

ESG DISCLOSURE PRACTICE AND DIALOGUE

Presenters:

Kelly Lee, Vice President, Policy and Secretariat Services Unit, Listing Department, HKEX

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Dr. Nadira Lamrad, Assistant Director, Sustainability and ESG Advisory, Business Environment Council

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Jessica Chan, Head of Sustainability, MTR Corporation

AGENDA

1. Opening Remarks
2. ESG Reporting Regulatory Update
3. GRI x HKEX Linkage Document
4. ESG Post COVID-19: Derailed, disrupted or desired?
5. Panel Discussion - ESG strategies from both reporting and investment integration perspectives



OPENING REMARKS

Asthildur Hjaltadóttir

Chief Regional Officer,

GRI



ESG REPORTING REGULATORY UPDATE

Kelly Lee

Vice President, Policy and Secretariat Services Unit,
Listing Department,

HKEX





**ESG REPORTING
REGULATORY UPDATE**



Kelly Lee
Vice President
Listing

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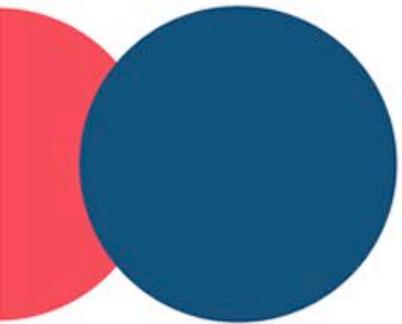
Each issuer is unique and, as such, should develop its own steps and procedures for compliance with the Listing Rules in view of its special circumstances.



AGENDA

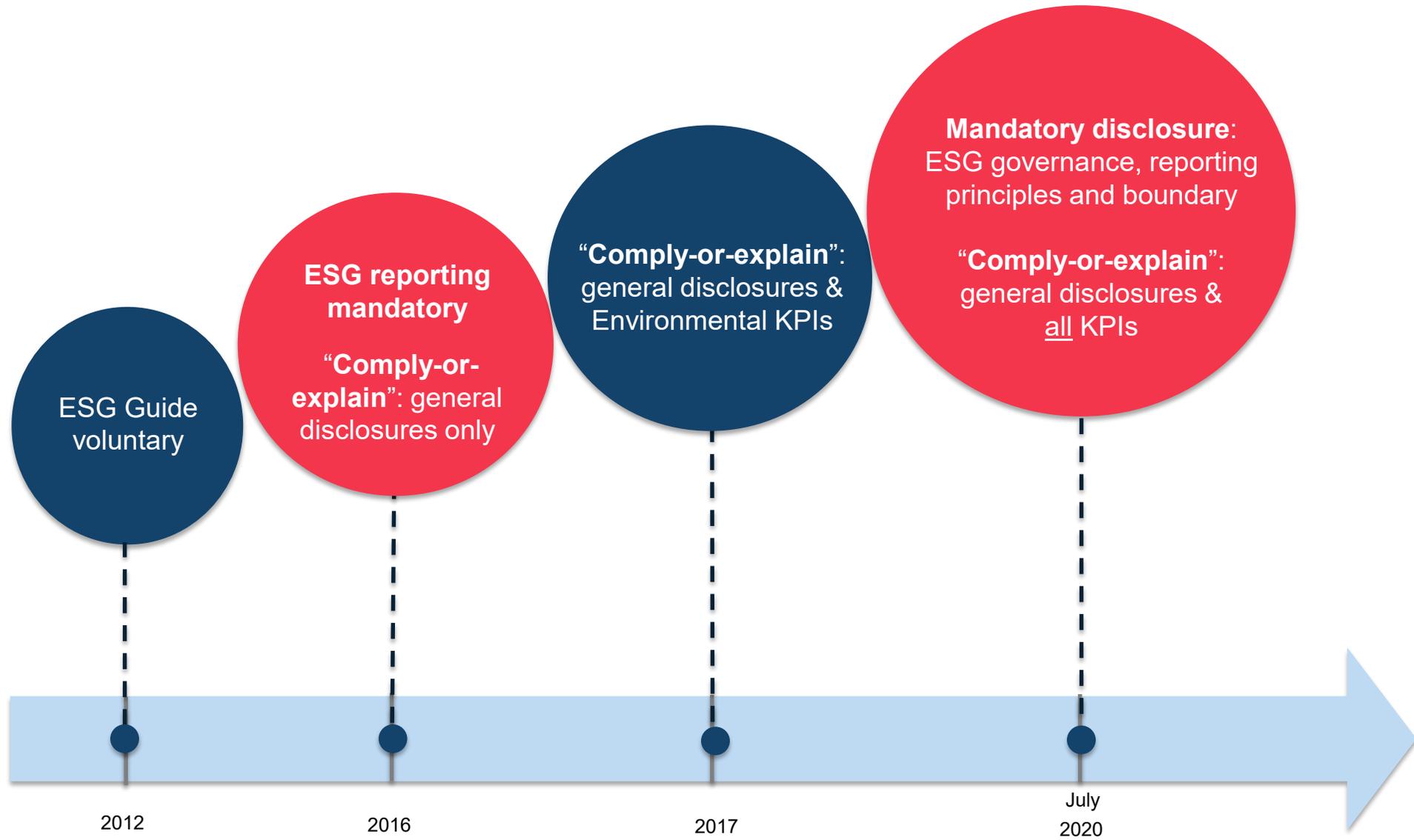
- 1 **HKEX's Journey and International Development**
- 2 **New ESG Requirements (Effective in July 2020)**
- 3 **Exchange's Market Education and Guidance Materials**





