



# Environmental, Social and Governance (ESG) reporting

PASS Seminar

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# Speakers



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# Questions

Why are there more attention on ESG performances?

What are the challenges in ESG reporting?

What is the trend in Hong Kong?





# Agenda



- 1 The Key Drivers?
- 2 ESG reporting & challenges
- 3 The Hong Kong landscape and development





# 1. The key Drivers



# ESG? ESG reporting?

**Not:**

*Tree hugging*



*Public relations*

***“We are the greenest”***

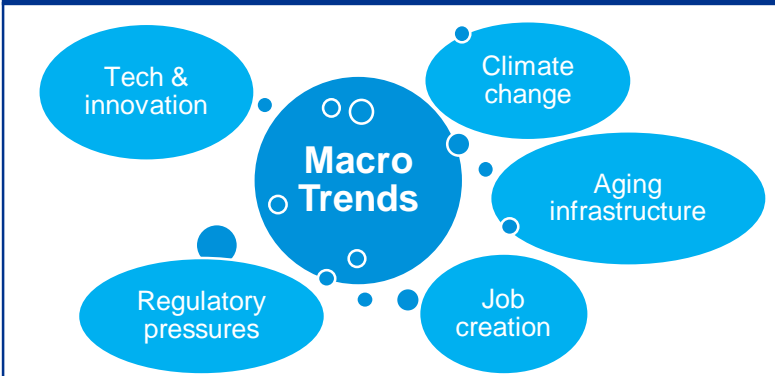
**Focus On:**

How will you be prepared for future changes and what is your role in driving them?

<p><b>Climate Change</b></p>	<p><b>Energy &amp; Fuel</b></p>	<p><b>Material Resource Scarcity</b></p>	<p><b>Water Scarcity</b></p>	<p><b>Population Growth</b></p>
<p><b>Wealth</b></p>	<p><b>Urbanization</b></p>	<p><b>Food Security</b></p>	<p><b>Ecosystem Decline</b></p>	<p><b>Deforestation</b></p>

# Sustainability demand drivers

## 1. Disruptive macro trends



## 2. Connectivity and reputation

Reputations can be damaged quickly in an increasingly connected world.

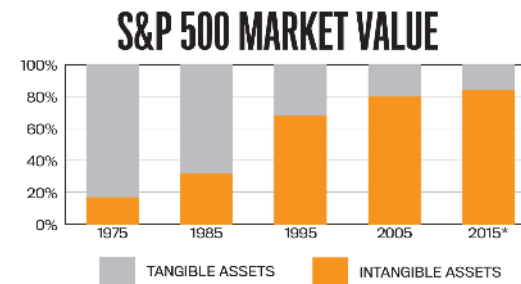


## 3. Opportunity to innovate

- Provides new perspectives, partnerships, and constraints






## 4. Intangible assets & investor interest



Source: Ocean TOMO, LLC  
\* January 1, 2015

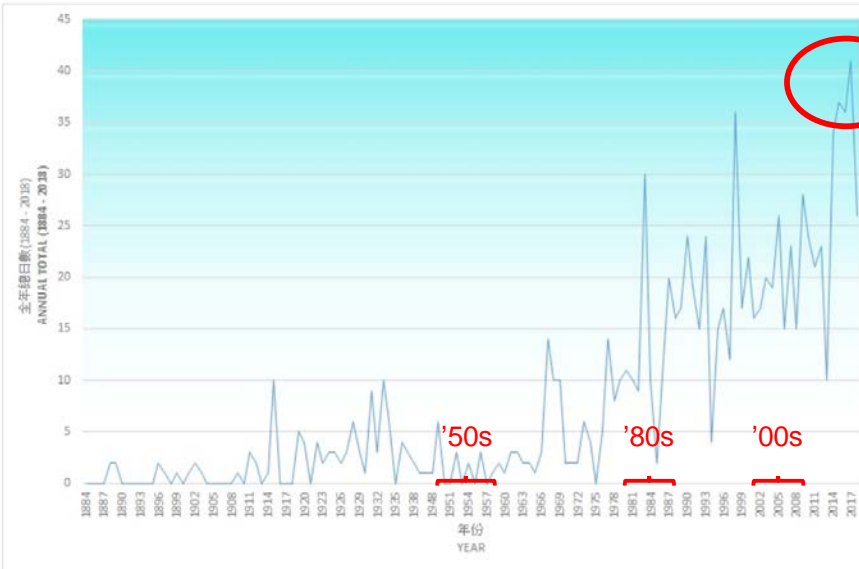
# Do you feel hot??

