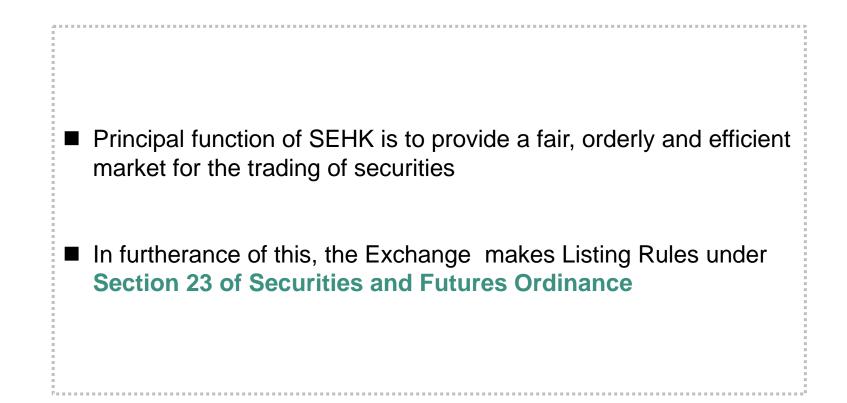
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ENVIRONMENTAL, SOCIAL AND GOVERNANCE DISCLOSURE REQUIREMENTS



Presentation for Panel on Financial Affairs of the Legislative Council

Role and Function of SEHK (1)



Role and Function of SEHK (2)

Why did SEHK introduce the ESG Guide?

SEHK's regulatory role to promote corporate governance To provide an "informed market" which include non-financial information

Background

Consultation paper on introducing an ESG Guide as a recommended practice	Consultation conclusions on the introduction of the ESG Guide	Consultation paper on revising the ESG Guide to upgrade certain disclosure obligations from recommended practice to "comply or explain"	Consultation conclusions on revising the ESG Guide
December 2011	August 2012	July 2015	December 2015

Process of Making and Revising Listing Rules

SEHK only adopts proposals for Rule changes if supported by the results of a rigorous and transparent public consultation process



ESG Consultation 2015:

Received a total of 203 responses from a broad range of respondents, a majority supported upgrading the Guide to "comply or explain"

Mandatory Disclosure Requirements



- All Hong Kong incorporated companies (unless exempted) must include in the business review section of their annual directors' reports a discussion of environmental and social matters
- ESG disclosure requirements under the Companies Ordinance apply to all listed companies, regardless of their place of incorporation
- General obligation of disclosure (applicable to any information including ESG-related information)
- Disclose inside information under Part XIVA (Disclosure of Inside Information) of the Ordinance (applicable to any information including ESG-related information)

Consultation on Review of the ESG Guide in 2015 and Main Amendments (1)

Structure of the ESG Guide and "Comply or Explain" Disclosure Requirements

- Re-organised into two Subject Areas: A. Environmental and B. Social
- All the General Disclosures of various ESG Aspects under the "Environmental" and "Social" Subject Areas as well as all the "Environmental" Key Performance Indicators subject to "comply or explain"

Consultation on Review of the ESG Guide in 2015 and Main Amendments (2)

Other Amendments to the ESG Guide	 Revised introductory section of the ESG Guide to include reporting principles and guidance Revised wording of General Disclosures Incorporated gender diversity into voluntary provisions
 Phased Implementation of the revised ESG Guide Upgrade of General Disclosures: Financial year of 2016 Upgrade of Environmental Key Performance Indicators: Financial year of 2017 	

Review of Corporate Governance Code on Risk Management and Internal Control

Governance separately addressed in SEHK's Corporate Governance Code

Recent revamp of the risk management and internal control aspects of the Corporate Governance Code Issuers should, on a "comply or explain" basis, disclose in their corporate governance reports a number of risk management related matters, including (but not limited to):

- the process used to identify, evaluate and manage significant risks;
- the main features of the issuer's risk management and internal control systems; and
- an acknowledgement by the board that it is responsible for the issuer's risk management and internal control systems and reviewing their effectiveness

Combined Approach of Rules, "Comply or Explain" Provisions and Recommended Disclosures

Why "Comply or Explain" ?

Accommodate a wide variety of business models Allow companies to develop their practice and decide on the reporting scope

An effective tool to encourage ESG reporting, according to research Does not mean most issuers will choose to explain rather than disclose

Overseas Practices (1)

In many of the overseas jurisdictions reviewed, disclosure of ESG issues by listed issuers is subject to a combination of mandatory, "comply or explain" and voluntary provisions, similar to the Exchange's approach

Mandatory

High level discussions of environmental and social issues in their annual reports

"Comply or explain"

ESG policies, ESG-related laws and regulations that significantly impact on them

Voluntary

Additional best practice guidelines and recommendations

Overseas Practices (2)

Benchmarked with international reporting guidance, including GRI Guidelines

- Been encouraging issuers to adopt international guidelines and standards, such as those of the GRI Guidelines, when preparing their ESG disclosures
- Most of the disclosure provisions in our ESG Guide have comparable disclosure provisions in the GRI Guidelines
- GRI Guidelines serve only as guidance to companies on how to present sustainability disclosures

ESG Disclosure Requirements for New Listing Applicants

Listing document requirements:

Accurate and complete in all material respects and not misleading or deceptive

Disclose material risks faced (including ESG-related risks), details of material regulations directly relevant to the current and future businesses, and how these regulations will affect business operations and future developments

"Health, work safety, social and environmental matters" as a key area of disclosure

SEHK's Efforts to Promote ESG Reporting



- September and October 2013: held 12 seminars attended by over 1,800 issuer representatives and market practitioners
- March 2016: held a new series of 12 seminars registered by some 2,400 issuer representatives and market practitioners

- 2013: dedicated an ESG webpage on HKEX's website
- March 2016: revamped the ESG webpage to include updated online training materials and resources
- April 2016: webcasts in English, Cantonese and Putonghua



Development of ESG Guide has been, and will continue to be, an **evolutionary** process, with the longer term goal of achieving better and more comprehensive ESG reporting amongst issuers

SEHK intends to monitor the level of ESG reporting amongst issuers and **review the Guide periodically** going forward