HKEX'S JOURNEY AND INTERNATIONAL DEVELOPMENT

HKEX's ESG journey



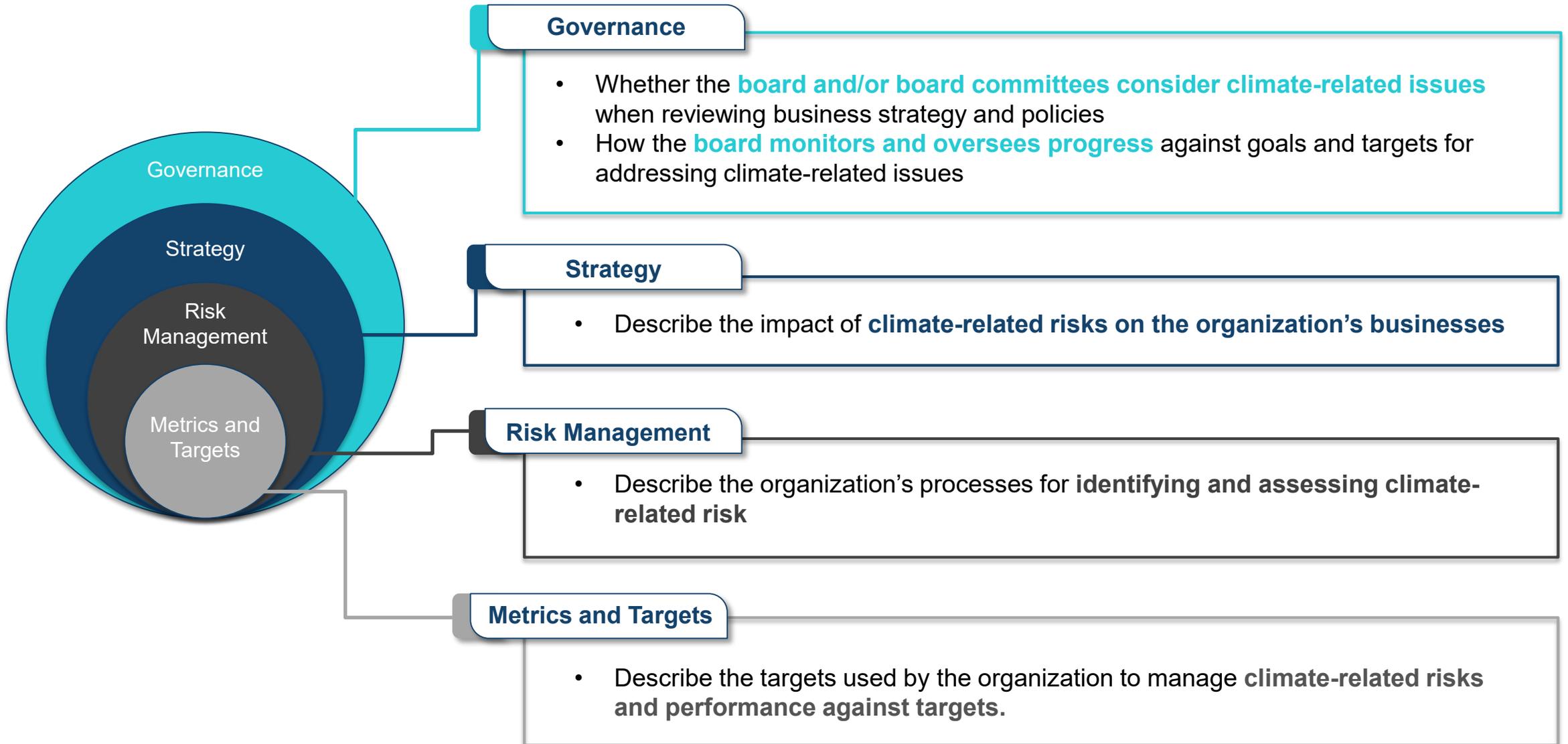
HKEX's ESG journey: recent analysis of issuers' ESG disclosure

Analysis of Environmental, Social and Governance Practice Disclosure in 2018

Areas of improvement

- Many reports contained little or no description of **board involvement**.
- One-third of Sample Issuers did not disclose their **materiality assessments**.
- There had been an omission or failure to address one or more of the “**comply or explain**” provisions.
- Only 3% of “comply or explain” provisions were “**explained**”.

International Development: TCFD



Recent local development on ESG

Securities and Futures Commission



- Strategic Framework for Green Finance (Sep 2018)
- Disclosure requirements on SFC-authorized Green and ESG funds (Apr 2019)
- A survey on integrating ESG factors and climate risks in asset management (Dec 2019)

Green and Sustainable Finance Cross-Agency Steering Group

Members:

- SFC
- HKMA
- HKEX
- Insurance Authority
- MPFA
- FSTB
- Environment Bureau

Objectives

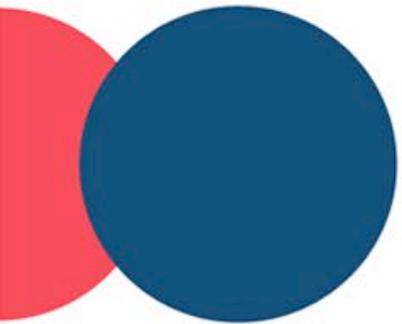
- Coordinate management of climate and environmental risks to the Hong Kong financial sector
- Accelerate growth of green and sustainable finance in Hong Kong
- Support Government's climate strategies

HKEX



- Sustainable and Green Exchange (STAGE), an online portal to provide greater information, access and transparency on a wide range of sustainable, green and social investment products (Jun 2020)





NEW ESG REQUIREMENTS (EFFECTIVE IN JULY 2020)

New ESG Requirements (Effective in July 2020)

Mandatory to report

Issuers **must** publish their ESG reports on an annual basis

Shorten the publication timeframe to within **five months** after the financial year-end

New

“Comply or Explain” provisions

“**Comply or Explain**” allows for flexibility to adapt to individual circumstances.

