

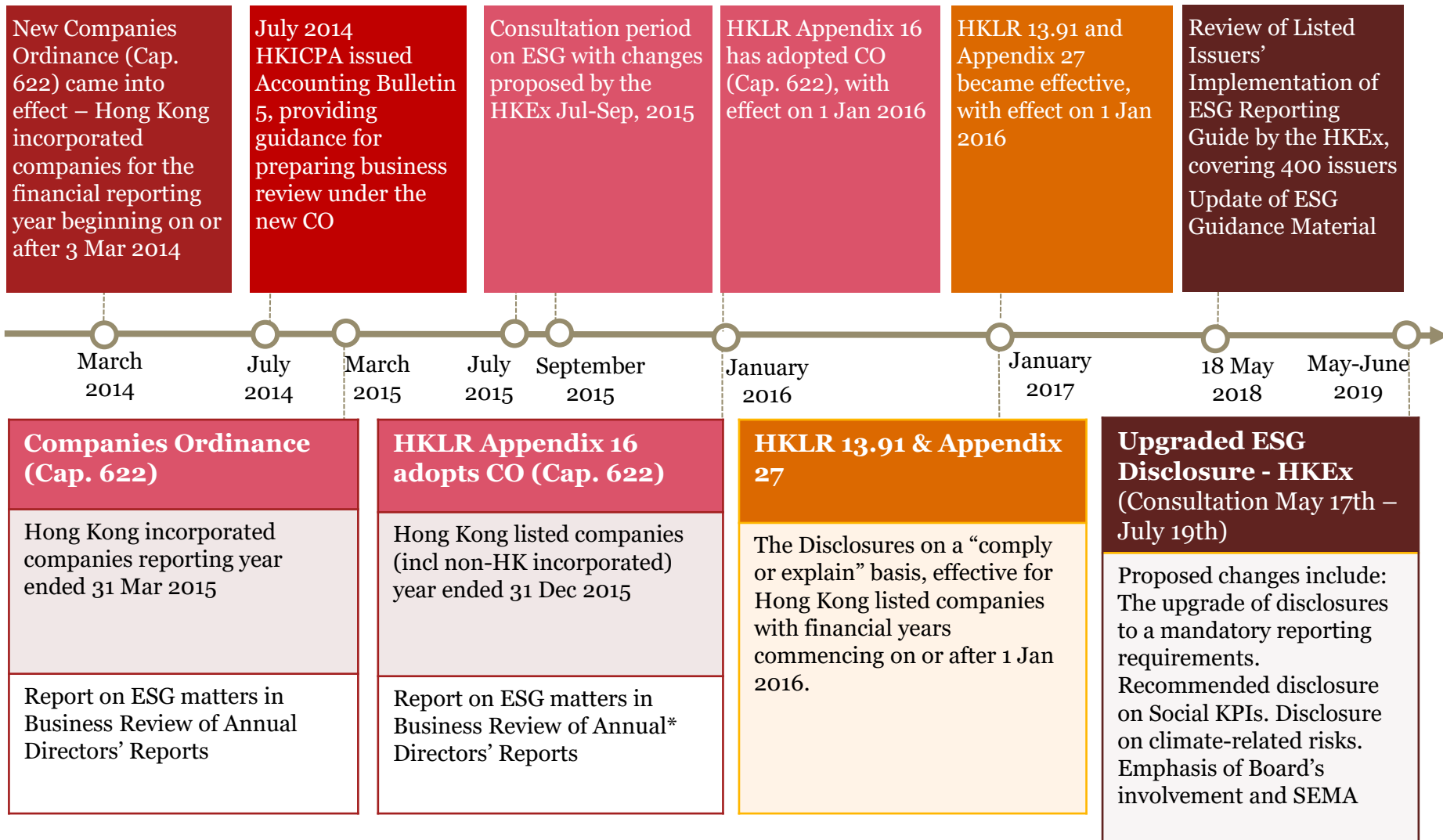
# *ESG Requirements*

.....  
September 2019



# Overview of Sustainability

## The ESG Journey



# Overview of Sustainability

## Values of ESG Reporting

*Good ESG reporting creates value for companies and investors*

### *Competitive advantage enabled by ESG reporting:*

- *Opportunities for new funding*
- *Reputation / Branding*
- *Employee loyalty*
- *Customer loyalty*
- *Operating efficiency e.g. waste reduction*
- *Investor relationships*
- *Regulator relationships*
- *Innovation and growth*



