Submission to
the Hong Kong Stock Exchange
on its review of the Environmental, Social and Governance Reporting Guide

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Introduction

Oxfam Hong Kong (OHK) has been promoting corporate social responsibility (CSR) since 2004. We believe that corporate behaviour has a far-reaching impact on overall socioeconomic development. We also believe that poor people would benefit if all companies integrated CSR into their operations and decision-making processes as this would provide people who live in poverty with decent work, access to credit, quality goods and services, help them benefit from economic development, and thus reduce poverty.

The global community is now facing various critical issues: economic crises, skyrocketing food prices, the exploitation of labour, poor supply chain management, frequent product safety scandals, serious environmental damage, climate change, as well as more frequent natural disasters. The poor bear the brunt of all these problems and suffer most. Companies also now have greater global influence than ever before; we believe that by integrating social and environmental responsibility into their core business operations and decision-making processes, companies can significantly impact poverty reduction efforts.

OHK is thus urging all enterprises to enhance their transparency in Environmental, Social and Governance (ESG) disclosure so that the public can better understand and even monitor their CSR performance. We hope companies will make commitments and report on areas like labour, the environment, human rights and equal opportunities, and set pro-poor policies. To date, the Hong Kong Stock Exchange (HKEx) has not made ESG disclosure mandatory. Currently, whether or not this information is available is solely dependent upon companies' willingness to provide it or how much they want to provide. Overall, the number of listed companies willing to disclose this information is small; the current situation is far from ideal and falls below international standards.。

OHK believes that ESG report not only enhances the transparency of a corporation, but also assists the public make sustainable investment decisions. This could motivate corporations to act socially responsibly, and this in turn would benefit the poor and help alleviate poverty. Since the Hong Kong Stock Exchange launched a consultation to review the ESG reporting guideline, OHK would like to take this opportunity to share its views and recommendations.

Our analysis

The ESG Guide came into effect for issuers' 2013 reporting year. Until now, the number of issuers that report on their ESG performance remains low while the reporting framework is far from international standards. According to the KPMG Survey of Corporate Responsibility Reporting 2013, Hong Kong's ESG disclosure standards were ranked the lowest, scoring only 39 out of 100 in comparison to European, American and Asia-Pacific companies.[1]

OHK supports the HKEx's initiative of conducting a consultation to enhance ESG reporting standards. In order to have a better understanding on the proposed amendments, we compared the HKEx's Guide with the Global Reporting Initiative's (GRI) G4 Guidelines. Our analysis is as follows:

1. The Guide should set a clear timetable for mandatory disclosure

Developed financial markets and emerging markets – such as the London Stock Exchange, Nasdaq and New York Stock Exchange, Bursa Malaysia and the Indonesia Stock Exchange – have adopted stringent ESG disclosure policies. This reflects the growing demand for high quality ESG disclosure in the global financial market (See Appendix I). As the fifth largest stock exchange in the world in terms of market capitalisation[2], Hong Kong's ESG reporting standards are not on par with international standards. As such, the Guide has failed to encourage financial industries to promote social responsibility.

It is worth mentioning that results from a study report that the Organisation for Economic Co-operation and Development (OECD) published in 2014 showed that enterprises are reluctant to put much effort in CSR reporting when it is not mandatory.[3] This finding indicates the undeniable importance of mandatory reporting. A report Ernst & Young published in 2013 also showed that governments and stock exchanges have already mandated ESG reporting legislation.[4] According to our analysis, many countries enforce mandatory reporting to enhance ESG disclosure by legislating this or incorporating it into their listing rules.

The United Kingdom amended the Companies Act in 2006 and 2013 respectively. These amendments require all quoted companies to disclose information about their greenhouse gas emissions, human rights and gender diversity performance, and other ESG information. In the United States, the Securities and Exchange Commission issued a set of guidelines on climate disclosure in 2010. It requires companies to disclose how the impact of climate change that affects their businesses in their annual report. Most significantly, the EU Council adopted the 'Directive on disclosure of non-financial and diversity information by certain large undertakings and groups' in September 2014. This requires certain large companies, with more than 500 employees, to disclose in their management report, information on policies, risks and outcomes related environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues, and diversity in their board of directors.