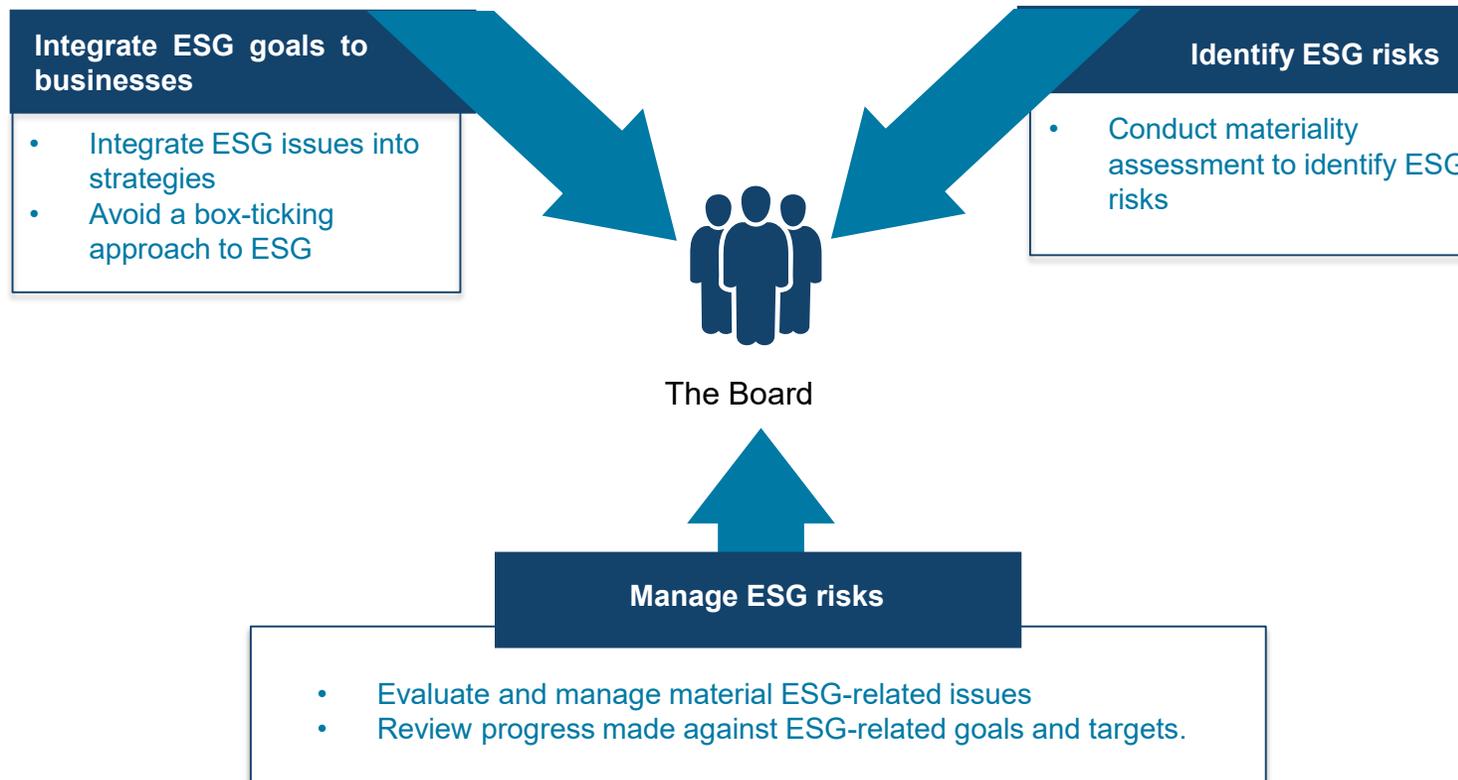
- Comply with the provision ✓
- Explain non-compliance ✓
 - For example, issuers can explain that the aspect is not material to their businesses.
- Non-compliance without considered reasons ✗

New ESG Requirements (Effective in July 2020)

New

- Mandate disclosure of a statement from the board setting out the board's consideration of ESG issues.

Emphasis: the board's leadership role and accountability in ESG and the governance structure for ESG matters



Board statement should include:

1. Board's oversight
2. Process to identify, evaluate and manage ESG issues
3. Board's reviews of progress

New ESG Requirements (Effective in July 2020)

ESG governance: a seven-part framework for board's ESG oversight



New ESG Requirements (Effective in July 2020)

Board's ESG Governance: readiness question

Are you ready?		Yes	No
1	The board is involved in evaluating and determining the ESG risks	<input type="checkbox"/>	<input type="checkbox"/>
2	We know the ESG issues that are material to the business, and can talk about the ESG strategy to a certain level of detail	<input type="checkbox"/>	<input type="checkbox"/>
3	We know what ESG issues our key investors want to know about	<input type="checkbox"/>	<input type="checkbox"/>
4	We have regular access to the information needed to evaluate ESG risks	<input type="checkbox"/>	<input type="checkbox"/>
5	We are looking to the future and evaluating how different ESG scenarios will impact the financials	<input type="checkbox"/>	<input type="checkbox"/>
6	We have a diverse board so that we have good perspectives and understanding on ESG and other areas	<input type="checkbox"/>	<input type="checkbox"/>

New ESG Requirements (Effective in July 2020)



New

Mandate disclosure of application of the reporting principles:

- Materiality
- Quantitative
- Consistency

New

• Mandate disclosure of Reporting Boundary

- Process used to identify entities or operations to be included in the ESG report
- Explanation on changes of scope

New ESG Requirements (Effective in July 2020)

Aspects	Policies (Disclosure Obligation)	Key Performance Indicators (Disclosure Obligation)
Environment (A)		
Emissions (A1)	Comply-or-explain	Comply-or-explain
Use of Resources (A2)		
The Environment and Natural Resources (A3)		
Climate Change (A4)		
Social (B)		
Employment (B1)	Comply-or-explain	Recommended
Health and Safety (B2)		
Development and Training (B3)		
Labour Standards (B4)		
Supply Chain Management (B5)		
Product Responsibility (B6)		
Anti-corruption (B7)		
Community Investment (B8)		

New

New

Target setting for:

- Emissions (A1)
- Use of Resources (A2)
- The Environment and Natural Resources (A3)

New

Social KPIs upgraded from “recommended” to “comply or explain”



New ESG Requirements (Effective in July 2020)

Target setting for Environmental KPIs

Environmental KPIs

Examples of targets:

- Emissions
- Energy use
- Water efficiency
- Waste reduction

- Risk management
- ESG performance
- Long-term benefits

New ESG Requirements (Effective in July 2020)

Reporting on climate: readiness questions

Are you ready?		Yes	No
1	Does your company have a policy to identify material impacts of climate-related risks on its businesses?	<input type="checkbox"/>	<input type="checkbox"/>
2	Does your company have any measures to address climate-related risks?	<input type="checkbox"/>	<input type="checkbox"/>
3	Does your company have any framework to track the progress of managing climate-related risks?	<input type="checkbox"/>	<input type="checkbox"/>
4	Is your company aware of any significant laws and regulations in relation to climate change?	<input type="checkbox"/>	<input type="checkbox"/>

Adapted from: UN Global Compact

New ESG Requirements (Effective in July 2020)

Revision of Social KPIs



Employment Types

- ▶ Include “full- and part-time staff”



Work-related Fatalities

- ▶ Number and rate of fatalities for a track period of **three years**



Supply Chain Management

- ▶ Practices for identifying and monitoring ESG risks along supply chain



Anti-corruption

- ▶ Anti-corruption training to directors and staff

New ESG Requirements (Effective in July 2020)

New

Clarify that printed ESG report is not required

Printed ESG report is not required (unless responding to shareholders' specific request), with a notification of online publication

New

Encourage issuers to seek independent assurance

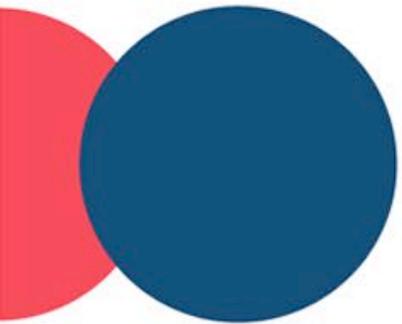
To strengthen the credibility of ESG information disclosed

New ESG Requirements (Effective in July 2020)

The changes will be effective for financial years commencing on or after **1 July 2020**.