 香港天文台 HKO   
14小時 · 

【熱夜破紀錄】截至昨日（9月11日），2019年香港的熱夜數目（全日最低氣溫達攝氏28.0度或以上）已有42天，是天文台自1884年有記錄以來最多。

歷來熱夜數目排名頭六位的年份，其中五個都在2014年或以後出現。

**5 of the 6 years** with the highest number of hot nights (days with a minimum temperature of 28°C or above) are in 2014 or later



## Years with the highest number of hot nights

**熱夜**  
(全日最低氣溫 ≥ 28.0°C)

1	2019年*	42天
2	2017年	41天
3	2015年	37天
4	2016年	36天
5	1998年	36天
6	2014年	34天

\*截至2019年9月11日



# Climate change? What has changed?

Most countries in the world signed the **Paris climate agreement**



PARIS2015  
UN CLIMATE CHANGE CONFERENCE  
COP21·CMP11

## Low carbon investments

**Energy:** solar energy, wind energy...

**Building:** green buildings, energy-saving...

**IT:** data centre, smart grid, broadband...

**Transportation:** public transportation...

**Industry:** clean production...

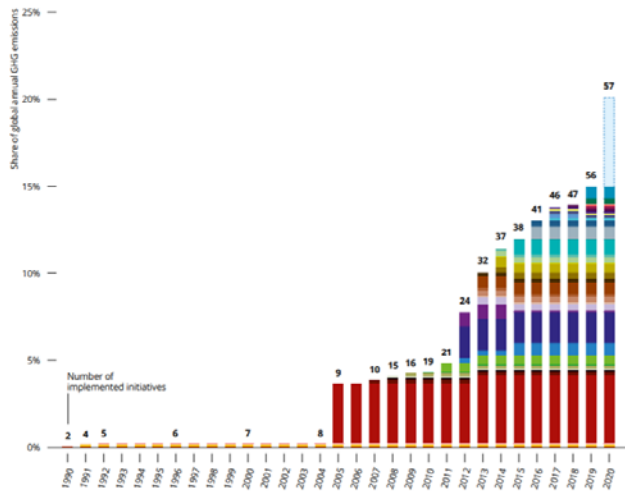
**Finance:** green lending, climate insurance...

...

## Carbon has a price

Rising carbon pricing initiatives:  
carbon trading markets, carbon tax

Figure 7 / Regional, national and subnational carbon pricing initiatives: share of global emissions covered



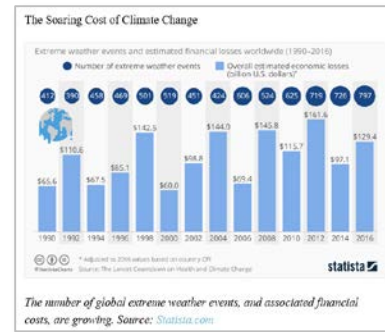
Source: State and Trends of Carbon Pricing 2019, World Bank

## Climate & carbon reporting

TCFD

CDP  
DISCLOSURE INSIGHT ACTION

## Growing number of extreme weather events & financial costs



The number of global extreme weather events, and associated financial costs, are growing. Source: Statista.com

# The evolving risks landscapes (2009-2019)

Top 5 Global Risks in Terms of Likelihood

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1st	Asset price collapse	Asset price collapse	Storms and cyclones	Severe income disparity	Severe income disparity	Income disparity	Interstate conflict with regional consequences	Large-scale involuntary migration	Extreme weather events	Extreme weather events	Extreme weather events
2nd	Slowing Chinese economy (<6%)	Slowing Chinese economy (<6%)	Flooding	Chronic fiscal imbalances	Chronic fiscal imbalances	Extreme weather events	Extreme weather events	Extreme weather events	Large-scale involuntary migration	Natural disasters	Failure of climate-change mitigation and adaptation
3rd	Chronic disease	Chronic disease	Corruption	Rising greenhouse gas emissions	Rising greenhouse gas emissions	Unemployment and underemployment	Failure of national governance	Failure of climate-change mitigation and adaptation	Major natural disasters	Cyber-attacks	Natural disasters
4th	Global governance gaps	Fiscal crises	Biodiversity loss	Cyber-attacks	Water supply crises	Climate change	State collapse or crisis	Interstate conflict with regional consequences	Large-scale terrorist attacks	Data fraud or theft	Data fraud or theft
5th	Retrenchment from globalization	Global governance gaps	Climate change	Water supply crises	Mismanagement of population	Cyber-attacks	High structural unemployment or underemployment	Major natural catastrophes	Massive incident of data fraud/theft	Failure of climate-change mitigation and adaptation	Cyber-attacks