Japan has been implemented the 'Law on the Promotion of Business Activities with Environmental Consideration by Specified Corporation' since the financial year of 2005. It requires specified companies and government agencies to publish annual reports on their activities related to the

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[1] https://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/corporate-responsibility-reporting-survey-2013-exec-summary.pdf

[2] http://www.gov.hk/en/about/abouthk/factsheets/docs/financial_services.pdf

[3] http://www.oecd.org/sd-roundtable/papersandpublications/The%20Evolution%20of%20Corporate%20Reporting%20for%20Integrated%20Performance.pdf

[4] http://www.ey.com/Publication/vwLUAssets/EY-Sustainability-reporting-the-time-is-now/$FILE/EY-Sustainability-reporting-the-time-is-now.pdf

environment and its remedial measures. In 2008, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and Bursa Malaysia also required listed companies to disclose their environmental, governance and social responsibility performance. The Indonesian government also enacted a CSR regulation in 2012 that requires list companies and companies that manage or utilise natural resources to disclose how they implemented their CSR work plan in the previous year in each company's annual report. Recently, Taiwan Stock Exchange Corporation requires specific listed companies to start mandatory corporate ESG reporting and is the first market in the Asia-Pacific region to mandate ESG reporting . As such, we can expect that mandatory ESG disclosure will become increasingly popular in the global financial market.

Recently, OHK published a survey about institutional investors' views on listed companies' ESG disclosure requirements (Disclosure Survey). The survey found that 64.3 per cent of respondents agreed or strongly agreed that the HKEx should adopt the 'comply or explain' approach to ensure ESG reporting (See Appendix II Figure 1), while 64.3 per cent of respondents agreed or strongly agreed that the government should enforce mandatory ESG reporting among listed companies (See Appendix II Figure 2). These figures show that the institutional investors view mandatory ESG reporting positively. To catch up with the development of the global financial market and meet institutional investors' expectations, the HKEx should set a timetable indicating when it will shift from the 'comply or explain' approach to mandatory ESG reporting.

2. Disclosure standards lag behind international standards

Regarding disclosure standards, the HKEx's proposed amendments are much laxer than the G4 Guidelines as they only require companies to provide general policy information. In comparison to the G4 Guidelines, which requires companies to report on 12 environmental aspects and 31 social aspects, however, the HKEx only requires companies to report on six environmental aspects and 12 social aspects – a 50 per cent and 38.7 per cent discrepancy between the G4 Guidelines and HKEx's reporting guide respectively (See Appendix III).

It is worth mentioning that among the HKEx's 12 social aspects, the HKEx only requires companies to take a 'comply or explain' approach to disclosure its current policies, while its implementation practices and performance can be disclosed on a voluntary basis. With regard to human rights, the HKEx only requires companies to disclose policies related to child labour and forced labour on a 'comply or explain' basis. However, it does not take other human rights issues into account, such as, investment agreements and contracts that include human rights screening or any investments violating indigenous rights.

Results from the Disclosure Survey also show that human and labour rights in companies' supply chains are of crucial importance to institutional investors. However, the HKEx only requires companies to disclose environmental and social risks in their supply chain based on a 'comply or explain' approach; the practice of human and labour rights in corporate supply chains are not included (See Appendix III).