Early preparations before 1 July 2020:

- Familiarise with the new requirements
- Implement necessary reporting infrastructure
- Gather necessary information



EXCHANGE'S MARKET EDUCATION AND GUIDANCE MATERIALS

Exchange's Market Education and Guidance Materials

Director e-training on the Exchange's new ESG requirements

Scan to watch



Guide for Board and Directors

March 2020

HKEX
香港交易所

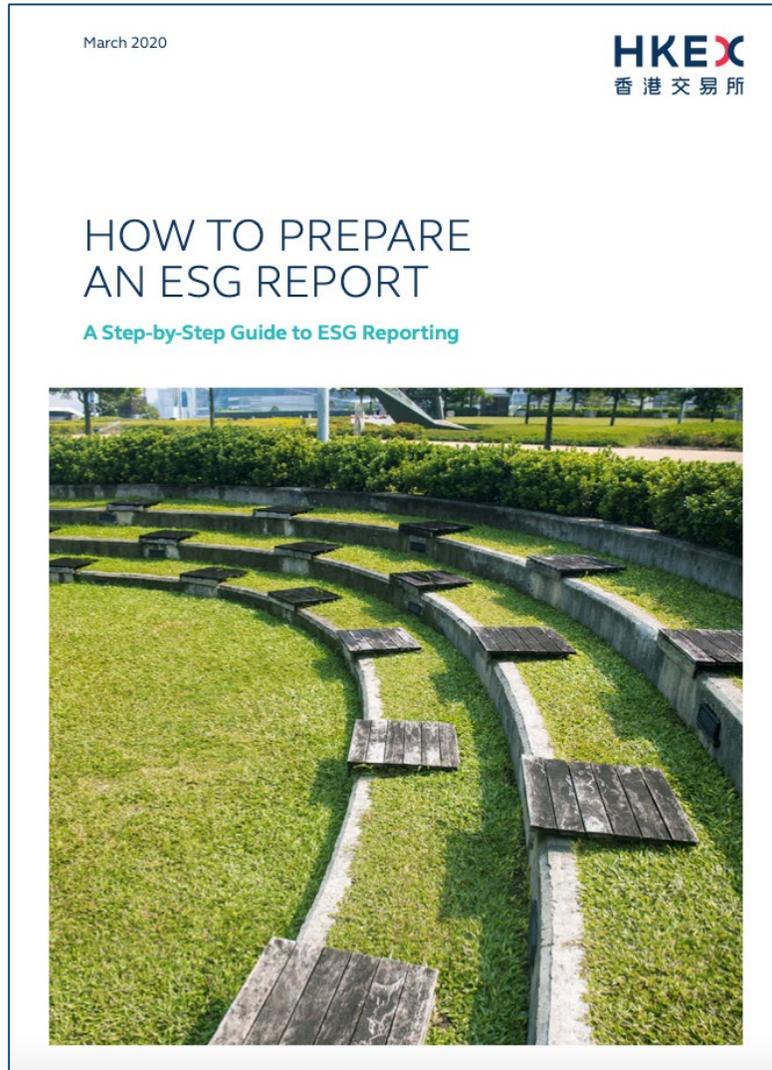
LEADERSHIP ROLE AND ACCOUNTABILITY IN ESG

Guide for Board and Directors



Exchange's Market Education and Guidance Materials

A Step-by-Step Guide to ESG Reporting



- Toolkit for stakeholder engagement and materiality analysis
- Technical guidance on Environmental and Social KPIs
- References to international standards/guidelines and other resources

Exchange's Market Education and Guidance Materials

ESG FAQ

- Covering frequently asked questions on:
 - Governance
 - Reporting boundary
 - Materiality analysis
 - Key performance indicators

ESG Resource

- Reports on Environmental, Social and Governance Practice Disclosure
- Board's ESG oversight : a seven-part framework
- Setting S.M.A.R.T. targets
- Board's ESG governance: readiness questions
- Reporting on climate change: readiness questions

