



# ICGN

International Corporate Governance Network

Attn: Corporate Communications Department  
Hong Kong Exchanges and Clearing Limited  
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Hong Kong

By email to: [response@hkex.com.hk](mailto:response@hkex.com.hk)

9 April 2012

Dear Sir or Madam

**Re: Consultation Paper on ESG Reporting Guide.**

We are writing on behalf of the International Corporate Governance Network (ICGN). The ICGN is a global membership organisation of institutional and private investors, corporations and advisors from 50 countries. Our investor members are responsible for global assets of U.S. \$18 trillion. The ICGN's mission is to raise standards of corporate governance worldwide. In doing so, the ICGN encourages cross-border dialogue at conferences and influences corporate governance public policy through ICGN Committees. We promote best practice guidance, encourage leadership development and keep our members informed on emerging issues in corporate governance through publications and the ICGN website. Information about the ICGN, its members, and its activities is available on our website: [www.icgn.org](http://www.icgn.org).

We welcome the opportunity to respond to the HKEx Consultation and commend the HK on its excellent work in the area of improving disclosures and standards with regard to broader aspects of company performance. The ICGN strongly supports this broader view of corporate governance not least since ESG risks become increasingly relevant in investment decision-making processes.

We agree with all of your questions that you have asked respondents to comment upon. With this letter we are only setting out additional comments that we wish to make in respect of particular aspects of the consultation. We also wish to refer to submissions made by individual investors whose views are reflected in this submission.<sup>1</sup>

Over time, the HKEx may want to consider defining minimum expectations for sustainability reporting for new listings in general, and by sector. We are aware that other similar bodies like the HKEx Listing Committee have found it useful to invest in developing their expertise in this area in order to be able to fully understand the data submitted by companies.

While we can understand that the HKEx hesitates to impose a Comply or Explain regime in relation to the ESG Guide, we would nevertheless encourage the Exchange to work towards instituting this more formally in the not too distant future.

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<sup>1</sup> We explicitly wish to refer to the submissions made by F&C and MN Services.

We welcome the explicit reference to Integrated Reporting and the formation of the Sustainability and Integrated Reporting Advisory Group by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) to begin work on this area. We would encourage the HKEx to monitor these developments closely and update its regulatory/ guidance framework as appropriate. In fact Hong Kong can play a very important role in the development of the Integrated Reporting framework given its leading role in the area of ESG disclosure through the Main Board Listing Rules, the GEM Listing Rules and particular requirements for mineral companies under the Main Board Listing Rules.

We appreciate that corporate governance issues are dealt with separately in the Corporate Governance Code, and find it appropriate to term the Guide an ESG Guide to recognize the responsibility of the Board for ESG Reporting. In general we would find it useful if companies spelled out in detail how sustainability is governed within the company, i.e. how the Board exercises oversight and delegates responsibility for managing sustainability-related risks and opportunities within the company, and how sustainability is captured within risk and audit processes.

We wish to stress that the identification of sustainability-related risks is crucial and therefore would recommend strengthening the recommendation under (90): In addition to opportunities, an issuer [should] could enhance transparency on the potential risks of its business.

#### Aspect A1: Working Conditions

Q8: We would suggest considering including the right to collective bargaining and joining a union.

Q10: We would add by type/ group.

In addition we would suggest adding the following KPIs:

- Hours worked per employee work per week
- Breakdown of pay into pay for normal work and overtime pay
- Policies and practice for addressing overtime work and pay

#### Aspect A2: Health and safety

Health & safety disclosures should equally cover contractors. As discussed above transparency about the governance of health & safety is needed, too.

For Aspect A2 we would suggest the following additional KPIs:

- Causes of accidents
- Rates of injury, occupational diseases, lost days, and absenteeism,
- Total number of work-related fatalities, by region

#### Aspect A3: Development and training

Regarding Q18 and Q19 we would add by geography as it is important to know whether staff of the same category receives the same training in all locations worldwide.

#### Aspect A4: Labour Standards:

We suggest that the recently published Children’s Rights and Business Principles be included as a reference.

