Guide (ESG Guide) and Related Listing Rules' (Consultation Conclusions) along with the findings of its latest review of listed issuers' Environmental, Social and Governance disclosure (ESG Disclosure Review).



1 Consultation Conclusions

HKEx will implement the consultation proposals with modifications, reflecting comments received. The amendments will take effect for financial years beginning on or after July 1, 2020. AVISTA has compared the major amendments to the ESG Guide and related Listing Rules with current disclosure requirements, and prepared a summary as follows:






(i) Introduction of "Mandatory Disclosure Requirements"

Current Requirements	Latest 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> <ul style="list-style-type: none"> a. a disclosure of the board's oversight of ESG issues; b. the board's ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer's businesses); and c. how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses.







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 and consistency are applied during the preparation of ESG reports as reporting principles, such as the criteria for selecting material issue, methodology and sources for calculating quantitative indicators.
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).

 **(ii) Amendments to environmental KPIs and introduction of climate change related aspect**

Current Requirements	Latest 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.



(iii) Enhancement of disclosure responsibility and amendments to social KPIs with an introduction of new KPIs

Current Requirements	Latest Amendments
Enhancement of disclosure responsibility	
Social KPIs are recommended disclosure (i.e. voluntary) only.	 Disclosure obligation of all social KPIs is upgraded to "comply or explain" .
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" is 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" is introduced .
Introduction of KPI B7.3	
No such KPI.	 "Anti-corruption training provided to directors and staff" is introduced .



(iv) Shortening the timeframe for publication of ESG report

Current Requirements	Latest 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 both Main and GEM Board issuers must publish ESG report within five months after the financial year-end date.</p>







(v) Encouraging independent assurance to strengthen the credibility of ESG information disclosed

2 ESG Disclosure Review

HKEx reviewed ESG reports for the financial year ended on 31 March, 30 June or 31 December 2018 from 400 randomly selected issuers ("Sample Issuers"). The review provides insight and guidance to issuers on the possible improvement areas on which to focus in their approach to assessing ESG-related risks, and when preparing ESG reports.

Key findings and recommendations of the ESG Disclosure Review include:

-  **All** Sample Issuers published an ESG report **within the timeframe** set out in the Listing Rules. A **majority** published their ESG reports **on the same day** as their annual report (**63 per cent**).
-  **Two-thirds** of Sample Issuers disclosed that a **materiality assessment** had been undertaken, some described the assessment in a more detailed manner than others. HKEx emphasises **the importance of materiality** since it is a **fundamental element** for a company to assess ESG-related risks it faces.
-  ESG reports from a majority of Sample Issuers contained **little or no description of board involvement**. It is important for boards to be **meaningfully involved** in assessing and addressing ESG-related risks.
-  When an issuer is required to "**comply or explain**", only **3 per cent** of such provisions were "explained". The high percentage of reports adopting the "comply" option may suggest that issuers have not properly determined what is material to them, or that the "explain" option is believed to be a less-preferable option. Issuers are reminded that if a "comply or explain" provision is immaterial to them, then an explanation to that effect may well be appropriate. "Explanation" is **not a less preferred or secondary option**.

Click [here](#) to read the full conclusion and [here](#) the full review 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, MHKIS and MRICS.