Exchange's Market Education and Guidance Materials

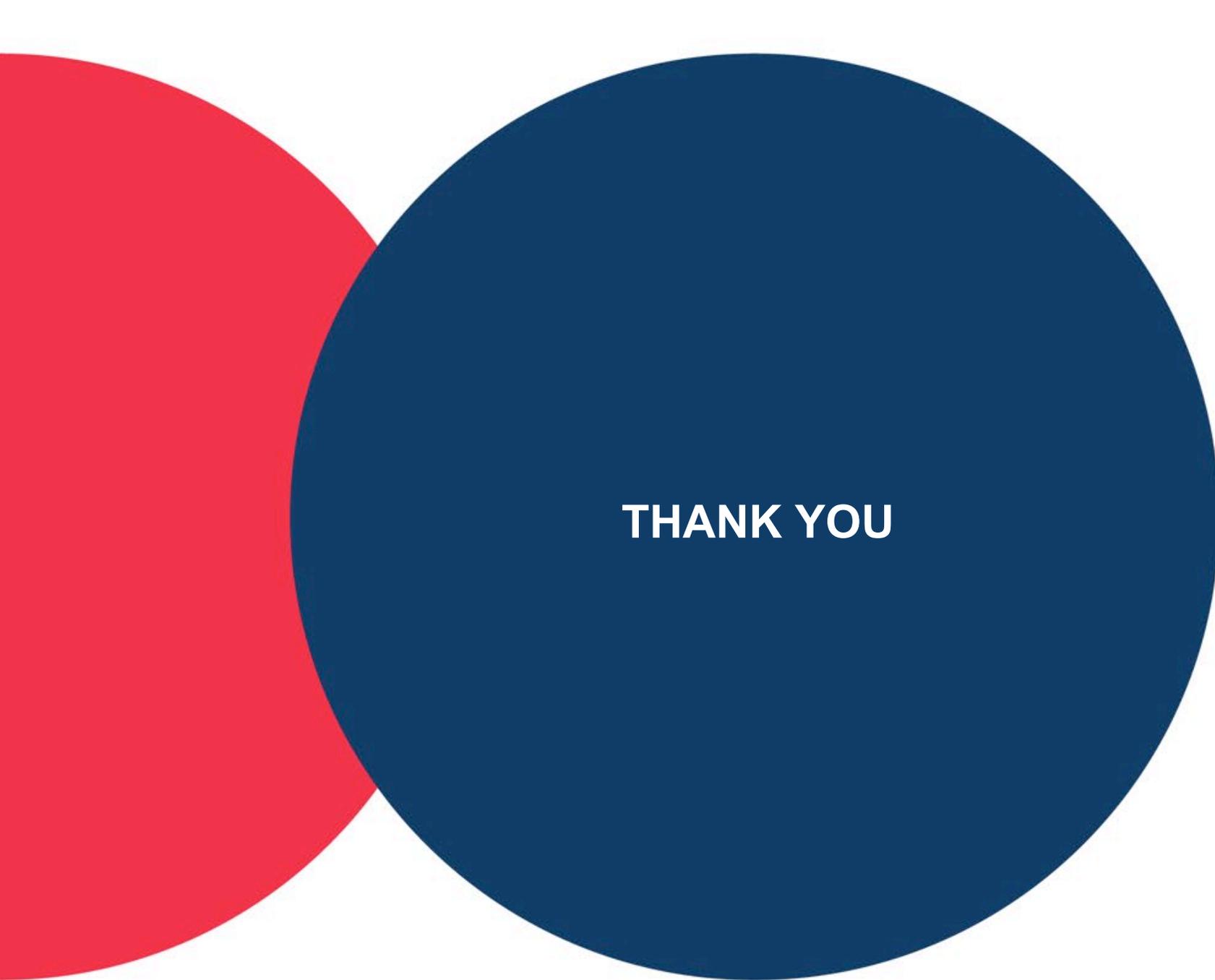
Materiality assessment

Materiality table

	Consumer Discretionary	Consumer Staples	Healthcare	Energy	Financials	Industrials	Information Technology	Materials	Properties & Construction	Tele-communication	Utilities
A1 Emissions	●	●	●	●		●	●	●	●	●	●
A2 Use of Resources	●	●	●	●		●	●	●	●	●	●
A3 The Environment and Natural Resources	●	●		●		●		●	●		●
A4 Climate Change		●	●	●	●	●		●	●	●	●
B1 Employment	●	●	●	●	●	●	●	●	●	●	●
B2 Health and Safety	●	●	●	●		●	●	●	●		●
B3 Development and Training			●		●		●	●		●	
B4 Labour Standards	●	●	●	●	●	●	●	●	●	●	●
B5 Supply Chain Management	●	●		●		●			●	●	●
B6 Product Responsibility	●	●	●		●	●	●		●	●	●
B7 Anti-corruption	●	●	●	●	●	●	●	●	●	●	●
B8 Community Investment			●	●	●	●			●		●

- Very likely to be material to issuers in the industry
- Likely to be material to issuers in the industry





THANK YOU

HKEX
香港交易所

GRI X HKEX LINKAGE DOCUMENT

Siobhan Cleary

Director Capital Markets
Engagement

GRI



Anna Krotova

Senior Manager,
GRI Standards,

GRI





Linking the GRI Standards and HKEX ESG reporting guide

Update July 2020



Linking the GRI Standards and the HKEX ESG Reporting Guide

Siobhan Cleary, Director Capital Markets Engagement

Anna Krotova, Sr. Manager Standards



Summary & comprehensive linkage tables

Summary table

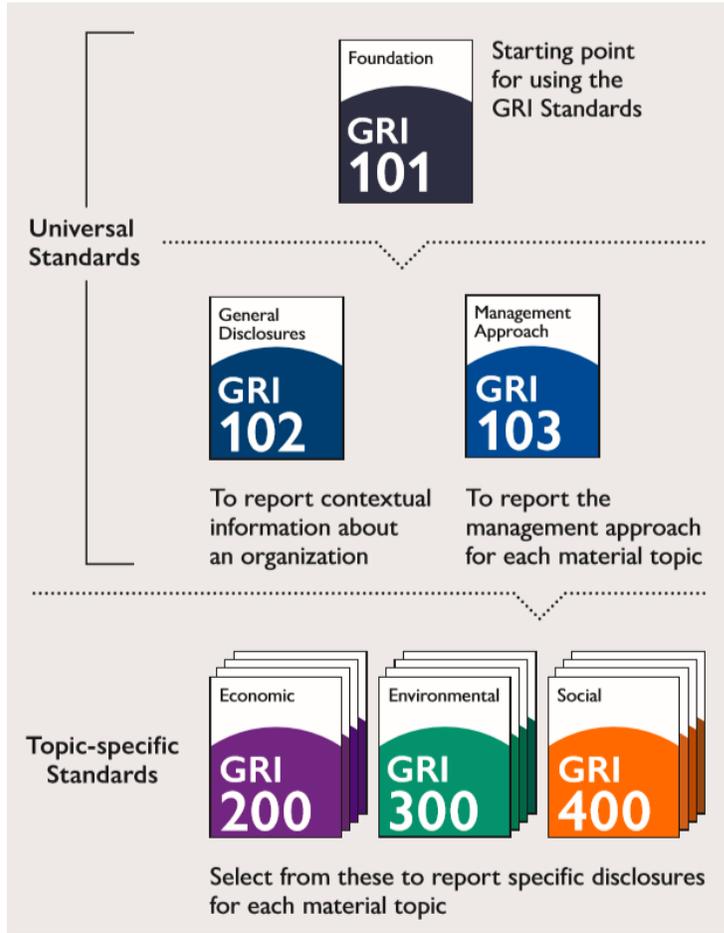
HKEX ESG Reporting Guide	GRI Standards and Disclosures
Reporting Boundary 15	<i>GRI 102: General Disclosures</i> : Disclosure 102-45 and 102-49
Aspect A1 Emissions: General Disclosure	<i>GRI 103: Management Approach</i> : Disclosure 103-2 (c-i) (used together with GRI 305: Emissions, and GRI 306: Effluents and Waste) <i>GRI 305: Emissions</i> : Management approach disclosures guidance <i>GRI 307: Environmental Compliance</i> : Disclosure 307-1
KPI A1.1	<i>GRI 305: Emissions</i> : Disclosures 305-1, 305-2, 305-3, 305-6, and 305-7
KPI A1.2	<i>GRI 305: Emissions</i> : Disclosures 305-1, 305-2, 305-4
KPI A1.3	<i>GRI 306: Waste</i> : Disclosure 306-3 (a)
KPI A1.4	<i>GRI 306: Waste</i> : Disclosure 306-3 (a)
KPI A1.5	<i>GRI 103: Management Approach</i> : Disclosure 103-2 (used together with GRI 305: Emissions) <i>GRI 305: Emissions</i> : Clause 1.2 and Disclosure 305-5
KPI A1.6	<i>GRI 103: Management Approach</i> : Disclosure 103-2 (used together with GRI 306: Waste) <i>GRI 306: Waste</i> : Disclosures 306-4 and 306-5
Aspect A2 Use of Resources: General Disclosure	<i>GRI 103: Management Approach</i> : Disclosure 103-2 (c-i) (used together with GRI 301: Materials, GRI 302: Energy, and GRI 303: Water and Effluents)
KPI A2.1	<i>GRI 302: Energy</i> : Disclosures 302-1 and 302-3
KPI A2.2	<i>GRI 303: Water and Effluents</i> : Disclosure 303-5
KPI A2.3	<i>GRI 103: Management Approach</i> : Disclosure 103-2 (used together with GRI 302: Energy) <i>GRI 302: Energy</i> : Disclosures 302-4 and 302-5
KPI A2.4	<i>GRI 103: Management Approach</i> : Disclosure 103-2 (used together with GRI 303: Water and Effluents) <i>GRI 303: Water and Effluents</i> : Disclosure 303-1