**MSCI** 

**ESG Fund Ratings**

AAA	LEADER
AA	
A	AVERAGE
BBB	
BB	
B	LAGGARD
CCC	

# Overview of Sustainability

## How the Capital Market Views Sustainability

Capital market is one of the key forces driving the sustainability agenda around the world.

“Demographic shifts, stakeholder advocacy, and government regulation are combining to create unprecedented demand for sustainable and impact investment solutions.”

Deborah Winshel,  
Managing Director and Global Head of  
Impact Investing, BlackRock

“As a company, if you ignore sustainability, you’re going to be worth less.”

Tim Freshwater,  
Chairman, Goldman  
Sachs Asia Pacific

“Sustainable Investing is an incredibly important part of our Firm’s DNA, and the launch of Integro underscores our commitment to promote sustainable finance solutions while serving the needs of our clients”

James Gorman,  
Chairman and CEO of Morgan Stanley

“As long term investors, management of environmental, social, and governance issues is important to PGGM for both financial and social reasons. Our clients and their beneficiaries ask us about these issues and we want to be at the leading edge of responsible investment.”

Tim van der Weid,  
Former Responsible investment  
Consultant, PGGM

“We believe that the firms which are most proactive in their wider responsibility will deliver the best economic returns. Economic returns are not a contradiction to social and sustainable investing; it is one way leading private equity firms will deliver value. Sustainable investment is not only the right thing to do, it also delivers measurably better returns.”

Andrew Sillitoe and Mitch Truwit, Co-  
CEO of Apax Partners

“The rapid growth of ESG reporting practices is extremely encouraging but collaboration between LPs will be absolutely critical to the development of consistent and meaningful disclosure from GPs.”

Fiona Reynolds  
Managing Director, Principles  
for Responsible Investment

# Overview of Sustainability

## Key Sustainability Issues

Sustainability covers a broad range of topics and addresses the concerns of a diverse group of stakeholders.



Examples of stakeholders who are influential on sustainability agenda

# ESG Reporting Requirements

## ESG Guide HKLR Appendix 27

### A. Environmental

#### Aspects

**A1** Emissions

**A2** Use of Resources

**A3** The Environmental and Natural Resources

HKLR Appendix 27 came into effect in January 2016.

HKEx issued “7 recommendations” in ESG disclosure in May 2018, followed by other updates in November 2018.

*A consultation paper on Review of the ESG Reporting Guide and Related Listing Rules was published by HKEx in May 2019 and concluded in July 2019.*

<b>General Disclosures</b>	<b>Comply or Explain (2016)</b>
----------------------------	---------------------------------

<b>KPIs</b>	<b>Comply or Explain (2017)</b>
-------------	---------------------------------

### B. Social

#### Aspects

#### Employment and Labour Standards

**B1** Employment

**B2** Health and Safety

**B3** Development and Training

**B4** Labour Standards

#### Operating Practices

**B5** Supply Chain Management

**B6** Product Responsibility

**B7** Anti-corruption

#### Community

**B8** Community Investment

<b>General Disclosures</b>	<b>Comply or Explain (2016)</b>
----------------------------	---------------------------------

<b>KPIs</b>	<b>Recommended Disclosures</b>
-------------	--------------------------------

# ESG Reporting Requirements

## Overview of Consultation on ESG Disclosure

HKLR Appendix 27

HKLR 13.91(4)

