

Getting Ready – Increased Reporting Obligations for Hong Kong Listed Companies for Accounting Period Commencing on, or after, 1 January 2016

The Hong Kong Exchanges and Clearing Limited (“the Exchange”) has just announced that the proposal to upgrade the General Disclosures under the Environmental, Social and Governance (ESG) Guide to ‘comply or explain’ and other amendments will be effective in phases, with the first phase starting for issuers’ financial years commencing on, or after, 1 January 2016.

The amendments to the Corporate Governance Code introduced in December 2014, incorporating risk management and effective internal controls, will also take effect for issuers’ financial years commencing on, or after, 1 January 2016.

The Revised Environmental, Social and Governance Reporting Guide (“the ESG Guide”)¹

The Exchange published its Consultation Conclusions on Review of the ESG Guide on 21 December 2015, introducing the following major changes:

1. Compelling issuer to state in its annual report, or a separate ESG Report, whether it has complied with the ‘comply or explain’ provisions set out in the ESG Guide for the relevant financial year.
2. Rearranging the ESG Guide into two ‘Subject Areas’, each having various ‘Aspects’:

SUBJECT AREAS	A - ENVIRONMENTAL	B - SOCIAL
<i>Aspects</i>	A1 Emissions	B1 Employment & Labour Practices
	A2 Use of Resources	B2 Health & Safety
	A3 Environment & Natural Resources	B3 Development & Training
		B4 Labour Standards
		B5 Supply Chain Management
		B6 Product Responsibility
		B7 Anti-corruption
		B8 Community Investment

3. Each Aspect setting out general disclosure (General Disclosure) and key performance indicators (KPIs), with changes in wordings to bring the same more in line with international standards or applicable rules.
4. Upgrading all General Disclosures (under every Aspect) to ‘comply or explain’.
5. Upgrading all KPIs under Aspects A1 to A3 (of Subject Area ‘Environmental’) to ‘comply or explain’.
6. Keeping all KPIs under Aspects B1 to B8 (of Subject Area ‘Social’) as recommended (i.e., voluntary) disclosures with revised wordings.

¹ The ESG Guide is set out in Appendix 27 to the Main Board Listing Rules (Appendix 20 to the GEM Rules)

Two Phase Implementation of the Revised ESG Guide

- Items 4 and 6 above, i.e., the upgrade of all General Disclosures to ‘comply or explain’ and the revised recommended disclosures, will be effective for financial years commencing on, or after, 1 January 2016. So, for issuers with their financial year beginning 1 January 2016, these amendments will first affect their financial year ending on 31 December 2016; and
- Item 5 above, i.e., the upgrade of all KPIs under Aspects A1 to A3 to ‘comply or explain’, will be effective for financial years commencing on, or after, 1 January 2017. So, for issuers with their financial year commencing 1 January 2017, this amendment will first affect their financial year ending on 31 December 2017.

The Revised Corporate Governance Code (“the Code”)² Incorporating Risk Management and Internal Controls

Changes to the Code were introduced in 2014 to take effect for financial years commencing on, or after, 1 January 2016. A recent survey published by KPMG/Hong Kong Institute of Chartered Secretaries in October 2015 found that 15 percent of the respondents (Hong Kong & mainland China organisations) do not yet have an internal audit function which is a mandatory requirement under the revised Code.

As a reminder, the main changes to the Code include:

- incorporating risk management into the Code where appropriate;
- defining the roles and responsibilities of the board and management;
- clarifying that the board has an ongoing responsibility to oversee the issuer’s risk management and internal control systems;
- upgrading the following to ‘comply or explain’: (a) that issuers should have an internal audit function and (b) those provisions in relation to the annual review of the effectiveness of the issuer’s risk management and internal control systems, and disclosures in the Corporate Governance Report.

² The Corporate Governance Code is set out in Appendix 14 to the Main Board Listing Rules (Appendix 15 to the GEM Rules)

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