Comprehensive table

HKEX ESG Reporting Guide	GRI Standards and Disclosures	Comments (where applicable)
<i>Overall approach: para 8</i> 8. This Guide is not comprehensive and the issuer may refer to existing international ESG reporting guidance for its relevant industry or sector. The issuer may adopt international ESG reporting guidance so long as it includes comparable disclosure provisions to the "comply or explain" provisions set out in this Guide.	<i>GRI 101: Foundation</i> Identifying material topics and their Boundaries 2.3.1 <i>The reporting organization should consult the GRI Sector Disclosures that relate to its sector, if available, to assist with identifying its material topics.</i> Reporting on material topics 2.5.3 <i>For each material topic, the reporting organization should report other appropriate disclosures, if the material topic is not covered by an existing GRI Standard.</i>	Note that in <i>GRI 101: Foundation</i> , clauses 2.3.1 and 2.5.3 are recommendations (indicated by the word 'should' in the text). Complying with these clauses is encouraged, but is not required in order to prepare a report in accordance with the GRI Standards.
<i>Overall Approach: para 9</i> The issuer may seek independent assurance to strengthen the credibility of the ESG information disclosed. Where independent assurance is obtained, the issues should describe the level, scope and processes adopted for the assurance given clearly in the ESG report.	<i>GRI 102: General Disclosures</i> Disclosure 102-56 External assurance	
<i>Overall Approach: para 10</i> 10. The board has overall responsibility for an issuer's ESG strategy and reporting.	<i>GRI 102: General Disclosures</i> Disclosure 102-26 Role of the highest governance body in setting purpose, values, and strategy Disclosure 102-32 Highest governance body's role in sustainability reporting	



Mandatory vs 'Comply and Explain' approach



The set of GRI Standards includes:

- **3 universal Standards**, applicable to all organizations
- **34 topic-specific Standards**, organized into Economic, Environmental, and Social series

Organizations select and use only the relevant topic-specific Standards, based on their **material topics**



ESG Disclosure and Investors

- Global standard – allows international comparability
- Growing recognition of the business case of ESG integration
- Varied approaches to ESG investing and dynamic nature of materiality
- Understanding stakeholders and tailoring communication appropriately





In closing – Universal Standards

GRI STANDARDS

PUBLIC COMMENT OPEN

We are seeking input on the exposure draft of the Universal Standards until 9 September 2020.

LEARN MORE & SUBMIT YOUR FEEDBACK

The graphic features a dark blue circular background on the right side, overlaid on a photograph of a person in a dark suit and white shirt. The text is white and centered within the blue area.

bit.ly/griuniversalstandards

ESG POST COVID-19: DERAILED, DISRUPTED, OR DESIRED?

