

Press Release

LCQ14: The conduct of carbon audits and disclosure of the relevant information by listed companies

Wednesday, June 11, 2014

Following is a question by the Hon Frederick Fung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (June 11):

Question:

It has been reported that the London Stock Exchange of the United Kingdom requires all listed companies to submit carbon emission reports on their business operations. Separately, according to a report on carbon performance of the listed companies in Hong Kong published earlier, only 10% of the listed companies in the Hang Seng Composite Index (HSCI) have published formal carbon reports, while none of the 1 221 listed non-HSCI companies has any form of disclosure on carbon emissions. In this connection, will the Government inform this Council:

(1) whether it knows the existing regulation by The Stock Exchange of Hong Kong and the Securities and Futures Commission on the conduct of carbon audits (including the calculation method of carbon emissions) by listed companies and on the disclosure of the relevant information by listed companies; and of the present situation of the conduct of carbon audits and disclosure of the relevant information by listed companies;

(2) as some members of the finance industry have relayed that when investing in listed companies, quite a number of investors and asset management companies will consider the environmental impacts and carbon emissions generated by the business operations of such companies, whether the authorities will follow the practice of the London Stock Exchange to expeditiously regulate carbon audits and reporting by listed companies and require listed companies to submit carbon emission reports on their business operations; if they will not, of the reasons for that; and

(3) whether it knows if the various statutory bodies (e.g. the Hong Kong Monetary Authority and the Hong Kong Housing Authority) currently consider, apart from investment returns and risk factors, the performance of the investment objects in

terms of environmental protection and carbon emissions when they make investment decisions for funds under their management; if they do, of the weightings of such considerations; if not, the reasons for that, and whether the authorities will consider requiring the statutory bodies to consider such factors when making investment decisions?

Reply:

President,

(1) The Stock Exchange of Hong Kong (SEHK) published in December 2011 a consultation paper on "Environmental, Social and Governance Reporting Guide" (the ESG Guide) and published in August 2012 the consultation conclusions. The ESG Guide was incorporated into the Listing Rules of the Main Board and the Growth Enterprise Market of SEHK in January 2013. Section B1 of the ESG Guide relates to disclosure of general information and specific Key Performance Indicators of "Emissions" (see Annex). Currently, the ESG Guide is a recommended practice, i.e. compliance with the Guide is voluntary. To assist listed companies in ESG reporting, SEHK has been actively providing them with various types of training, including holding seminars and posting webcasts on the SEHK website. SEHK also provides relevant resource materials on its website, including hyperlinks to relevant external websites.

The Environmental Protection Department (EPD) has developed a carbon footprint repository in the form of a dedicated website and issued invitations in December 2013 to encourage all listed companies in Hong Kong to use the on-line carbon footprint repository to disclose their carbon performance and to share successful experience in carbon management and practices. SEHK also issued letters to all listed companies supporting EPD's carbon footprint repository of listed companies for encouraging disclosure of carbon emission information.

Since compliance with the ESG Guide is voluntary, SEHK does not currently have data on the listed companies' carbon audits and their disclosure of related information. To prepare for the consultation mentioned in Section 2 of this reply, SEHK plans to conduct the first statistical survey on the basis of the ESG reports published by listed companies in 2014.

In addition, EPD will launch the carbon footprint repository in 2014-15, and by then, the public would be able to know more about the number of private

enterprises that have participated in carbon auditing.

(2) SEHK is preparing for a consultation next year to seek market views on strengthening the ESG regulatory requirements. The intention is to upgrade some of the current voluntary provisions to "comply or explain". This means that a listed company must comply with the relevant provisions and if it deviates from the provisions, it must give considered reasons in its interim or annual reports. Issues including environmental protection and carbon emission quantity will be covered in the consultation.

(3) In managing their capital, statutory bodies will plan for investment in accordance with their own statutory objectives and investment targets. For example, the statutory objective of the Exchange Fund is to maintain Hong Kong's currency and financial stability. Its primary aims of investment are principal protection and high liquidity of assets. Therefore, performance of environmental protection and carbon emissions is generally not a main consideration in its investment. For the Hong Kong Housing Authority (HA), around 55% of its funds are invested in principal protection placements with the Exchange Fund. As for the other investments, HA's fund managers will closely monitor market situations from time to time and consider the relevant factors to make appropriate investment decisions. While the investment strategy of HA does not include factors relating to environmental protection and carbon emission, in all HA's development projects in recent years, the Carbon Emission Estimation method has been adopted at design stage to identify carbon emissions reduction opportunities and to set achievable reduction goals through the assessment of six aspects, viz, construction materials, structural materials, communal building services installation, renewable energy, tree planting and demolition.

In addition, the Government has been taking positive actions to engage private and public organisations (including statutory bodies) in carbon reduction actions. EPD has provided carbon audit guidelines as well as capacity-building support for the respective organisations to adopt regular carbon auditing practices.

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