The consultation proposed changes effective from financial years commencing on or after 1 January 2020

### Introducing Mandatory Disclosure Requirements

1. Disclosure of **Governance Structure**
  - (i) The board's oversight of ESG issues
  - (ii) The process used to identify, evaluate and manage material ESG-related issues
  - (iii) How the board reviews progress made against ESG-related goals and targets
2. Disclosure of **Reporting Principles**
  - (i) **Materiality** – the process for the selection of material ESG factors, for example stakeholder engagement
  - (ii) **Quantitative** – information on the standards, methodologies, assumptions and/or calculation tools used, and source of conversion factors used
3. Disclosure of **Reporting Boundary**

Describe the process used to identify the specific entities of operations that are included in the ESG report

### Introducing Aspect on Climate Change & Revising Environmental KPIs

4. Disclosure of policies on measures to identify and mitigate the **significant climate-related issues**, and description of these significant issues and actions taken to manage them
5. Description on **environmental targets** set and steps taken
6. Disclosure of **Scope 1 and Scope 2 GHG emissions**

### Upgrading Disclosure Obligation of Social KPIs

7. Upgrade Social KPIs from recommended disclosures to **“comply or explain”** provisions

### Revising Social KPIs

8. Include “full- and part-time” staff under **“employment types”**
9. Disclosure of **number of and rate of work-related fatalities occurred** in each of the past 3 years, including the reporting year
10. Description of **supply chain management** practices used to:
  - (i) Identify the **environmental and social risks** along the supply chain, and how they are managed and monitored
  - (ii) Promote **environmentally preferable products and services** when selecting suppliers, and how they are implemented and monitored
11. Disclosure of **anti-corruption training** provided to directors and staff to create a healthy corporate culture and ethics

### Encouraging Independent Assurance

12. Description on the **level, scope and processes adopted** for assurance, if assurance is obtained

### Timeline and printed form

- **Not required to provide printed form of standalone report to shareholders** unless specifically requested
- Shortened timeframe from 3 months after the publication of annual report to within **4 months** from the financial year-end