Human rights issue in corporate behaviour was placed on the agenda of the international governmental organisations several years ago. The Special Representative of the United Nations' Secretary-General (SRSG) on Business and Human Rights Professor John Ruggie announced his Corporate Law Tools (CLT) Project in early 2009. The study aimed to investigate whether and how corporate and securities laws in over 40 jurisdictions foster respect towards human rights within corporations, improve the human rights practices, and raise awareness about human rights issues. As of August 2015, there were 36 completed reports in the series, including a report on China (including Hong Kong).[5] Recently, they launched a public consultation on 'The Corporate Human Rights Benchmark', which will rank globally

[5]http://business-humanrights.org/en/reports-on-corporate-law-tools-0

listed companies based on their human rights policies, process and performance to encourage better performance in this area.[6]

Our analysis not only showed the lack of comprehensiveness and in-depth analysis regarding companies' ESG performance in the Guide, but also shows how the Guide lags behind international standards despite the growing number of investors who consider ESG performance in investment decisions. According to the Disclosure Survey, 59.6 per cent of respondents said that ESG factors affected their investment decisions (See Appendix II Figure 3), indicating high demand for comprehensive and in-depth ESG disclosure. OHK is thus disappointed that the proposed amendments do not meet the expectations and needs of the financial market.

In recent years, an increasing number of institutional investors are placing more emphasis on CSR and considering it when making investment decisions. Since 2006, the United Nations has been promoting responsible investment and formed an international network of investors called the Principles for Responsible Investment (PRI) initiative. The Principles urge investors to consider the environmental and social impacts of their investment decisions on society before making these decisions. Currently (as of May 2015), the assets under management by its signatories stand at more than US$59 trillion from US$4 trillion at the Principle's launch in 2006.[7] This clearly shows that CSR and ESG are becoming increasingly important to asset management companies. If ESG disclosure standards are improved, listed companies' competitiveness and accessibility to capital would be enhanced.

3. The Guide should indicate its accountability mechanism clearly

Our study showed that developed financial markets and emerging markets have both adopted clear and strict mechanisms to hold listed companies accountable for their ESG disclosure or lack thereof. The Council of the European Union enacted the 'Directive on disclosure of non-financial and diversity information by certain large undertakings and groups' in 2014. This directive not only states that member states should ensure that penalties are enforced, but it also indicates that the penalties should be 'effective, proportionate and dissuasive'. In the United Kingdom, the directors are liable to a fine if their listed company fails to disclose the report, while in the United States, the U.S. Securities and Exchange Commission may revoke the registration of the reporting company.

In Asia, many countries that adopted mandatory disclosure also adopt accountability mechanisms; Malaysia, Indonesia and Taiwan, for instance, have adopted strict accountability mechanisms. In Malaysia, ESG disclosure and accountability mechanisms have been incorporated into listing requirements. If listed companies fail to fulfil this obligation, or provide misleading information, they will be liable to a fine or may be delisted. In Indonesia, the holder can be subject to criminal sanctions in the form of imprisonment, while the company will be subject to other sanctions if it fails to fulfil the to perform its social responsibility. On the other hand, listed companies in Taiwan are liable to a fine or trading may suspended if the company fails to report on its ESG performance. In China and Japan, the penalty is solely dependent upon relevant departments.

The Guide proposes to amend Main Board Rule 13.91 to state that the issuer must give considered reasons in its ESG report if he deviates from the 'comply or explain' provisions. However, we find that the Guide has not clearly stated how it will keep companies accountable or the consequences of their non-compliance. Therefore, OHK believes that the HKEx should indicate its accountability mechanism and make clear the consequences of non-compliance.

[6] http://business-humanrights.org/en/corporate-human-rights-benchmark
[7] http://www.unpri.org/news/pri-fact-sheet/

4. The Guide has not introduced third party assurance

Oxfam believes that third party assurance not only increases the creditability of a ESG report, but also enhances the reputation of listed companies. According to a 2014 study by Ernst & Young, 77 per cent of investors and analysts feel that third party assurance is very important to the sustainability report of a listed company.[8] That said, KPMG's 2013 CSR survey indicates that 59 per cent of international companies that report on their CSR performance invest in third party assurance,[9] indicating that international corporations tend to adopt third party assurance. OHK believes that it would be a lax approach if the HKEx leave third party assurance to the discretion of the issuers.