Mary Leung, CFA

Head, Advocacy, Asia Pacific
CFA Institute

July 2020

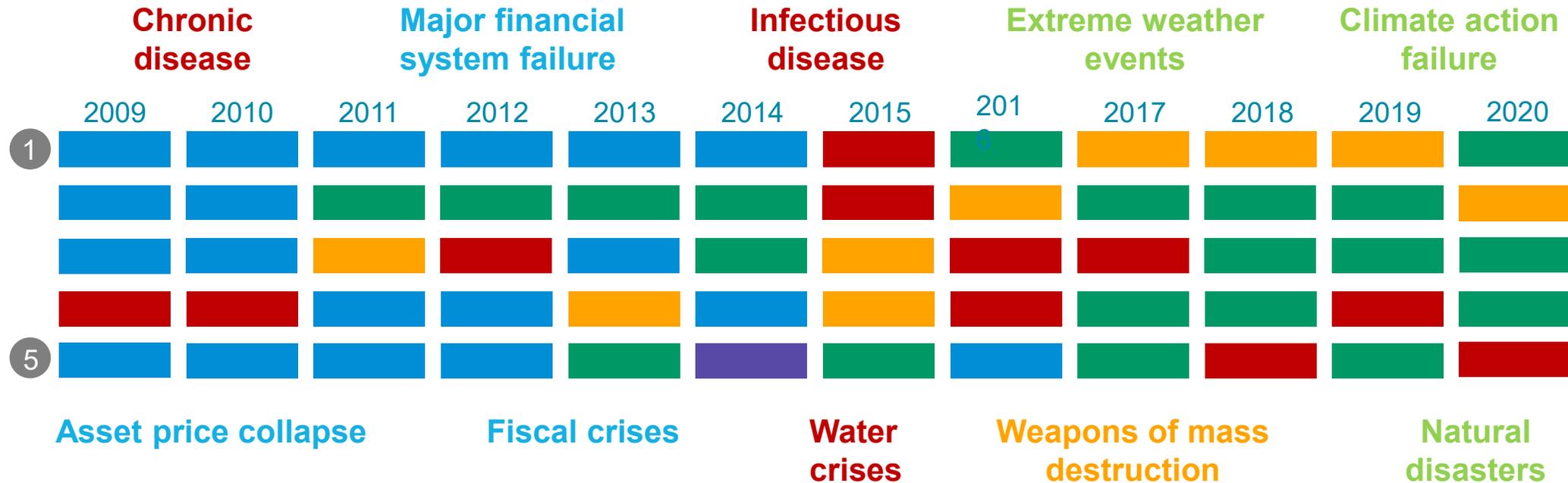


FAST AND SLOW



THE EVOLVING RISK LANDSCAPE: 2009-2020

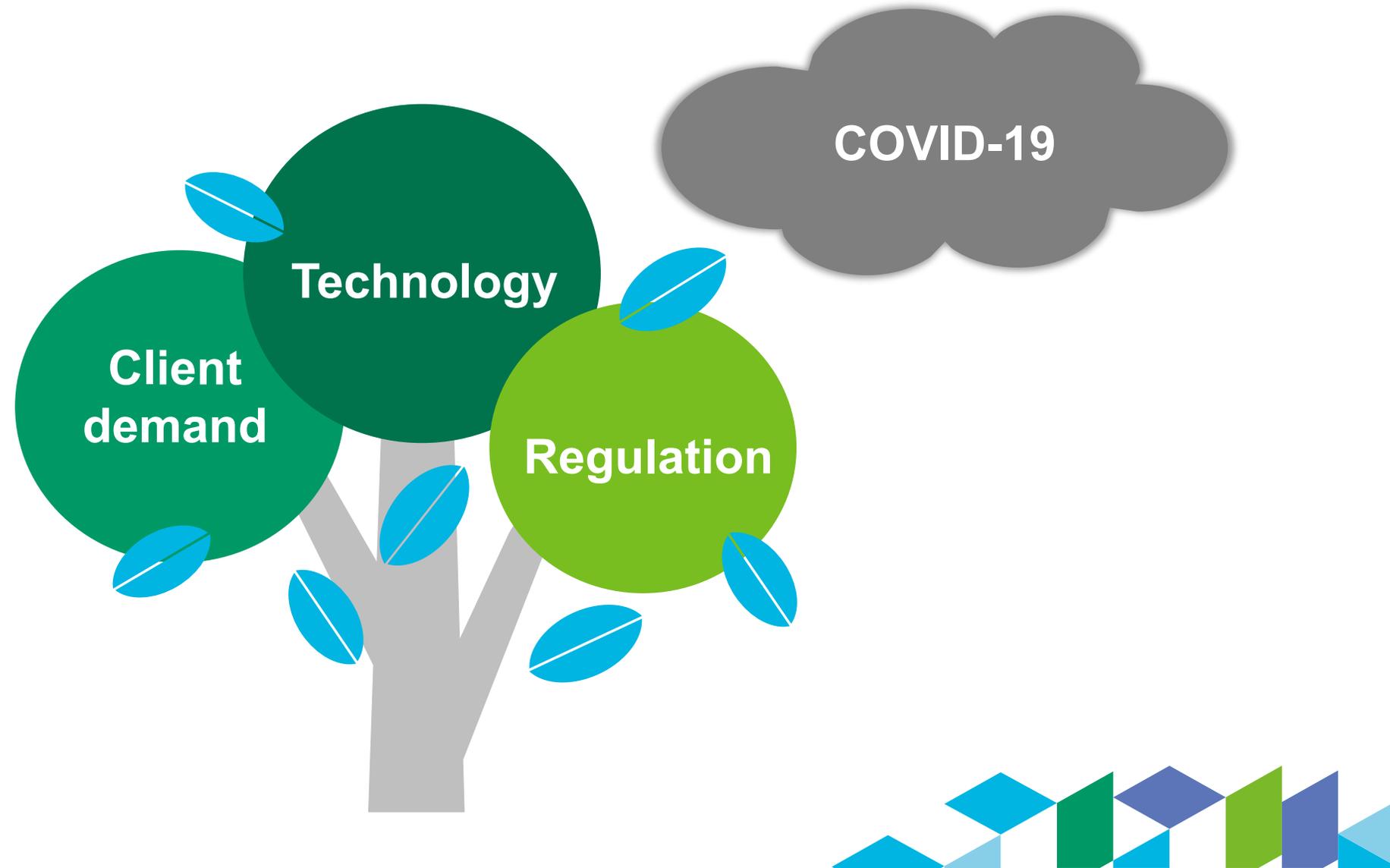
Top five risks in terms of potential impact



Source: World Economic Forum, Global Risks Report 2020



DISRUPTORS AT PLAY



ESG IN THE TIME OF COVID-19

Bloomberg

ESG a Win for Stocks, Less So for Bonds Amid Covid-19

THE WALL STREET JOURNAL.

Coronavirus Pandemic Could Elevate ESG Factors

FINANCIAL TIMES

ESG passes the Covid challenge

 **South China Morning Post**

Coronavirus strengthens case for sustainable investing as ESG stocks outperform market in crisis

 **ET Markets**

Covid-19 is proving to be the litmus test for ESG investing

Forbes

Covid-19 Is Accelerating ESG Investing And Corporate Sustainability Practices

 **ETF TRENDS**

ESG Investing Could Get a Lift From Retirement Plan Focus

 **THE Asset** 財資

Covid-19 crisis could turn into the ESG era

GlobalCapital

Covid cuts flow of green bonds and loans, but not their appeal

 **funds europe**

Covid-19 could shape ESG investing “for years to come”

ASIAN PRIVATE BANKER 

PB CEOs optimistic about growth of ESG investment in Asia after COVID-19



JUST TRANSITION

“A healthy economy and a clean environment can and should co-exist”