Top 5 Global Risks in Terms of Impact

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1st	Asset price collapse	Asset price collapse	Fiscal crises	Major systemic financial failure	Major systemic financial failure	Fiscal crises	Water crises	Failure of climate-change mitigation and adaptation	Weapons of mass destruction	Weapons of mass destruction	Weapons of mass destruction
2nd	Retrenchment from globalization (developed)	Retrenchment from globalization (developed)	Climate change	Water supply crises	Water supply crises	Climate change	Rapid and massive spread of infectious diseases	Weapons of mass destruction	Extreme weather events	Extreme weather events	Failure of climate-change mitigation and adaptation
3rd	Oil and gas price spike	Oil price spikes	Geopolitical conflict	Food shortage crises	Chronic fiscal imbalances	Water crises	Weapons of mass destruction	Water crises	Water crises	Natural disasters	Extreme weather events
4th	Chronic disease	Chronic disease	Asset price collapse	Chronic fiscal imbalances	Diffusion of weapons of mass destruction	Unemployment and underemployment	Interstate conflict with regional consequences	Large-scale involuntary migration	Major natural disasters	Failure of climate-change mitigation and adaptation	Water crises
5th	Fiscal crises	Fiscal crises	Extreme energy price volatility	Extreme volatility in energy and agriculture prices	Failure of climate-change mitigation and adaptation	Critical information infrastructure breakdown	Failure of climate-change mitigation and adaptation	Severe energy price shock	Failure of climate-change mitigation and adaptation	Water crises	Natural disasters

■ Economic ■ Environmental ■ Geopolitical ■ Societal ■ Technological

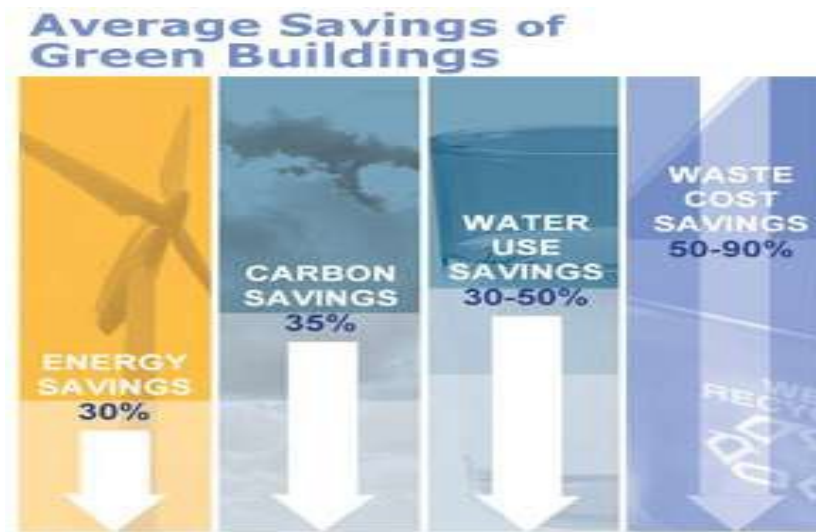
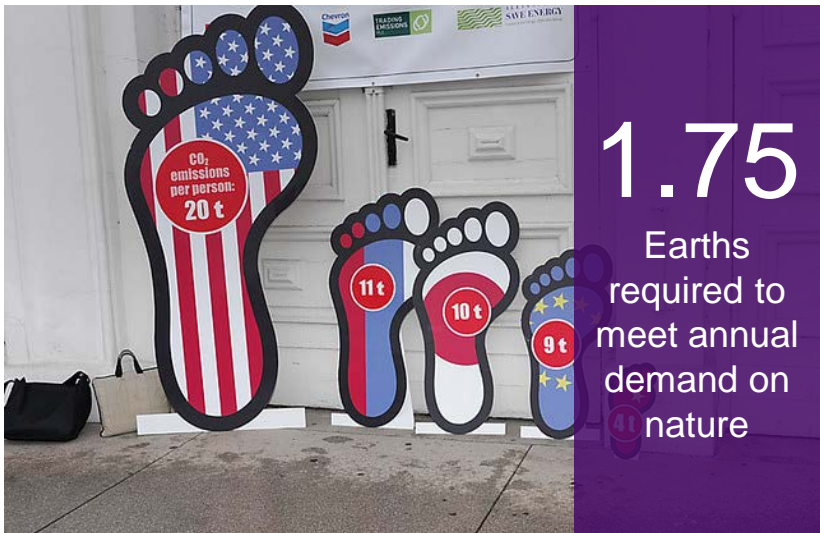
Source: World Economic Forum 2009–2019, Global Risks Reports.

Note: Global risks may not be strictly comparable across years, as definitions and the set of global risks have evolved with new issues emerging on the 10-year horizon. For example, cyberattacks, income disparity and unemployment entered the set of global risks in 2012. Some global risks were reclassified: water crises and rising income disparity were re-categorized first as societal risks and then as a trend in the 2015 and 2016 Global Risks Reports, respectively.