Based on this international trend, it is evident that investors and analysts place emphasis on the creditability of ESG reports. Therefore, OHK believes that the HKEx should look into the feasibility of introducing third party assurance in its ESG regulations.

[8] http://www.ey.com/Publication/vwLUAssets/EY-Sustainability-reporting-the-time-is-now/$FILE/EY-Sustainability-reporting-the-time-is-now.pdf

[9] https://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/corporate-responsibility-reporting-survey-2013-exec-summary.pdf

Our recommendations

OHK believes that the comprehensive disclosure of ESG information is important to practising CSR. Not only does it help the public more effectively monitor companies' CSR performance and improve their policies, but also helps reduce poverty and thus benefits poor people. In view of this, OHK's recommendations are as follows:

1. The HKEx should set a clear roadmap to mandate ESG reporting

Hong Kong is an international financial hub in Asia that can play a leading role to incentivise listed companies to practise CSR. However, the current disclosure policies clearly lag far behind international standards.

Major stock exchanges around the world (e.g. China-Shanghai Stock Exchange and Shenzhen Stock Exchange, those in the United States, United Kingdom, European Council and Taiwan) have already enforced mandatory ESG reporting requirements. As such, OHK recommends the HKEx to follow this international trend and set a clear timetable indicating when its ESG reporting requirements will shift from a 'comply or explain' approach to mandating it in all listed companies

In addition, major stock exchanges around the world – such as the London Stock Exchange, NASDAQ, New York Stock Exchange and Deutsche Börse – have joined the United Nations Sustainable Stock Exchanges Initiative (SSEI) and have been committed to promoting sustainability since 2012. As the fifth largest stock exchange in the world in terms of market capitalisation[10], the HKEx should follow suit and join the SSEI to promote CSR among listed companies.

2. The HKEx must comply with international standards to increase transparency

The HKEx, in its review of the ESG Reporting Guide, is only recommending a 'comply or explain' approach to environmental key performance indicators (KPIs). Moreover, the Guide not only neglects the importance of access to companies' social and foreign direct investment performance, but also fails to assess companies' performance in their supply chains, such as, human rights, labour rights and the potential negative consequences of business practices on local societies. We believe that CSR is an all-encompassing concept that involves environmental, social and foreign direct investment factors that should also be assessed equally. As such, the 'comply or explain' approach should not be limited to environmental performance, but should also take social and foreign direct investment factors into account.

Besides improving current disclosure standards, introducing third party assurance can also enhance the creditability of ESG reports. The HKEx's new policies would be lax if the Guide did not require third party assurance. Therefore, OHK recommends that third party assurance be provided in annual ESG reports in the long run.

In order to enhance transparency, OHK urges listed companies to incorporate ESG elements into their annual reports or publish them independently. Not only would this show listed companies' commitment to ESG reporting, but also enhances public accessibility to and the public's understanding of listed companies' ESG performance.

The HKEx could also revamp its HKExnews website so that it is more user friendly and establish an independent database to make it easier for the public to access companies' ESG reports. The HKEx

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[10] http://www.gov.hk/en/about/abouthk/factsheets/docs/financial_services.pdf

could also publicly name non-compliant companies on the HKExnews website, but it should also make clear the consequences of non-compliance.

3. The HKEx should encourage stakeholders and the public to pay greater attention to companies' CSR performance

Good CSR performance can reduce investment risks, create greater social value, and even reduce poverty. OHK welcomes the HKEx's recognition of the board's overall responsibility for an issuer's ESG strategy and reporting.OHK also believes that the HKEx should incentivise the board to adopt better disclosure policies by pointing out the benefits of ESG reporting.

In addition, investors should consider more CSR factors when making investment decisions and dialogue with company management about these issues during annual general meetings. Institutional investors should also consider NGOs' opinions in this area and even work together with them to better understand listed companies' CSR performance.