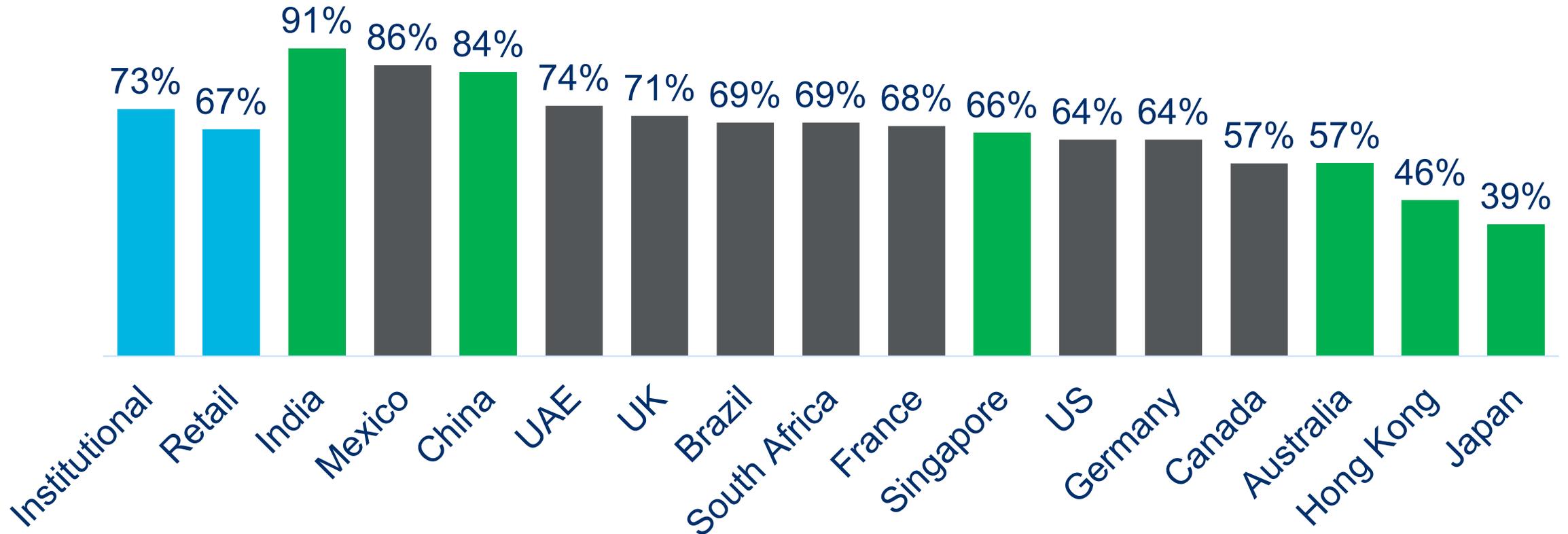
“It needs to ... contribute to the goals of decent work for all, social inclusion and the eradication of poverty”

“Managed well, transitions to environmentally and socially sustainable economies can become a strong driver of job creation, job upgrading, social justice and poverty eradication”



RETAIL INVESTORS' VIEWS ON RETURNS

Investors willing to give up some return for a values-based objective

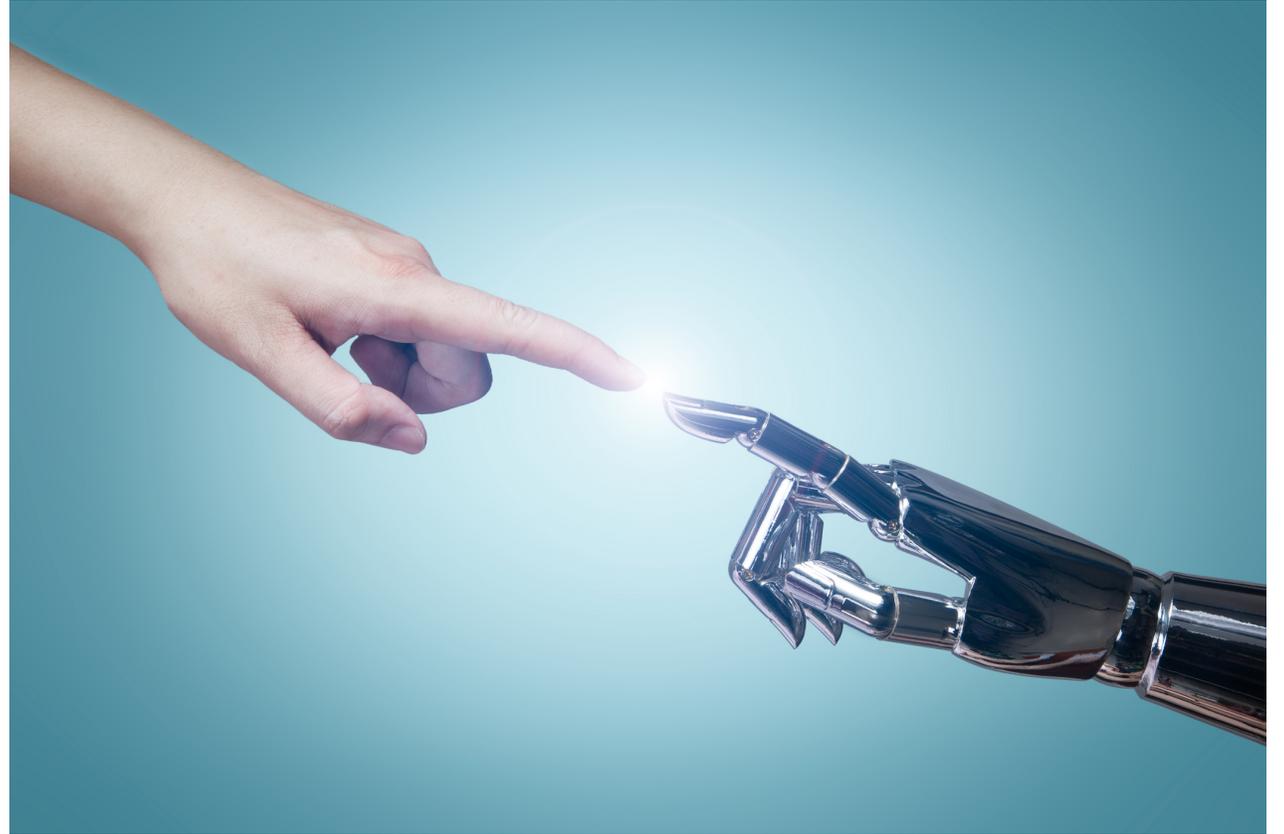


Base: asked only of those with a values-based objective, 1454 retail investors, 264 institutional investors
Collected Oct/Nov 2019



DATA AND TECHNOLOGY

- Data versus information
- Knowledge versus intelligence
- Quantitative versus qualitative
- AI versus human judgement



REGULATORY PUSH

- Issuer disclosure regimes
- Stewardship code updates
- Cross agency / cross border collaboration
- Convergence in standards



ARE YOU READY?

- Training and upskilling
 - Board
 - Investment professionals
 - Clients
- Product design and disclosures
- Stewardship and engagement
- Focus on purposeful capitalism



PANEL DISCUSSION

ESG STRATEGIES FROM BOTH REPORTING AND INVESTMENT INTEGRATION PERSPECTIVES



Dr. Nadira Lamrad,
Assistant Director,
Sustainability and ESG Advisory,
Business Environment Council



Jessica Chan
Head of Sustainability,
MTR Corporation



Gabriel Wilson-Otto, CFA,
Head of Stewardship, Asia Pacific,
BNP Paribas Asset Management



THANK YOU