# Some Facts on Sustainability



# Social opinions spread quickly

While the public is becoming more ethically and environmentally conscious

## Burberry Receives Backlash for Burning \$38 Million of Unsold Products

6:11 PM PDT 7/25/2018 by Lindsay Weinberg



Hey, @Burberry, there is no need to burn \$28 mil worth of stock! Donate it to school foundations that can auction or sell it to help educate your future designers!

13 5:50 AM - Jul 20, 2018

How sad with all the homeless people in our world to burn clothes. How shallow could Burberry be? Ugh. I'll NEVER buy Burberry again!!!

44 12:18 AM - Jul 20, 2018 · Staten Island, NY

i'm so disappointed with burberry. you seriously would rather to burn £28m of excess luxury clothing every year instead of doing a sale? i wouldn't call it being protective of your "company's prestige", i would call it pure stupidity

2 3:08 AM - Jul 20, 2018



## *Burberry to Stop Burning Clothing and Other Goods It Can't Sell*

**Burberry Corporate** @BurberryCorp



Burberry is stopping the practice of destroying unsaleable products with immediate effect. This builds on our responsibility agenda to 2022, and is supported by our new strategy which is helping to tackle the cause of waste [brby.co/763](http://brby.co/763)

# BURBERRY

LONDON ENGLAND

2,498 1:04 PM - Sep 6, 2018

1,023 people are talking about this

Source: The Hollywood Reporter 2018

Source: The New York Times 2018

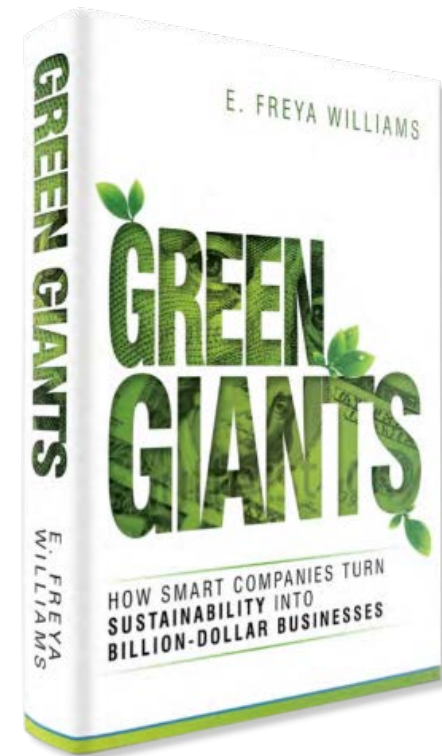


# Sustainability innovations

## Opportunities

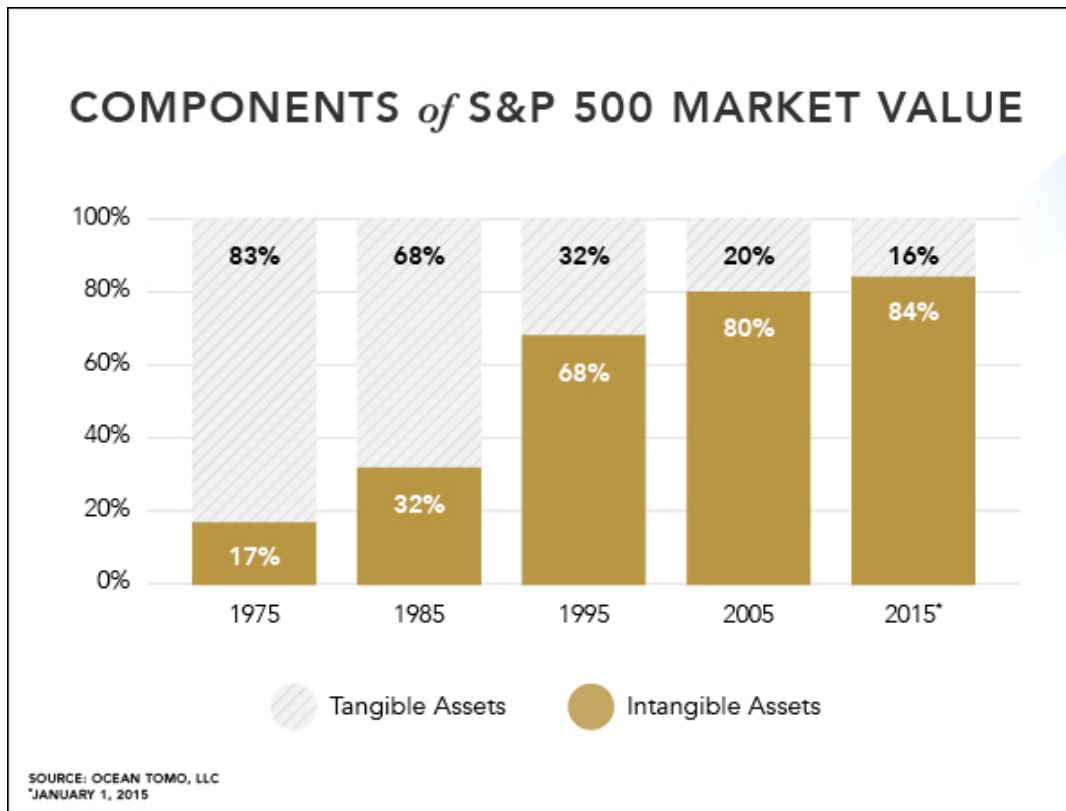
***Green Giants: How Smart Companies Turn Sustainability into Billion Dollar Businesses*** Freya Williams