Besides the HKEx's current efforts to organise briefing sessions, seminars and workshops to equip listed companies with practical tools necessary for ESG reporting, we believe that the HKEx should evaluate the effectiveness of these measures regularly and improve them if necessary. Since the HKEx will adopt the 'comply or explain' approach in the coming year, it should make a greater effort on the training and education level. We believe that the ESG reporting could be implemented more effectively if listed companies gained greater support.

The HKEX should recognise the importance of working in tandem with local governmental and non-governmental initiatives devoted to promoting ESG practices, and encourage listed companies to proactively develop and participate in multi-stakeholder initiatives and other forms of direct stakeholder engagement.

Appendix 1: Global trends in ESG disclosure

(1) Asian Region

Institution	Scope of Application	Disclosure Model	Scope of Subject Matter	Disclosure Standard	Accountability Mechanism
Shanghai Stock Exchange[11] Shenzhen Stock Exchange[12] (2008)	Certain listed companies	Mandatory	Environment, social and governance matters	-	Companies may face certain disciplinary actions[13]
Taiwan Stock Exchange (2015)	Listed companies in Taiwan in the food industry; specific companies whose dining service revenue in the past year constitutes over 50 per cent of their total revenue; the financial services industries; the chemical industry, and companies with paid-in capital of over NT$10 billion (HK$2.7 billion)[14]	Mandatory	Companies must disclose critical information related to the industries in which they operate, including information on economic, environmental and social factors, as well as direction in management and key performance indicators	Adheres to the G4 Guidelines	The listed company may be imposed from NT$30 thousand to NT$ 1 million fine in accordance with the severity of the violations. If the company does not take any remedial measures, the stock may be suspended from trading[15]
The Government of Japan (2005)[16]	Specific corporations	Mandatory	Prepare and publish an environmental report each business or financial year	-	A civil fine shall be imposed

11 http://www.sse.com.cn/lawandrules/sserules/listing/stock/c/c_20120918_49642.shtml
12 http://www.szse.cn/main/en/rulseandregulations/sserules/2007060410636.shtml
13 http://www.sse.com.cn/lawandrules/sserules/listing/stock/c/c_20120918_49642.shtml
14 http://www.twse.com.tw/en/about/press_room/tsec_news_detail.php?id=15960
15 http://www.twse.com.tw/ch/products/publication/download/0001001821.pdf
16 https://www.env.go.jp/en/laws/policy/business.pdf

Appendix 1 (Cont)

(1) Asian Region

Institution	Scope of Application	Disclosure Model	Scope of Subject Matter	Disclosure Standard	Accountability Mechanism
Bursa Malaysia (2008)[17]	Listed issuer and its subsidiaries[18]	Mandatory	A description of the corporate social responsibility activities or practices	-	Listed companies may receive a warning letter or they may be fined. Securities may be subject to suspension and delisting in serious cases[19]
Indonesia Government (2012)[20]	Limited liability companies and companies that have business activities in the field of, and/or related to natural resources	Mandatory	Implementation of social and environmental responsibility shall be contain in the annual report	Take reference to GRI framework	Companies will be penalised in accordance with the provision of the legislation[21]

17 http://www.world-exchanges.org/sustainability/m-6-4-4.php
18 http://www.bursamalaysia.com/misc/system/assets/5949/MAIN_Chap%209_LRPh1%20%2827Jan2015%29.pdf
19 http://www.bursamalaysia.com/misc/system/assets/5001/MAIN_Chap%2016_LRPh1%20%2827Jan2015%29.pdf
20 http://www.ibanet.org/Article/Detail.aspx?ArticleUid=103427a1-0313-4d6c-b7f7-c5deb0bedbb5
21 http://www.ibanet.org/Article/Detail.aspx?ArticleUid=103427a1-0313-4d6c-b7f7-c5deb0bedbb5

Appendix 1 (Cont)