[http://www.unglobalcompact.org/docs/issues\\_doc/human\\_rights/CRBP/Childrens\\_Rights\\_and\\_Business\\_Principles.pdf](http://www.unglobalcompact.org/docs/issues_doc/human_rights/CRBP/Childrens_Rights_and_Business_Principles.pdf)

We believe it is important that the supply chain is covered by these disclosures, too. At least the performance of “major or significant suppliers” should be reported upon.

Several HKEx listed companies operate in high risk or conflict related areas where they are at risk of becoming complicit with human rights violations. We seek greater transparency about the measures companies have taken to address these risks, and suggest referencing the following best practice guidelines:

- “Voluntary Principles on Security and Human Rights”  
[http://www.voluntaryprinciples.org/files/voluntary\\_principles\\_english.pdf](http://www.voluntaryprinciples.org/files/voluntary_principles_english.pdf),
- “Guiding Principles for the Implementation of the UN ‘Protect, Respect and Remedy’ Framework”:  
<http://www.ohchr.org/documents/issues/business/A.HRC.17.31.pdf>
- “Guidance on Responsible Business in High Risk and Conflict Affected Areas”:  
[http://www.unglobalcompact.org/docs/issues\\_doc/Peace\\_and\\_Business/Guidance\\_B.pdf](http://www.unglobalcompact.org/docs/issues_doc/Peace_and_Business/Guidance_B.pdf)

With regard to KPIs you may want to consider asking companies to report, for example, upon:

- Number/ percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken.
- Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.
- Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.
- Grievances mechanisms in place
- Number/ Percentage of operations with implemented local community engagement, impact assessments, and development programs.
- Operations with significant potential or actual negative impacts on local communities.
- Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.

#### Aspect B2 Use of resources/ Aspect B3 The environment and natural resources

We would find it useful to make a distinction between indirect and direct energy consumption, and to add further KPIs about water use and management, such as:

- Water sources significantly affected by withdrawal of water.
- Percentage and total volume of water recycled and reused.

We feel that KPI B3.3: “Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them”? is not particularly relevant. It is more meaningful for companies to provide information about their involvement in environmentally sensitive areas and report on policies that they have to protect biodiversity and ecosystems.

A useful KPI would be:

- Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.

#### Aspect C1 Supply chain management

With regard to KPI C1.2: “Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored”? we would like this KPI to also include volume or value of how much is sourced per supplier not just the number of suppliers.

We would also suggest including disclosure on number and type of violations found and addressed. We would welcome companies to report on their supplier audit against labour and environmental standards and results of such audits

### Aspect C3 Anti-corruption

With regard to KPI C3.1: "Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases"?, we would like companies to explain what measures have been put in place to make sure the incidents do not happen again.

In addition we would like to suggest the following KPIs:

- Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.
- Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.
- Number and type of cases related to anti-competitive practices and insider trading
- Percentage of employees, by category and geography, trained in organization's anti-corruption policies and procedures.
- Actions taken in response to incidents of corruption.

The ICGN recently published Guidance on lobbying and political donations which can be found at [www.icgn.org](http://www.icgn.org). We would suggest that this be included in the ESG Guide as stakeholders want to know whether and how a company is involved with the political process.

### External assurance:

Q64: We see merit in external assurance and would prefer if the HKEx issued no recommendation rather than not recommending that companies consider external assurance.

If you would like to discuss any of these points, please do not hesitate to contact Carl Rosén, our Executive Director, at +44 (0)207 612 7098 or [carl.rosen@icgn.org](mailto:carl.rosen@icgn.org) or Claudia Kruse, the Chair of ICGN Integrated Business Reporting at +31 (0) 20 60 48144 or [claudia.kruse@apg-am.nl](mailto:claudia.kruse@apg-am.nl)

Thank you for your attention and we look forward to your final deliberations.

Thank you for your consideration.

Yours sincerely,



Christianna Wood  
Chairman of the ICGN Board of Governors



Claudia Kruse  
Chair, ICGN Integrated Business Reporting

Cc: ICGN Board Members  
ICGN Integrated Business Reporting Committee