



Sustainability Accounting Standards Board
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July 19, 2019

Mr. Charles LI Xiaojia
Hong Kong Exchanges and Clearing Limited
8/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Re: Consultation Paper on Review of the ESG Reporting Guide and Related Listing Rules

Dear Mr. LI Xiaojia:

We welcome the opportunity to respond to your consultation. We strongly support HKEX's objective to clarify ESG reporting guidance for publicly listed companies and ensure the framework remains fit for purpose, continues to promote the quality of ESG performance and reporting, and is up to date with investor and stakeholder expectations and international best practice.

By way of introduction, I write to you as the Director of Legal and Regulatory Policy for the Sustainability Accounting Standards Board (SASB). SASB is an independent non-governmental organization that issues industry-specific sustainability accounting standards for the disclosure of financially-material information to investors. Using a robust due process with significant market input, SASB has established standards for 77 industries across 11 sectors. Each SASB standard includes on average, six disclosure topics and thirteen associated metrics. SASB metrics are aligned with over 200 existing frameworks, regulations, and certifications, and are 74% quantitative. Our goal is to foster corporate disclosure of environmental, social and governance (ESG) and other sustainability data that is comparable, consistent, reliable and financially material—empowering investors to make better investment and voting decisions.

Although SASB is based in the United States, the standards are intended to be used globally. Indeed, although the standards, after many years of research, were codified only several months ago (in November of 2018), up to 80 public companies have already begun to use the standards, on a voluntary basis, either in their regulatory filings or in other reports.

SASB enjoys broad support from investors. SASB's Investor Advisory Group (IAG) includes 44 members from North America, Europe, and Asia with collective assets under management valued at \$USD 33 trillion.

SASB has completed the requested questionnaire. We offer the following comments to provide additional details and context on our submission.

A. Introducing Mandatory Disclosure Requirements

SASB is encouraged by HKEX's interest to promote high-quality ESG performance and reporting. Surveys and studies show that although most large companies issue various types of ESG reports this information is often not designed for capital markets – which require consistent, comparable, and reliable data.

In a 2016 PwC study, 92% of investors surveyed noted that sustainability data disclosed by most of the companies in which they invest was not comparable. The PwC survey showed, among other things, that inconsistency of sustainability data significantly hampers investor use of such data and confidence in it.

Sustainability data that is standardized – and therefore, consistent and reliable – will improve the comparability of information reported by companies within an industry.

SASB supports requirements that would lead to more companies making disclosures of financially material ESG factors, as these factors may impact the financial condition and operating performance of companies within an industry and are relevant to investor decision-making.

Governance Structure

SASB supports making explicit the obligation of boards and management to consider the materiality of ESG factors when making their public disclosures. SASB suggests that boards and management adopt a system of governance around developing and disclosing financially material sustainability information—including management involvement, board oversight, and internal control—that is substantially similar to what they use for financial reporting.

As noted by the Enterprise Risk Management Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), governance, including strong board oversight, is a prerequisite to effectively identifying, assessing and addressing the full spectrum of company risks. Incorporating ESG-related risks into a company’s governance structure and processes are critical to overcoming the challenges issuers face in managing these risks.

Reporting Principles - Materiality:

For many companies, consideration of materiality is made with a dual perspective, encompassing both investor-oriented financial materiality and externally-oriented environmental and social impact materiality, also known stakeholder materiality. HKEX could suggest that boards and management look at materiality through these two lenses - financial materiality and stakeholder materiality.

SASB standards are unique in the marketplace due to their focus on financial materiality. Financial materiality is a universal concept important for investors and companies in all markets and countries, which enables companies to assess the ESG-related risks and opportunities that are most relevant to business financial performance. Financial materiality enables companies to identify the ESG-related risks to which they are exposed and make effective, decision-useful disclosures to their investors.

The SASB standards have identified, through a rigorous process that is evidence-based, and market informed, the financially material ESG issues that are *reasonably likely to affect the financial condition or operating performance of companies within an industry*.

SASB offers a useful tool for companies to focus their disclosure efforts and meet the HKEX Reporting Principle. We recommend that SASB's Materiality Map (<https://www.sasb.org/standards-overview/materiality-map/>) be included as a resource for issuers.

Reporting Principles - Quantitative:

The SASB standards provide companies with standardized quantitative metrics intended to measure performance on each financially material sustainability topic specific to their industry. 74% of the metrics are quantitative, to facilitate comparability over time. The SASB standards also provide detailed guidance on the methods to calculate the metrics, the disclosure boundary, and explain methods and assumptions used to prepare information. Where needed, quantitative information is accompanied by a narrative (qualitative) description of factors necessary to ensure completeness, accuracy, and comparability of the data reported, including strategy, competitive positioning, degree of control, performance, and trends over time.