(2) Europe and America

Institution	Scope of Application	Disclosure Model	Scope of Subject Matter	Disclosure Standard	Accountability Mechanism
Council of the European Union (2014)[22]	Large listed companies that have more than 500 employees	Mandatory. Companies that do not have a specific policy in one or more of the ESG areas need to explain why this is the case	In their management reports, companies must disclose information on their policies, the risks and results in terms of environmental matters, social and employee-related matters, human rights, anti-corruption and bribery issues, as well as diversity within the boards of directors	Adheres to international standards, (e.g. follows UN Global Compact, OECD Guidelines for multinational enterprises and ISO 26000)	Member States shall take all the measures necessary to ensure that those penalties are enforced; the penalties provided for shall be effective, proportionate and dissuasive[23]
U.K. Government (2006/2013)[24]	U.K. quoted companies including those that are (a) incorporated in the U.K.; and (b) whose equity share capital is (i) officially listed on the Main Market of the London Stock Exchange; or (ii) officially listed in a European Economic Area; or (iii) admitted for dealing on either the New York Stock Exchange or NASDAQ	Mandatory	Environmental matters, employees, social and community issues, greenhouse gas emissions, human rights and gender diversity	-	A person guilty of an offence is liable to a fine

[22] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095&from=EN
[23] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0034&from=EN
[24] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206241/bis-13-889-companies-act-2006-draft-strategic-and-directors-report-regulations-2013.pdf

Appendix 1 (Cont)

Institution	Scope of Application	Disclosure Model	Scope of Subject Matter	Disclosure Standard	Accountability Mechanism
U.S. Securities and Exchange Commission (2010)[25]	All listed companies	Mandatory	Submit annual reports (on Form 10-K) to SEC with information on a number of environmental matters, such as expenditure on environmental controls, and pending environmental litigation	-	The listed company may face administrative prosecution; SEC may revoke the registration of the reporting company[26]

[25] https://www.sec.gov/rules/interp/2010/33-9106.pdf
[26] http://www.sec.gov/investor/alerts/ib_delinquent_filers.htm

Appendix 2: Survey on institutional investors' views on listed companies' environmental, social and governance disclosure requirements

Figure 1: Institutional investors' views on the HKEx in making ESG reporting mandatory

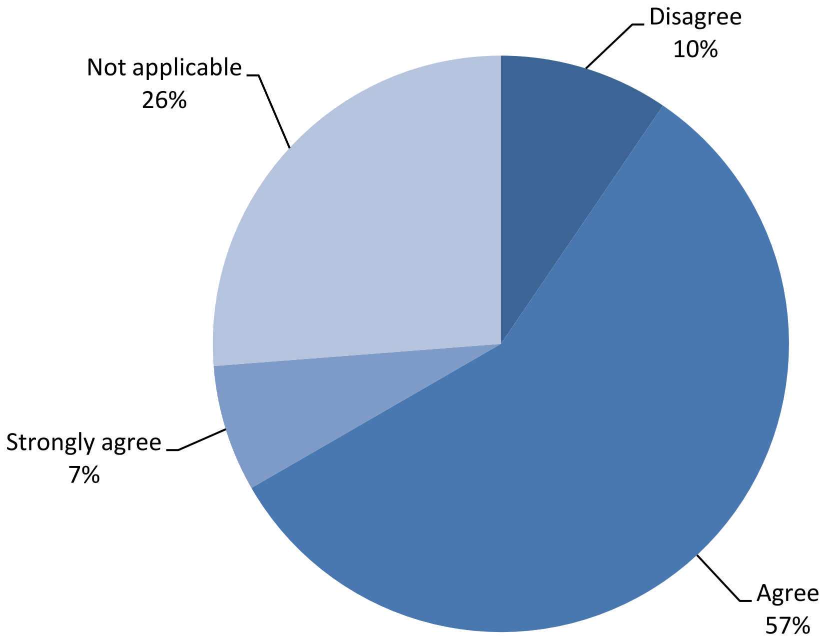


Figure 2: Institutional investors' views on the HKSAR Government setting up a code or law to promote responsible investment