1. Tesla
2. Toyota (Prius)
3. GE Ecomagination
4. Ikea (Sustainable Living)
5. Nike Flyknit
6. Chipotle
7. Unilever
8. Whole Foods
9. Natura



# Component of market value

Intangible assets account for up to 84% of the market value of listed companies.



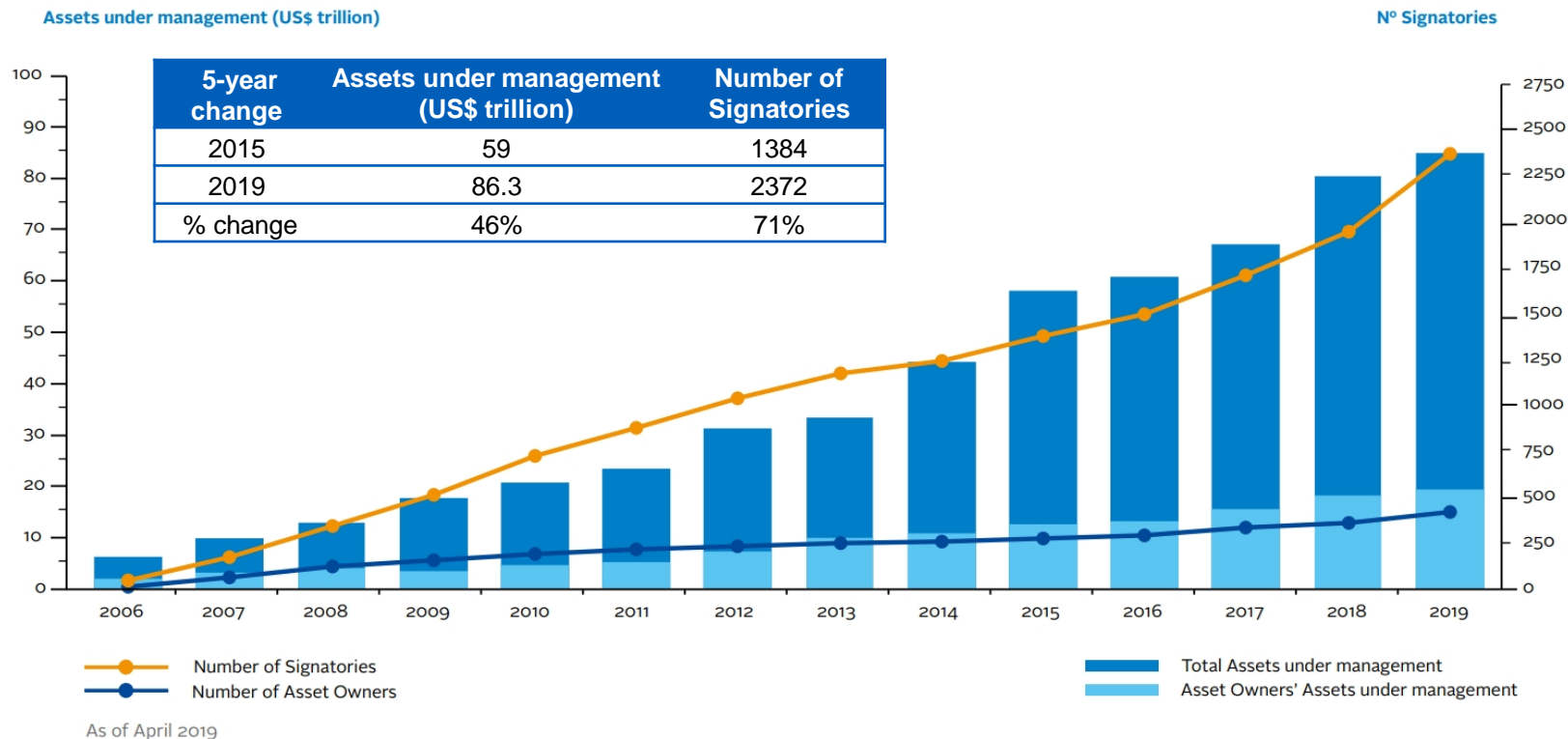
Intangible assets

- Brand
- Integrity
- Innovation
- Foresightedness and agility
- Risk management
- Human capital
- ...



