



ENVIRONMENTAL, SOCIAL AND  
GOVERNANCE DISCLOSURE  
REQUIREMENTS

**HKEX**  
香港交易所

# Role and Function of SEHK (1)

- Principal function of SEHK is to provide a fair, orderly and efficient market for the trading of securities
- In furtherance of this, the Exchange makes Listing Rules under **Section 23 of Securities and Futures Ordinance**



## 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

December 2011

Consultation conclusions on the introduction of the ESG Guide

August 2012

Consultation paper on revising the ESG Guide to upgrade certain disclosure obligations from recommended practice to “comply or explain”

July 2015

Consultation conclusions on revising the ESG Guide

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



# Way Forward

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

