

Consultation on Environmental, Social and Governance Reporting Guide

Quick Read

The Stock Exchange of Hong Kong Limited (“SEHK”) published its “*Consultation Paper on Environmental, Social and Governance Reporting Guide*” (“**Consultation Paper**”) on 9 December 2011 to seek comments from the public on its proposed Environmental, Social and Governance Reporting Guide (“**ESG Guide**”). The ESG Guide aims to raise awareness and encourage issuers to commence environmental, social and governance information reporting.

Any comments in response to the Consultation Paper should be submitted to SEHK no later than **9 April 2012**.

Proposals

The major proposals contained in the Consultation

Paper are summarised as follows:

Structure of the ESG Guide

The ESG Guide sets out subject areas, aspects, general disclosure and key performance indicators (“**KPIs**”) on a level-by-level basis which issuers could report on.

There are four ESG subject areas: Workplace Quality, Environmental Protection, Operating Practices and Community Involvement. Under each subject area, there are various aspects. For each relevant aspect, there are requirements on general disclosure and KPIs.

The subject areas, aspects, general disclosure and KPIs are summarised below:

Subject A: Workplace Quality

Aspect A1 : Working conditions	
General disclosure:	Information on policies and compliance with matters relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, diversity and other benefits and welfare.
KPIs:	Total workforce and employee turnover rate by categories.
Aspect A2: Health and safety	
General disclosure:	Information on policies and compliance with matters relating to provision of a safe working environment and protecting employees from occupational hazards.
KPIs:	Information on fatality number and rate, lost days due to work injury and occupational health and safety measures.

Aspect A3: Development and training	
General disclosure:	Information on policies for improving employees' knowledge and skills.
KPIs:	Information on training activities provided and training hours completed by each employee.
Aspect A4: Labour standards	
General disclosure:	Information on policies and compliance with matters relating to prevention of child or forced labour.
KPIs:	Information on measures to avoid child and forced labour and eliminate those practices when discovered.

Subject B: Environmental Protection

Aspect B1: Emissions	
General disclosure:	Information on policies and compliance with matters relating to air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc.
KPIs:	Information on emissions types and data, amounts of greenhouse gas emissions, hazardous waste produced and non-hazardous waste produced, measures to mitigate emissions and handling procedures for hazardous waste and non-hazardous waste.
Aspect B2: Emissions	
General disclosure:	Information on policies relating to efficient use of resources including energy, water and other raw materials.
KPIs:	Information on energy and water consumption, energy use efficiency initiatives, water efficiency initiatives and total packaging material used.
Aspect B3: The environment and natural resources	
General disclosure:	Information on policies relating to minimizing the operation's significant impact on the environment and natural resources.
KPIs:	Information on total paper used, paper use efficiency initiatives and impact of activities on the environment and natural resources.

Subject C: Operating Practices

Aspect C1: Supply chain management	
General disclosure:	Information on policies relating to risk management of supply chain.
KPIs:	Information on risk management policies of supply chain, number of suppliers by geographical region and practices relating to engaging suppliers.
Aspect C2: Product responsibility	
General disclosure:	Information on policies and compliance with matters relating to health and safety, advertising, labelling, privacy and methods of redress.
KPIs:	Information on product recalls, complaints, protection of intellectual property rights, quality assurance process and consumer data protection and privacy policies.
Aspect C3: Anti-corruption	
General disclosure:	Information on policies and compliance with matters relating to bribery, extortion, fraud and money laundering.
KPIs:	Information on cases regarding corrupt practices, preventive measures and whistle-blowing procedures.

Subject D: Community Involvement

Aspect D1: Community investment	
General disclosure:	Information on policies relating to understanding the needs of the community in which the issuer operates and ensuring the issuer's activities take into consideration the community's interests.
KPIs:	Information on areas of contribution such as education, labour needs and culture etc. and the resources allocated to those areas.

Issuers' obligations

- General disclosure and KPIs are proposed to be recommended best practices only for the time being and the ESG Guide would be appended to the Listing Rules. Accordingly, an issuer is encouraged to comply with the reporting standards but if it does not comply, no explanation is required.
- An issuer might choose to make ESG disclosure in its annual report (must be of the same period covered in the annual report) or in a separate report (free to report on any period). It could do so in print or on its website.
- The board of directors should be involved in preparing the ESG report. Although the board of directors is primarily responsible for the ESG reporting, it might delegate the task of compiling the ESG report to its employees or a committee that reports to the board.

Reporting approach

- An issuer is not required to report on all subject areas, aspects and KPIs. It could identify and report on ESG matters which it considers to have material environmental and social impacts.
- An issuer could prioritise and give prominence to the ESG subject areas, aspects and KPIs which are material in the context of its corporate strategy in the ESG report.
- An issuer should involve stakeholders in identifying material aspects and KPIs and understand their views. Stakeholders are parties which have interests in or are affected by the decisions and activities of an issuer such as shareholders, business partners, employees, suppliers, sub-contractors, consumers, regulators and the public etc.
- Once an issuer commences ESG reporting, it could continue to do so on a regular basis. The aspects and KPIs reported could be consistent for each period or the issuer could explain any changes made. An issuer might also explain why some aspects and KPIs are not reported.

- An ESG report could state the issuer's ESG management approach, strategies, priorities, objectives and explain how they relate to its business. The issuer could also discuss its management, measurement and monitoring system to implement the ESG strategies. An ESG report could also discuss ESG opportunities, risks, challenges and how they are addressed.

You can download copies of the Consultation Paper via the link below:

<http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201112.pdf>

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