# Responsible investment is on the rise

The PRI has grown consistently since it began in 2006:



Source: Principles for Responsible Investment 2019  
[https://www.unpri.org/pri/about-the-pri#How\\_is\\_the\\_PRI\\_funded](https://www.unpri.org/pri/about-the-pri#How_is_the_PRI_funded)





# 2. ESG reporting & Challenges



# ESG reporting on the growing trend globally



Growth in global CR reporting rates since 1993



Base: 4,900 N100 companies and 250 G250 companies  
Source: KPMG Survey of Corporate Responsibility Reporting 2017

KPMG member firm professionals reviewed corporate responsibility (CR) and sustainability reporting from 4,900 companies in 49 countries and regions,

Source: [https://home.kpmg/content/dam/kpmg/campaigns/csr/pdf/CSR\\_Reporting\\_2017.pdf](https://home.kpmg/content/dam/kpmg/campaigns/csr/pdf/CSR_Reporting_2017.pdf)



# Demand for transparent and quality ESG information

The market is increasingly concerned about how companies build shareholder value in a rapidly changing global economic environment.

Investors want companies to increase transparency in financial, environmental and social risks and opportunities.

Relevant risks include climate impacts, regulations, market changes and pressure from stakeholders.



Sustainability reporting standards and frameworks



# Typical structure and elements of ESG report

## REPORTING PRINCIPLES

### Define report content

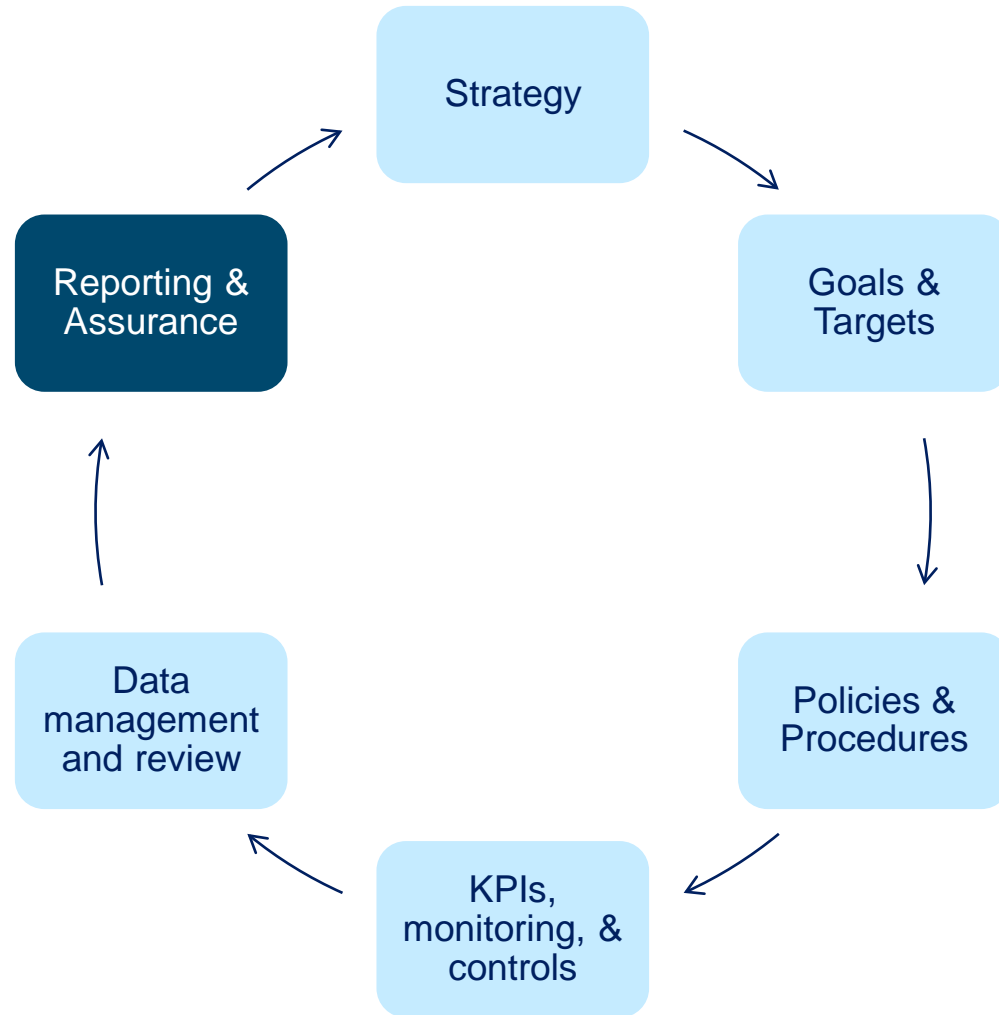
- Stakeholder Inclusiveness
- Sustainability Context
- Materiality
- Completeness

