



Hong Kong Capital Markets Update

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HKEX's consultation conclusions on the proposed changes to the Environmental, Social and Governance Reporting Guide and related Listing Rules

On 18 December 2019, the Stock Exchange of Hong Kong Limited (the Exchange) published [the conclusions](#) of its consultation on the proposed changes to the Environmental, Social and Governance Reporting Guide (ESG Guide) and related Listing Rules. The conclusions are summarised below:

Highlights

- Shortening the deadline for publication of ESG reports from 7 months to 5 months after the year-end date
- Notification of online publication of ESG report required rather than printed copy
- Introducing mandatory disclosure requirements (MDRs) relating to governance structure, reporting principles and reporting boundaries of ESG reports
- Revising and upgrading Environmental and Social key performance indicators (KPIs)
- Encouraging independent assurance
- The revised ESG Guide and related Listing Rules will be effective for the financial years commencing on or after 1 July 2020.

Background

On 17 May 2019, the Exchange published a consultation paper that sought comments on proposed changes to the ESG Guide and related amendments to Listing Rules (for a summary of the consultation please refer to our Capital Markets Update Issue [2019-02](#)). The consultation reflects the Exchange's commitment to enhance ESG reporting and disclosure by listed companies, building upon the Exchange's ongoing ESG-related efforts since the launch of the ESG Guide.

The key focus of the consultation is to support and improve issuers' governance and disclosure of ESG activities and metrics. The proposals emphasise the board's leadership role and accountability in ESG and the governance structure for ESG matters. The proposals also highlight that materiality in respect of ESG is key to meaningful and concise reporting, and echo the increasing international focus on climate change and its impact on business.

The Exchange, after considering the comments from the respondents, decided to adopt all the proposals in the consultation paper with minor modifications. **Appendix I** sets out a summary of the original proposals and the modifications after consultation.

Implementation date

The revised ESG Guide and related Listing Rules were initially proposed to be implemented for the financial years commencing on or after 1 January 2020. To allow issuers more time to familiarise themselves with the new requirements and implement the necessary reporting infrastructure, the implementation date will be postponed to financial years commencing on or after 1 July 2020.

Next steps

The revised ESG Guide promotes a top-down approach to ESG matters. The new mandatory disclosure of a board statement emphasises the board's oversight role and, therefore, it is important for the board to take the lead and get involved from the outset.

Issuers are encouraged to start the process as early as possible to allow information gathering and fine-tuning of the infrastructure to fulfil the requirements of the revised ESG Guide. Issuers can also reference the Exchange's recommendations [set out](#) in the Analysis of Environmental, Social and Governance Practice Disclosure in 2018 when preparing ESG reports.

If you have any questions about the matters discussed in this publication, please feel free to contact the following capital markets partners and directors.

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Appendix I – Overview of proposed changes to ESG Guide

The following table sets out a summary of the original proposed changes to ESG Guide in the consultation paper and the modification after the consultation.

	Original proposals	Results	Modifications
1.	Shortening the deadline for publication of ESG reports to align with the publication timeframe of annual reports (i.e. within four months (Main Board issuers) or three months (GEM issuers) after the year-end date)	Adopt with modification	Proceed with shortening the deadline for publication of ESG reports, with a revised timeframe of within five months from the year-end date
2.	Printed ESG report not required (unless responding to shareholders' specific request), with a notification of online publication	Adopt	-
Mandatory disclosure requirements			
3.	Introducing MDRs in the ESG Guide to include: <ul style="list-style-type: none"> a board statement setting out the board's consideration of ESG issues applications of relevant Reporting Principles (namely, materiality; quantitative; consistency; and balance) in ESG reports explanation of reporting boundaries and identification process for including specific entities or operations in ESG reports 	Adopt with modification Adopt with modification Adopt with modification	<ul style="list-style-type: none"> Proceed with requiring disclosure of board statement, with revised wordings to provide greater clarity Clarify that issuers should follow all four Reporting Principles in preparing ESG reports. Regarding disclosure, issuers are required to disclose the application of the Reporting Principles "materiality", "quantitative" and consistency" Proceed with requiring explanation of reporting boundaries
Environmental			
4.	Introducing a new Aspect to require disclosure of significant climate-related issues which have impacted and may impact the issuer	Adopt	-
5.	Amending KPIs regarding emissions, energy use and water efficiency, waste reduction, etc. to require disclosure of relevant targets	Adopt	-
6.	Revising a KPI to require disclosure of Scope 1 and Scope 2 greenhouse gas emissions	Adopt	-
Social			
7.	Upgrading the disclosure obligation of "Social" KPIs to "comply or explain"	Adopt	-
8.	Revising the relevant KPIs to: <ul style="list-style-type: none"> clarify that "employment types" should include "full and part time staff" require disclosure on number and rate of work-related fatalities occurred in each of the past three year require disclosure on (i) practices used to identify environmental and social risks along the supply chain, and (ii) practices used to promote environmental preferable products and services when selecting suppliers, and how these practices are implemented and monitored require disclosure of anti-corruption training provided to directors and staff 	Adopt with modification Adopt Adopt Adopt	<ul style="list-style-type: none"> Proceed to clarify that "full and part time staff" are non-exhaustive examples of employment types - - -
Independent assurance			
9.	Encouraging issuers to seek independent assurance to strengthen the credibility of ESG information disclosed	Adopt	-