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2020 New Mechanism for Environmental, Social and Governance

On 18 December 2019, the Stock Exchange of Hong Kong Limited published the Consultation Conclusions on the Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules. As a result, relevant Main Board and GEM Rules have been revised accordingly.

The revised Main Board and GEM rules (the "**Revised Rules**") will become effective for financial years commencing on or after 1 July 2020.

Key changes of, and new introductions to, the Main Board and GEM Rules are summarised as below:

I. Shortening the deadline for publication of environmental, social and governance ("ESG") reports

Current requirements	New requirements
An issuer shall publish the ESG report no later than three months after the publication of its annual report.	Shortening the publication timeframe of the ESG reports, with a timeframe revised to within five months after its financial year-end. *Note: *1. Issuers are encouraged to publish the ESG reports at the same time as the publication of annual reports.* *2. Printed ESG report is not required (unless responding to shareholders'*

	specific request), but a relevant notification of online publication to shareholders shall not be dispensed with.

II. Introducing mandatory disclosure requirements

1. Governance structure:

   Mandatory statement from the board is introduced and it shall contain:

   - the board's oversight of ESG issues;
   - the process used to identify, evaluate and manage material ESG-related issues (including risks to the issuer's businesses); and
   - how the board reviews progress made against ESG-related goals and targets.

2. Reporting principles

   In preparing the ESG reports, issuers shall follow all four reporting principles, namely, materiality, quantitative, consistency and balance.

   Issuers are also required to disclose the application of the following reporting principles in the ESG reports:

   - materiality: the ESG report shall disclose: (i) the identification process and selection criteria of material ESG factors; and (ii) if a stakeholder engagement[1] is conducted, a description of significant stakeholders identified, and the process and results of the issuer's stakeholder engagement.
   - quantitative: the ESG report shall disclose information on the standards, methodologies, assumptions and/or calculation tools used, and source of conversion factors used, for the reporting of emissions/energy consumption (where applicable).
   - consistency: the ESG report shall disclose any changes to the methods or key performance indicators ("**KPIs**") used, or any other relevant factors affecting a meaningful comparison.

[1] Stakeholder engagement is the process by which an issuer involves parties who may be affected by the decisions it makes or can influence the implementation of its decisions.

3. Reporting boundaries

   The ESG report shall contain a narrative explaining the reporting boundaries of the ESG report and describing the process used to identify the entities or operations included. If there is any change in the scope, the issuer shall explain the difference and reason for the change.

III. Introducing mandatory disclosure of significant climate-related issues

A new aspect under subject area "Environmental" is introduced requiring "comply or explain" disclosure of polices on identification and mitigation of significant climate-related issues which have impacted and those which may impact the issuer.

With regard to "emission" aspect, the following environment KPIs will be included in the ESG report:

- a description of targets set regarding emission target(s) set and taken to achieve them;
- a description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them; and
- Scope 1 and Scope 2 greenhouse gas emissions[2].

IV. Upgrading the disclosure obligation of all social KPIs from voluntary disclosures to "comply or explain", in particular, the following KPIs are further specified:

Current disclosure requirements	New disclosure requirements
Issuers are recommended to disclose total workforce by gender, employment type, age group and geographical region.	Scope of disclosure not changed, but employment type (for example, full- or part-time) shall be specified.

[2] For Scopes of emissions, please refer to the international reporting framework published by the World Resources Institute / World Business Council for Sustainable Development, as reported in The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard.

Issuers are recommended to disclose the number and rate of work-related fatalities for the reporting year.	Disclosure of the number and rate of work-related fatalities occurred for each of the past three years including the reporting year.
Issuers are recommended to describe practices relating to engaging suppliers, number of suppliers where the practices are being implemented and how they are implemented and monitored.	In addition to current requirements, new KPIs introduced on: • practices used to identify environmental and social risks along the supply chain; and • practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.
No KPI requiring disclosure of anti-corruption training provided to directors and staff.	Disclosure of anti-corruption training provided to directors and staff.

V. Encouraging independent assurance

Currently there is no guidance on the information to be disclosed if assurance is obtained, or the benefits of obtaining assurance.

Upon implementation of the Revised Rules, issuers may seek independent assurance to strengthen the credibility of ESG information disclosed; where independent assurance is obtained, issuers shall describe the level, scope and processes adopted for assurance clearly in the ESG report.

ESG compliance is no longer a peripheral activity normally handled by a small team led by a mid-level executive. Under the Revised Rules, ESG will become the responsibility of the board of directors and may involve substantial adjustments to an issuer's ESG infrastructure and compliance process. Issuers are advised to familiarise themselves with the new requirements and start the process as early as possible.

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