### Define report quality

- Accuracy
- Balance
- Clarity
- Comparability
- Reliability
- Timeliness

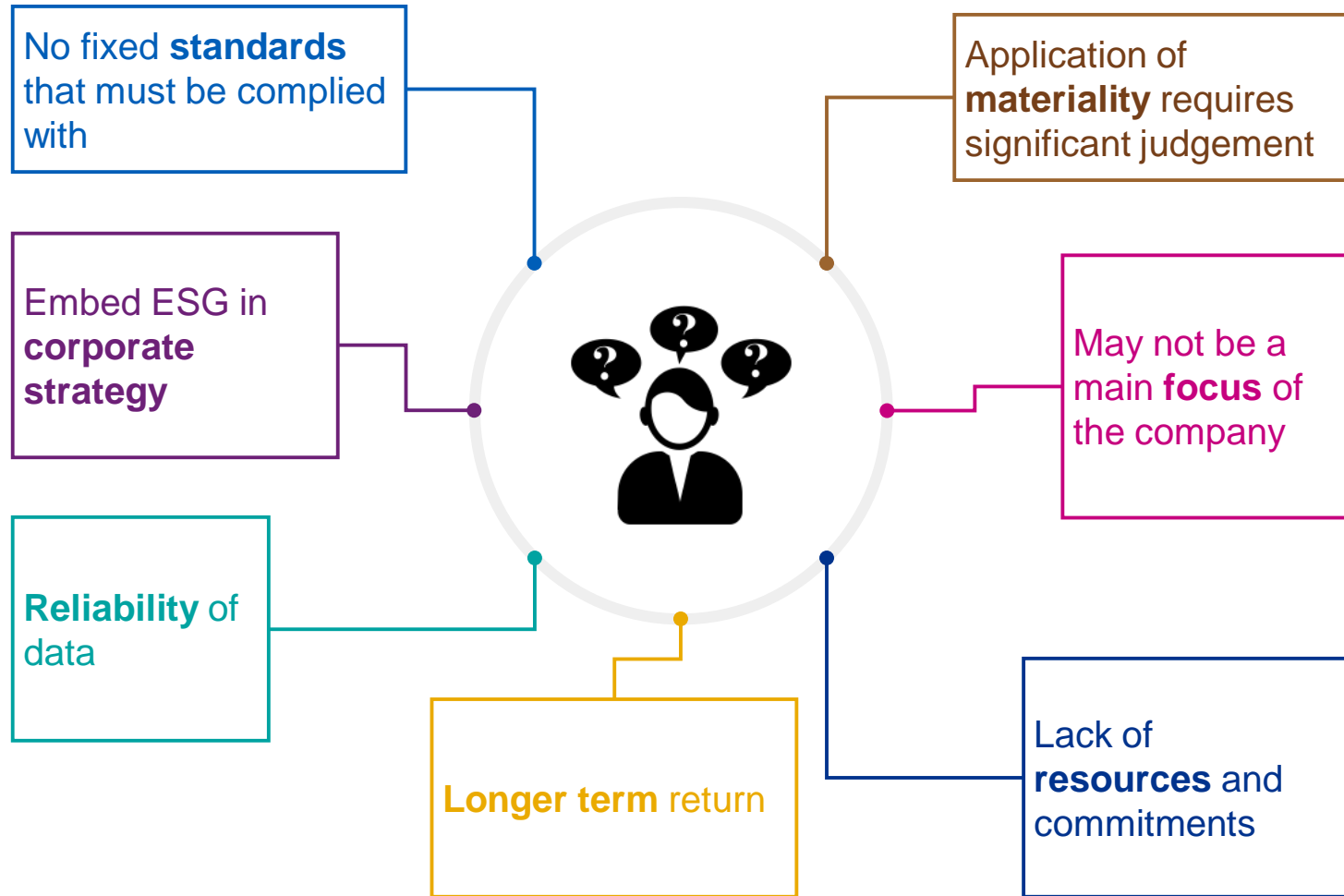


# The process of reporting





# Challenges





The background of the slide is an aerial photograph of a vast, green agricultural field. The field is divided into numerous rectangular plots by thin, dark lines, likely furrows or irrigation channels. The color is a vibrant, uniform green. In the upper right quadrant, a single, large, mature tree with a dense, rounded canopy of green leaves stands out prominently against the field.