We recommend that the SASB standards (www.sasb.org/standards) be included as resource for issuers to promote disclosure of quantitative metrics.

B. Introducing Aspects of Climate Change and Revising the Environmental KPIs

Climate Change KPIs

SASB's Technical Bulletin on Climate Risk is designed to help investors and companies understand and disclose their climate-related risks. The Technical Bulletin notes three key findings:

- First, climate risk impacts industries across the economy. SASB research demonstrates that 69 of 77 industries are significantly affected in some way by climate risk.
- Second, climate risk is diverse. Although climate risk is virtually omnipresent, cutting across every sector, it manifests itself differently from one industry to the next. For example, agricultural concerns must manage water as an increasingly stressed resource, oil and gas companies need to properly value reserves in a carbon-constrained world and be prudent about capital expenditures, and commercial banks must effectively manage the carbon embedded in their loan portfolio.
- Third, understanding climate risk requires specialized disclosures. Investors need industry-specific information to fully understand their exposure and evaluate how well companies are positioned to manage climate risk. It's not as simple as all companies disclosing the same metrics, such as carbon footprint or greenhouse gas (GHG) emissions. Investors need metrics that indicate how effectively companies are managing the climate-related risks that are relevant in each industry.

The SASB standards offer decision-useful climate-related metrics on an industry-specific basis. The SASB standards have identified the climate-related, financially material risks and opportunities faced by companies within an industry, along with metrics (KPIs) that capture those industry-specific risks and opportunities. For example, in health care, SASB metrics seek to understand how extreme weather events can affect both business continuity and demand for services. In real estate, SASB metrics seek to illustrate the energy efficiency of buildings and the vulnerability of building stock to climate change due to geographic location. In oil and gas, SASB metrics seek to understand the amount of Scope 1 greenhouse gas emissions from flared hydrocarbons and other combustion.

SASB standards are referenced as a resource by the EU Non-Financial Reporting Directive (EU NFRD) and are among the most frequently referenced tools by the Task Force on Climate-related Financial Disclosure (TCFD) for implementing the TCFD Recommendations.

SASB's Climate Risk Technical (<https://library.sasb.org/climate-risk-technical-bulletin>) summarizes the climate-related disclosure topics and metrics across the 77 industry-specific standards. This may be a useful resource for HKEX to reference for issuers.

SASB, alongside the Carbon Disclosure Standards Board, has designed the TCFD Implementation Guide (<https://library.sasb.org/tcf-implementation-guide/>) to provide entities with mock-disclosures to communicate the material climate-related financial risks and opportunities they face.

C. Upgrading disclosure obligations of the Social KPIs

Comply or Explain

SASB recognizes that standardized disclosures of financially material sustainability information to investors is a relatively new area of practice, and certain accounting metrics may be infeasible to disclose in the near term for some entities. SASB encourages entities to use the standards to guide investor disclosures even if certain disclosure topics and/or associated metrics must be omitted and/or modified. An entity that omits one or more disclosure topics and/or accounting metrics should disclose the omission(s), as well as the rationale for the omission(s). The HKEX may also consider guidance that suggests that if an entity believes it necessary to modify a metric, the entity shall disclose the fact that the metric was changed, as well as the rationale for the change.

D. Revising the Social KPIs

SASB's standards cover five broad sustainability dimensions: the environment, human capital, social capital, business model and innovation, and leadership and governance. Therefore, the SASB standards include many social KPIs. However, as mentioned earlier, different sustainability topics affect different industries in different ways and thus require industry-specific metrics. For example, although Health and Safety risks touch many industries, the most meaningful metric for health and safety varies across industries. SASB's standards include different health and safety metrics for Oil and Gas (injury and fatality management), Meat, Poultry & Dairy industry (exposure to pesticides), or Casinos and Gaming (exposure to smoking). The SASB standards have identified industry-specific metrics and methodologies for reporting on Employment Types, Rate of Fatalities, Supply Chain Management, and Anti-Corruption.

SASB's Materiality Map (www.sasb.org/materiality) and the SASB standards (www.sasb.org/standards) provide an open-source platform that can be used by issuers to guide disclosure of industry-specific, financially material information to investors. We recommend that HKEX reference these tools as useful resources for issuers.

Thank you for considering these recommendations. If you have any additional questions or comments, please contact me at: tom.riesenberg@sasb.org.

Sincerely,

Thomas L. Riesenber

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Sustainability Accounting Standards Board