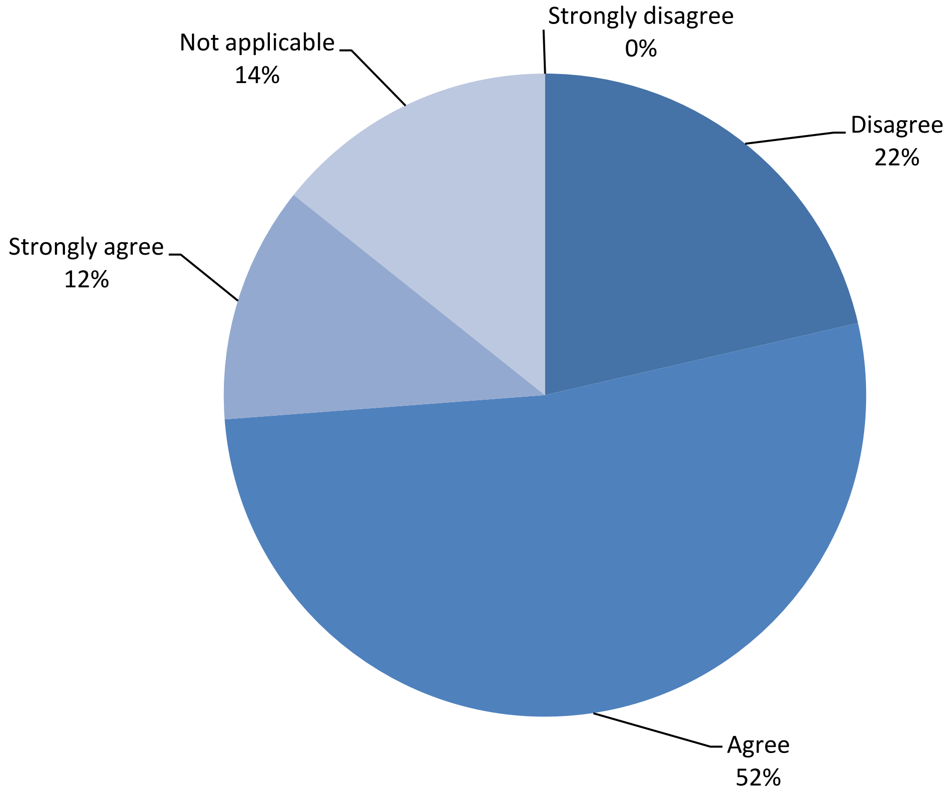
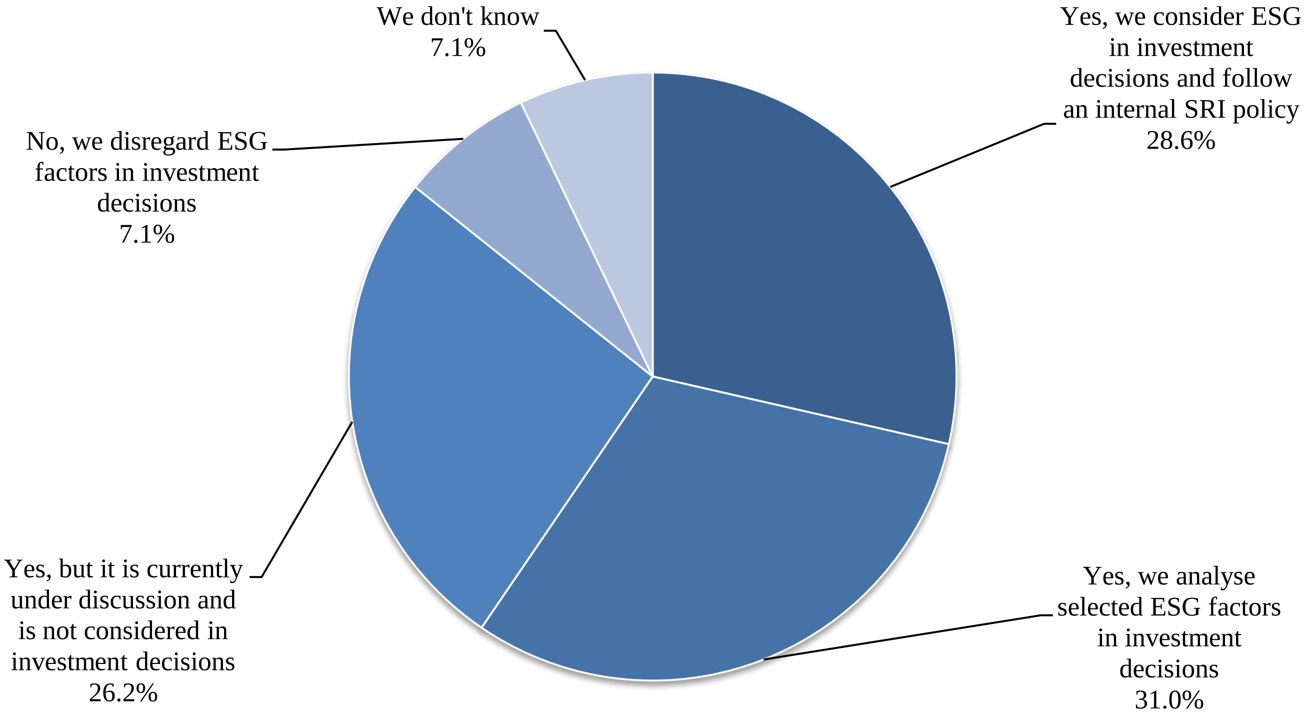


