

LCQ6: Environmental, social and governance performance of listed companies

Following is a question by the Hon Mrs Regina Ip and a reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (June 26):

Question:

In recent years, investors have attached an increasing importance to the performance of enterprises in the "environmental, social and governance" (ESG) aspects. It has been reported that MSCI and S&P Global Ratings have respectively introduced ESG Rating and ESG Evaluation, and have included ESG criteria in assessing enterprises' credit worthiness. In this connection, will the Government inform this Council:

(1) whether it will urge the relevant institutions to expeditiously introduce ESG indices or ESG evaluations of listed companies, so as to keep up with the global trend; if so, of the details; if not, the reasons for that;

(2) of the specific measures in place to encourage listed companies to enhance their ESG performance, and to verify how credible the ESG information disclosed by listed companies is; and

(3) whether it will request the regulatory bodies to reprimand those listed companies with persistently poor ESG performance and take actions against them; if so, of the details; if not, the reasons for that?

Reply:

President,

In recent years, enterprises and investors around the world have attached increasing importance to enterprises' standards on environmental protection, social responsibility and corporate governance (hereafter referred to as "ESG"). They acknowledge that they should properly address the enterprises' risks and opportunities in these aspects in order to enhance their overall operation and performance.

As an international financial centre, Hong Kong has always closely followed the development of the international standards and requirements on the enterprises' ESG aspects. We are committed to encouraging enterprises to enhance their work in these aspects and expect to elevate the level of their work in these aspects through setting relevant disclosure requirements on ESG aspects for listed companies. Among them, the Stock Exchange of Hong Kong (SEHK) published the Environmental, Social and Governance Reporting Guide

(ESG Reporting Guide) as early as in 2013 to provide a reporting framework for listed companies and to require them to report on their work in the ESG aspects annually. The SEHK has been reviewing and revising the ESG Reporting Guide from time to time over the past few years in light of market development in order to enhance the level of ESG reports of the listed companies.

In May this year, the SEHK published a consultation paper on the review of the ESG Reporting Guide and the relevant Listing Rules, and proposed further enhancement to the ESG reporting obligations of listed companies. In addition, the Securities and Futures Commission announced its Strategic Framework for Green Finance in September 2018 to explore more diversified green investment opportunities by enhancing the consistency and comparability of the environmental information disclosed by listed companies.

Our response to the three parts of the question is as follows:

(1) As more and more investors are attaching importance to the performance of listed companies in the ESG aspects, we understand that index compilers and rating agencies around the world have launched evaluation indices in these aspects. In Hong Kong, Hang Seng Indexes Company has launched the Hang Seng Corporate Sustainability Index Series since July 2010 and launched the HSI ESG Index on May 14, 2019. The HSI ESG Index makes reference to the results of the Hong Kong Quality Assurance Agency's (HKQAA) sustainability rating of listed companies to determine their index weighting. It helps provide investors with a benchmark and facilitates them to invest in listed companies with good ESG performance. The HKQAA's sustainability rating for listed companies is measured by making reference to the company's performance in seven core subjects, including corporate governance, environment, community involvement and development, consumer issues, etc. Every assessed eligible company will receive a score (0 to 100) and rating (D to AAA) to reflect its overall performance.

The Government will continue to require listed companies to make more comprehensive disclosures in the ESG aspects through the requirements as imposed by the SEHK to allow investors and other institutions to have a more objective and accurate basis to assess the performance of listed companies in these aspects.

(2) The SEHK has been pursuing the objective of enhancing the performance of listed companies in the ESG aspects by requiring them to disclose the extent of their work. The consultation paper published by the SEHK just in May also continues to encourage and require listed companies to improve their performance in these aspects along the same direction.

The Listing Rules require listed companies to ensure the accuracy of the information they disclose (including the ESG reports). Otherwise, the relevant listed companies will be regarded as having breached the general disclosure obligation of the Listing Rules and may be subject to disciplinary actions such as public reprimand, suspension of trading, delisting, etc. The SEHK will conduct spot check on the listed companies' ESG Reports to

understand the compliance situation of the listed companies. It will also publish reports to provide guidance on the areas that the companies have fallen short of the requirements. In addition, the SEHK also proposed in the consultation paper published in May this year to amend the ESG Reporting Guide to encourage listed companies to seek independent verification of their ESG Reports with a view to enhancing the credibility of the ESG information disclosed.

In addition to compiling the ESG Reporting Guide, the SEHK provides e-training to listed companies to help them understand the role of the company's leadership in ESG work, the importance of ESG Reports, ways to prepare proper reports, etc. This will help listed companies improve their ESG work.

(3) The Listing Rules require listed companies to publish ESG Reports in accordance with the requirements in the ESG Reporting Guide. Under the current system, the SEHK and the regulators will not penalise the listed companies in respect of their performance under the subject areas and the key performance indicators of the ESG Reporting Guide. However, listed companies must ensure the accuracy of the information stated in the report. Otherwise, they will be regarded as having breached the general disclosure obligation of the Listing Rules and may be subject to the relevant disciplinary actions (such as public reprimand, suspension of trading, delisting, etc.) We understand that overseas markets currently do not have mechanism to reprimand listed companies for their poor performance in their ESG work. Investors can base on the information disclosed by listed companies and make reference to the ratings as provided by the relevant rating agencies or index compilers to make their investment decisions.

Thank you President.