

Environmental, Social and Governance Reporting Guide to be Implemented After 31 December 2012

Quick Read

The Stock Exchange of Hong Kong Limited (**SEHK**) published its “*Consultation Conclusions on Environmental, Social and Governance Reporting Guide*” (**Consultation Conclusions**) on 31 August 2012 in response to its corresponding consultation paper published on 9 December 2011. For details of the consultation paper, please refer to our previous Legal Update “[Consultation on Environmental, Social and Governance Reporting Guide](#)”.

SEHK decided to implement the Environmental, Social and Governance (**ESG**) Reporting Guide (**Guide**) which will be appended to the Rules Governing the Listing on The Stock Exchange of Hong Kong Limited (**Listing Rules**) as a recommended practice.

The Guide will apply to issuers with financial years ending after 31 December 2012. Subject to further consultation, SEHK intends to escalate the obligation level of some recommended disclosures in the Guide to “comply or explain” by 2015.

The Guide

WHERE SHOULD ESG DISCLOSURE BE MADE?

An issuer can choose to make ESG disclosure in its annual report (which must be of the same period covered in the annual report) or in a separate report (free to report on any period although reporting on the same period in the annual report is encouraged). It can do so in print or on its website.

WHO SHOULD BE INVOLVED IN THE ESG DISCLOSURE?

The board of directors is primarily responsible for the ESG reporting although it may delegate the task of compiling the ESG report to its employees or a committee that reports to the board.

In addition, an issuer should engage stakeholders periodically to identify material aspects and key performance indicators (**KPIs**) (please see below for explanation) and understand their views.

Stakeholders include parties such as shareholders, business partners, employees, suppliers, subcontractors, consumers, regulators and the public that have interests in or are affected by the decisions and activities of the issuer.

WHAT ESG DISCLOSURE CAN BE MADE?

The Guide sets out subject areas, aspects, general disclosure and KPIs on a level-by-level basis which an issuer can 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 Guide is not comprehensive and is designed for issuers with limited knowledge on ESG matters as a starting point for ESG reporting. Issuers are encouraged to adopt international guidelines instead if they are capable of doing so.

The subject areas, aspects, general disclosure and KPIs specified in the Guide 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 to 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 emission 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: USE OF RESOURCES	
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 significant impacts 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 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 such areas.

No definition is provided for KPIs. An issuer is encouraged to explain how the KPIs are calculated and include information that is necessary for interpreting the KPIs.

WHAT IS THE SCOPE OF DISCLOSURE?

An issuer is not required to report on all subject areas, aspects and KPIs and is encouraged to identify and report on relevant ESG subject areas, aspects and KPIs which are material to it. It is also encouraged to prioritise ESG subject areas, aspects and KPIs and emphasize material areas in the ESG report.

Also, an issuer is not expected to make ESG disclosure on all of its operations/subsidiaries from the start and can commence reporting on its major operations/subsidiaries only. It is encouraged to explain the scope and identify which entities in the group and/or which operations have been included in the ESG report. If there is any change in the scope, the issuer is encouraged to provide explanation and reason for such change.

WHAT IS THE PATTERN OF DISCLOSURE?

An issuer is encouraged to report on a regular basis once it has started its reporting. The aspects and KPIs reported may be consistent for each period with explanation provided for any changes. An issuer may also explain why some aspects and KPIs are not reported.

You may download copies of the Consultation Conclusions via the link below:

<http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201208cc.pdf>

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