# ESG Reporting Requirements

## Sustainability Requirements and Framework

### Global Sustainability Frameworks



### Regulatory Requirements





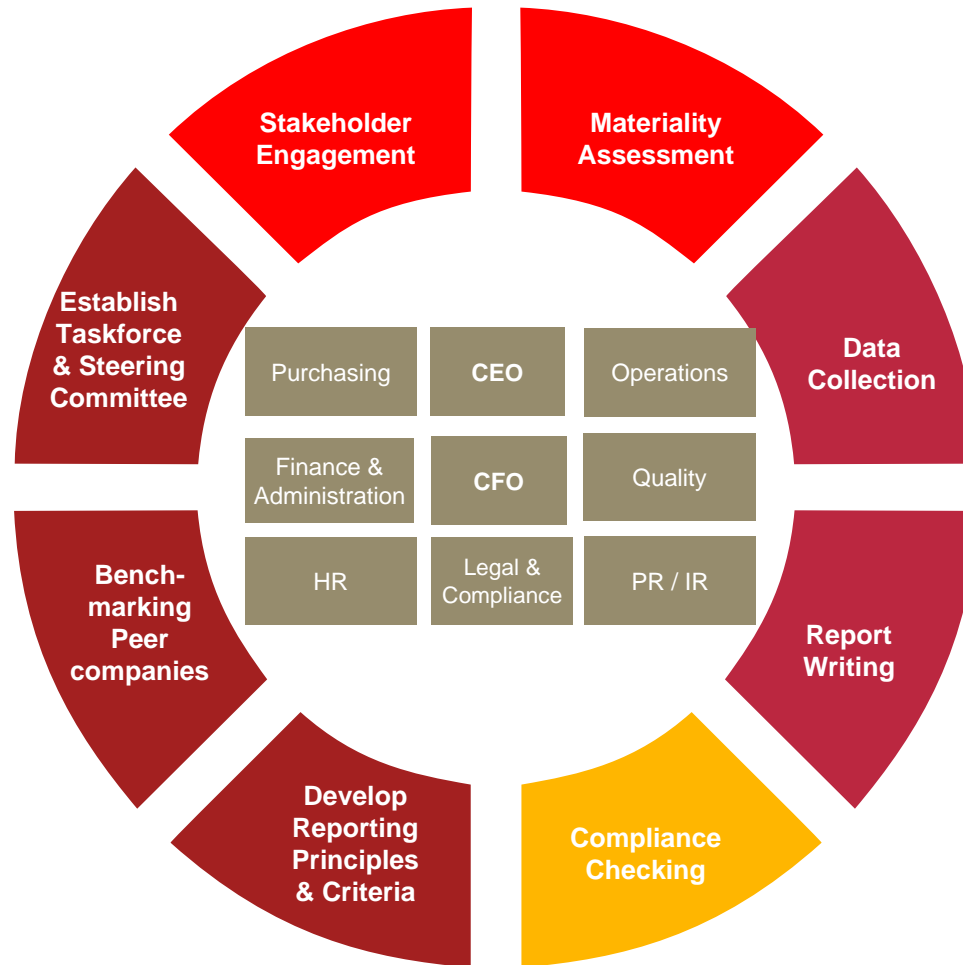
# ESG Reporting Requirements

## Global Reporting Initiative vs HKEx's ESG Guide

	GRI Standard	HKEx ESG Guide (Appendix 27)
<b>General disclosure</b>		
Corporate strategy and profile	17 indicators (risk, opportunities, employees collective bargaining agreement, significant changes in organisation)	Disclosure on Employee statistics and number of suppliers only
Aspects, boundaries and stakeholder engagement	20 indicators (Material aspects, list of stakeholder, the basis for identification and approach to engage)	Required but no disclosure requirements
Governance	22 indicators (Governance structure, values, performance, remuneration)	Included in the Listing Rules Appendix 14 Corporate Governance Code and Corporate Governance Report
<b>Disclosure on materials aspects</b>		
Disclosure on management approach on each material aspects	Report and evaluate how the organisation manages each material aspect or its impacts, and the related adjustments to the approach	Mainly on policies and compliance issues only
Economics	13 KPIs	N/A
Environment	33 KPIs	12 KPIs
Social	40 KPIs	20 KPIs

# ESG Reporting Methodology

The diagram represents an overview of methodology for sustainability reporting



# *How PwC can help*

Our sustainability team help clients based on the market demand, and our service offerings can be broadly categorised as follows:

## *Assurance and Reporting*

- To assist on the preparation of ESG disclosure report
- To enhance the report credibility with independent ESG data assurance
- To support on the quality enhancement of ESG disclosure report

## *Sustainable Investment & Green Finance*

- To assist the adoption of responsible investment through the enhancement of ESG governance framework, policies and procedures
- To integrate ESG factors into the risk assessment and investment decision process, for example, through the consideration of climate risks with TCFD
- To review ESG readiness during the pre-investment due diligence process, as well as the post-investment tracking

## *Strategy and Operation*

- To enhance overall ESG strategy and integrate into key business decisions
- To increase management accountability and incentives, and strengthen the ESG governance and monitoring framework
- To benchmark the ESG performance with international sustainability frameworks and other industry peers
- To design, implement and result measure ESG initiatives



# Thank You!

---

For any further questions, please contact:



*PricewaterhouseCoopers  
22/F Prince's Building  
Central, Hong Kong  
T: +852 2289 8888  
D: +852 2289 1150  
F: +852 2810 9888  
Robert.d.milnes@hk.pwc.com*

**Robert Milnes**  
*Senior Manager, Risk Assurance*



This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2019 PricewaterhouseCoopers Limited. All rights reserved. PwC refers to the Hong Kong member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.