

# 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.<sup>1</sup>

## 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**.<sup>2</sup>

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

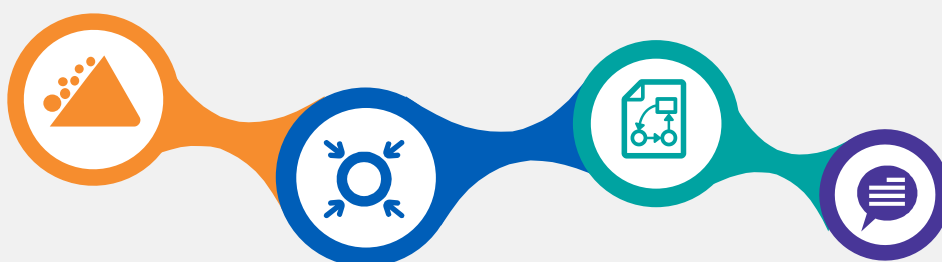
Adopting and applying the Guide's **reporting principles (including Materiality and Balance)** and guidelines on **ESG strategy and governance are still common challenges**.

### 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

<sup>1</sup> 'The ESG journey begins: 2017 ESG reporting survey of Hong Kong listed issuers', KPMG China, November 2017, <https://home.kpmg.com/cn/en/home/insights/2017/11/the-esg-journey-begins.html>

<sup>2</sup> 'Analysis of Environment, Social and Governance Practice Disclosure in 2016/2017', HKEX, May 2018, [http://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Other-Resources/Environmental-Social-and-Governance/Exchange-Publications-on-ESG/esgreport\\_2016\\_2017.pdf?la=en](http://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Other-Resources/Environmental-Social-and-Governance/Exchange-Publications-on-ESG/esgreport_2016_2017.pdf?la=en)

# Checklist - Meeting reporting requirements & expectations

## Risk



- ☐ 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?

## Materiality



- ☐ 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?

## ESG governance



- ☐ Is there a **working group and/or effective internal structure** to manage ESG?
- ☐ Does the **board understand its responsibilities** regarding ESG?

## Balance



- ☐ 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?

## Actions to consider

### Capacity building

Ensure sufficient training and capability in ESG from top to bottom

### Strategy

Develop an ESG strategy and action plan to demonstrate what the company is committing to achieve

### ESG governance

Set up an appropriate ESG governance structure that assists the board's oversight of ESG issues



### Materiality assessment

Conduct a materiality assessment with reference to market and industry good practice

### Stakeholder engagement

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

## Our team

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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