Figure 3: Whether investors carry out Socially Responsible Investing (SRI) or consider ESG performance when making investment decisions



Report please refers to：http://www.oxfam.org.hk/content/98/content_22944en.pdf

Appendix 3

Comparison between the GRI G4 Guidelines and the HKEx's reporting guide (environmental aspects)

G4 Guidelines' environmental aspects	HKEx's proposed reporting guide
1. Emissions	✓
2. Energy	✓
3. Water	✓
4. Material	✓
5. Bio-diversity	✓
6. Effluents and Waste	
7. Products and Services	✓
8. Compliance	
9. Transport	
10. Overall	
11. Supplier Environmental Assessment	
12. Environmental Grievance Mechanisms	
Total	**6**

Appendix 3 (Cont)

Comparison between the GRI G4 Guidelines and the HKEx's reporting guide (social aspects)

G4 Guidelines' social aspects	HKEx's proposed reporting guide
Labour Practices and Decent Work	
1. Employment	✓
2. Labour/Management Relations	
3. Occupational Health and Safety	✓
4. Training and Education	✓
5. Diversity and Equal Opportunity	
6. Equal Remuneration for Women and Men	
7. Supplier Assessment for Labour Practices	
8. Labour Practices Grievance Mechanisms	

Appendix 3 (Cont)

<u>Comparison between the GRI G4 Guidelines and the HKEx's reporting guide (social aspects)</u>

G4 Guidelines' social aspects	HKEx's proposed reporting guide
Human Rights	
9. Investment	
10. Non-discrimination	
11. Freedom of Association and Collective Bargaining	
12. Child Labour	✓
13. Forced or Compulsory Labour	✓
14. Security Practices	
15. Indigenous Rights	
16. Assessment	
17. Supplier Human Rights Assessment	
18. Human Rights Grievance Mechanisms	

Appendix 3 (Cont)

Comparison between the GRI G4 Guidelines and the HKEx's reporting guide (social aspects)

G4 Guidelines' social aspects	HKEx's proposed reporting guide
Society	
19. Local Communities	✓
20. Anti-corruption	✓
21. Public Policy	
22. Anti-competitive Behaviour	
23. Compliance	
24. Supplier Assessment for Impacts on Society	✓
25. Grievance Mechanisms for Impacts on Society	
Product Responsibility	
26. Customer Health and Safety	✓
27. Product and Service Labelling	✓
28. Marketing Communication	
29. Customer Privacy	✓
30. Property Rights	
31. Compliance	✓
Total	**12**