ESG reporting review 2018: The journey continues

Issue 1

Background
To track the development of environmental, social and governance (ESG) reporting, we continue to review the quality of sample ESG reports from Hong Kong listed issuers. This follows our first comprehensive survey conducted in 2017.1

Overview
The findings generally echo those highlighted by HKEX in its review of issuers’ compliance with the ESG Reporting Guide (“the Guide”) in their 2016/17 reports.2

In the second year of mandatory ESG reporting under the Guide, some issuers have demonstrated advances in their reporting practices. Yet, there is still considerable room for improvement.

Review focus
This issue mainly focuses on qualitative disclosures. The quality of key performance indicator (KPIs) disclosure will be discussed in Issue 2.

Key observations

Adopting and applying the Guide’s reporting principles (including Materiality and Balance) and guidelines on ESG strategy and governance are still common challenges.

ESG risks and relevance are not widely discussed
- Lack of clear explanation of ESG impacts/risks
- Vision and strategy not articulated

Little information on ESG governance and board involvement
- An ESG governance structure is not described
- Board engagement in ESG governance is not clear

Room for improvement in focusing on what matters
- Limited details on the process on identifying material issues
- Extent and depth of disclosure does not match the indicated levels of importance of the issues

A more balanced view and greater transparency on performance is needed
- Limited discussion on negative results or specific challenges, risks and difficulties
- Inadequate explanation and context given to evaluate performance

Does the risk assessment system consider environmental and social risks?

Is there a strategy and action plan to address the ESG risks and opportunities faced?

Does the company know how to conduct robust internal and external materiality assessments?

Does the company have the appropriate systems to manage and monitor the specific material ESG issues?

Is there a working group and/or effective internal structure to manage ESG?

Does the board understand its responsibilities regarding ESG?

Is there a system to capture compliance information for monitoring and reporting to regulators?

Does the company know how to build trust with investors and other stakeholders through the ESG report?

Does the company know how to conduct a materiality assessment with reference to market and industry good practice?

Implement a stakeholder engagement mechanism that captures issues of concern and integrates these into a company's decision-making.

Our Sustainability team can support you in various stages of your ESG reporting process, with interdisciplinary expertise and access to global knowledge. Please contact us to discuss any ESG reporting needs.

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