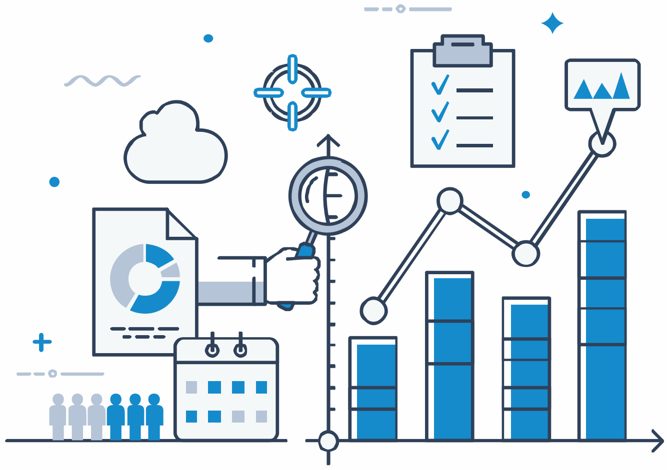
ESG reporting review 2018: The journey continues

Issue 2



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

Almost 50% of the issuers[2] reported quantitative data for the first time in 2018 as the disclosure of the HKEX ESG Reporting Guide's ("the Guide") Environmental key performance indicators (KPIs) was upgraded to 'comply or explain'.

Issuers have achieved a major milestone on the ESG journey by beginning to track and report on KPIs. However, they need to enhance their approach to enable the reporting of **reliable information that gives insight into their company's performance**.

Review focus

This issue mainly focuses on **the quality of KPI disclosures.**

Discussions surrounding the qualitative disclosures were covered in Issue 1.[3]

1 '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
2 Issuers with financial year-end date of 31 December 2017
3 'ESG reporting review 2018: The journey continues – Issue 1', KPMG China, June 2018, https://home.kpmg.com/cn/en/home/insights/2018/06/esg-reporting-review-2018-01.html

What are the key observations?

Relevance

The KPIs disclosed are not always the most relevant or related to business priorities

- The KPIs that are disclosed are sometimes not focused on the material issues relevant to the business
- Relevance of the KPIs to the business is not explained

Reliability

Lack of transparency around KPI definitions and calculations and occasional errors in data presentation

- Unclear about how the KPIs are calculated and what they cover
- Inaccurate data reporting, e.g. use of incorrect units

Performance monitoring

Insufficient context and information to explain what the data means

- Limited discussions and explanation around the performance data disclosed
- Measurable targets are mostly not set

What issues and challenges are companies facing?

How many KPIs and which ones to disclose?

- There are **12** Environmental KPIs and **20** Social KPIs under the Guide
- Relevant KPIs vary for different industries

What standards should we use to calculate the KPIs?

- There are various methods to calculate a KPI
- Different business units may interpret or measure KPIs differently

What do the KPIs tell us about our performance?

- Difficult to get timely and accurate performance data as the KPIs involve data from various sources
- Need to ensure employees understand the performance expectations

KPIs would be more useful if focused on the areas/topics that are material to the business.

Yet, **43%** of companies did not report having assessed and identified the material ESG topics.[4]

Data collection systems may not be ready to report accurate data on KPIs related to specific topics.

94% of companies provided policy-related disclosures on at least seven ESG topics outlined in the Guide, [4]

38% reported on all 11 topics.[4]

98% of companies provided policy-related disclosures on 'Use of Resources'.[4]

73% on 'Product Responsibility'.[4]

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4 '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

Checklist - Considerations for quality KPI disclosures

Relevance

- [ ] Has the company identified the **material/ prioritised ESG issues and KPIs** to track?
- [ ] Does the company know how to **define KPIs that connect with its goals**?

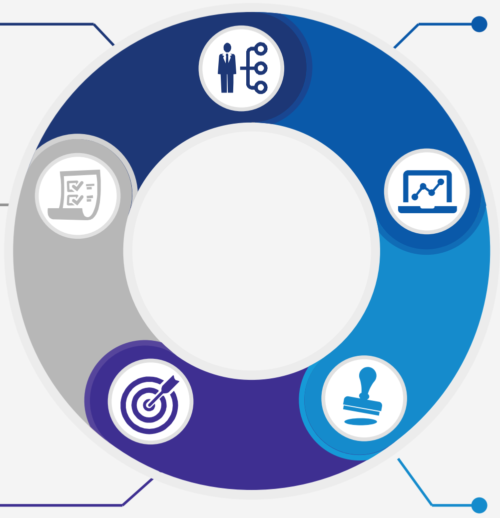
Reliability

- [ ] Is there an ESG data management **system with appropriate controls** to ensure **data integrity**?
- [ ] Are the **definitions and assumptions** used in the calculation of KPIs reliable?

Performance monitoring

- [ ] Is there a **process** to facilitate **performance monitoring by management**?
- [ ] Has the company set time-bound **targets** and tracked progress?

Actions to consider



Capacity building
Ensure sufficient training and capabilities from top to bottom for effective performance monitoring

Materiality assessment
Conduct a materiality assessment with stakeholder engagement to determine the relevant KPIs

SMART KPIs and targets
Set KPIs and targets that are Specific, Measurable, Achievable, Realistic and Time-bound

ESG data management system
Implement a robust ESG data management system to collect, collate, monitor and report performance

Assurance/readiness review
Seek assurance of ESG data, or a readiness review before that to prepare for obtaining assurance

Key takeaway points

Vision — Clarify the company's direction and goals to align efforts within the company and demonstrate commitment

Communication — Adopt a proactive approach to information disclosure and communicate effectively with key stakeholders (both internal and external)

Feedback for continuous improvement — Ensure an effective performance tracking system is in place to drive continuous improvement

We hope the review provides a useful reference and we look forward to seeing further improvements in reporting in 2019.

Our team

Our Sustainability team can support you in various stages of your ESG management and reporting process, with interdisciplinary expertise and access to global knowledge.

Contact us

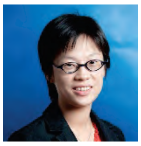
Northern China

Patrick Chu
Partner
T: +86 (10) 8508 5705
E: patrick.chu@kpmg.com

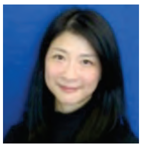
Eva Wei
Manager
T: +86 (10) 8508 5259
E: eva.f.wei@kpmg.com

Hong Kong

Maria Cheng
Partner
T: +852 2978 8153
E: maria.cheng@kpmg.com

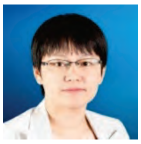


Eddie Ng
Director
T: +852 2143 8874
E: eddie.ng@kpmg.com



Julie Wong
Senior Manager
T:+852 2685 7856
E: julie.wong@kpmg.com

Eastern and Western China



Brenda Wang
Partner
T: +86 (21) 2212 2468
E: brenda.wang@kpmg.com

Laura Yang
Manager
T: +86 (21) 2212 2888
E: laura.yang@kpmg.com

Southern China

Anthony Ng
Partner
T: +86 (755) 2547 3318
E: anthony.ng@kpmg.com

Financial Services

Jason He
Partner
T: +86 (10) 8508 7193
E: jason.he@kpmg.com

Terence Fong
Partner
T: +852 2978 8953
E: terence.fong@kpmg.com

kpmg.com/cn