# 3. The Hong Kong landscape and development



# ESG Development in Hong Kong

## ESG REPORTING

HKEX upgraded general disclosures to “comply or explain provisions”

2016

HKEX upgraded environmental KPIs to “comply or explain” disclosures

2017

HKEX published a step-by-step guide to ESG reporting

2018

HKEX issued a consultation paper on strengthening ESG Reporting Guide for FY2020 report

2019

SFC published the principles of Responsible Ownership

Government green bond issuance announced in Policy Address 2017

SFC published the Strategic Framework for Green Finance and has signed up as a supporter of TCFD

SFC launched a survey on ESG integration in asset management

MPFA issued a circular letter encouraging trustees to consider ESG and green bond investment

SFC issued a circular to enhance the disclosure standard of green or ESG funds

HKMA introduces key measures on sustainable banking and green finance

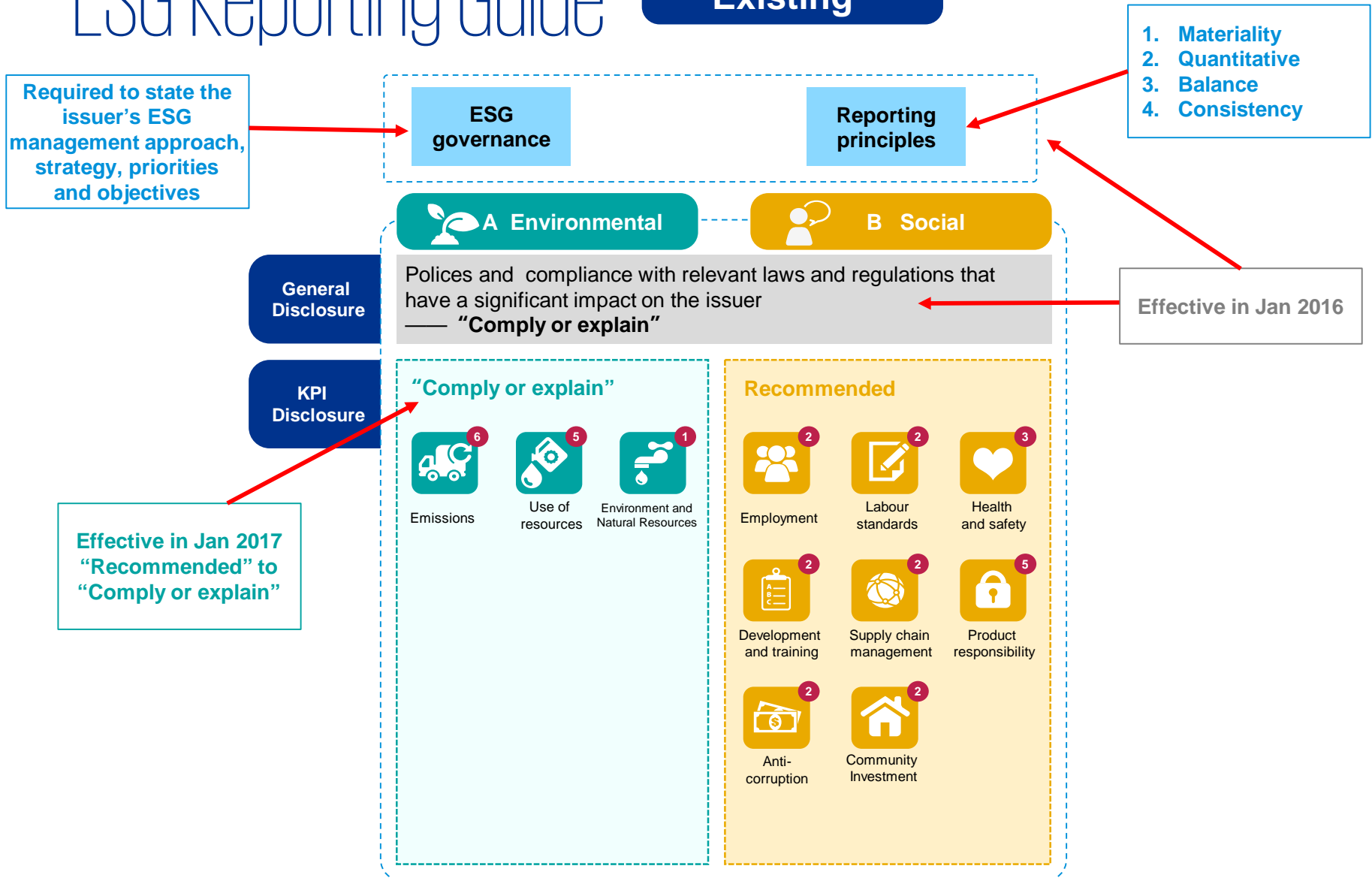
## OTHER ESG DEVELOPMENT





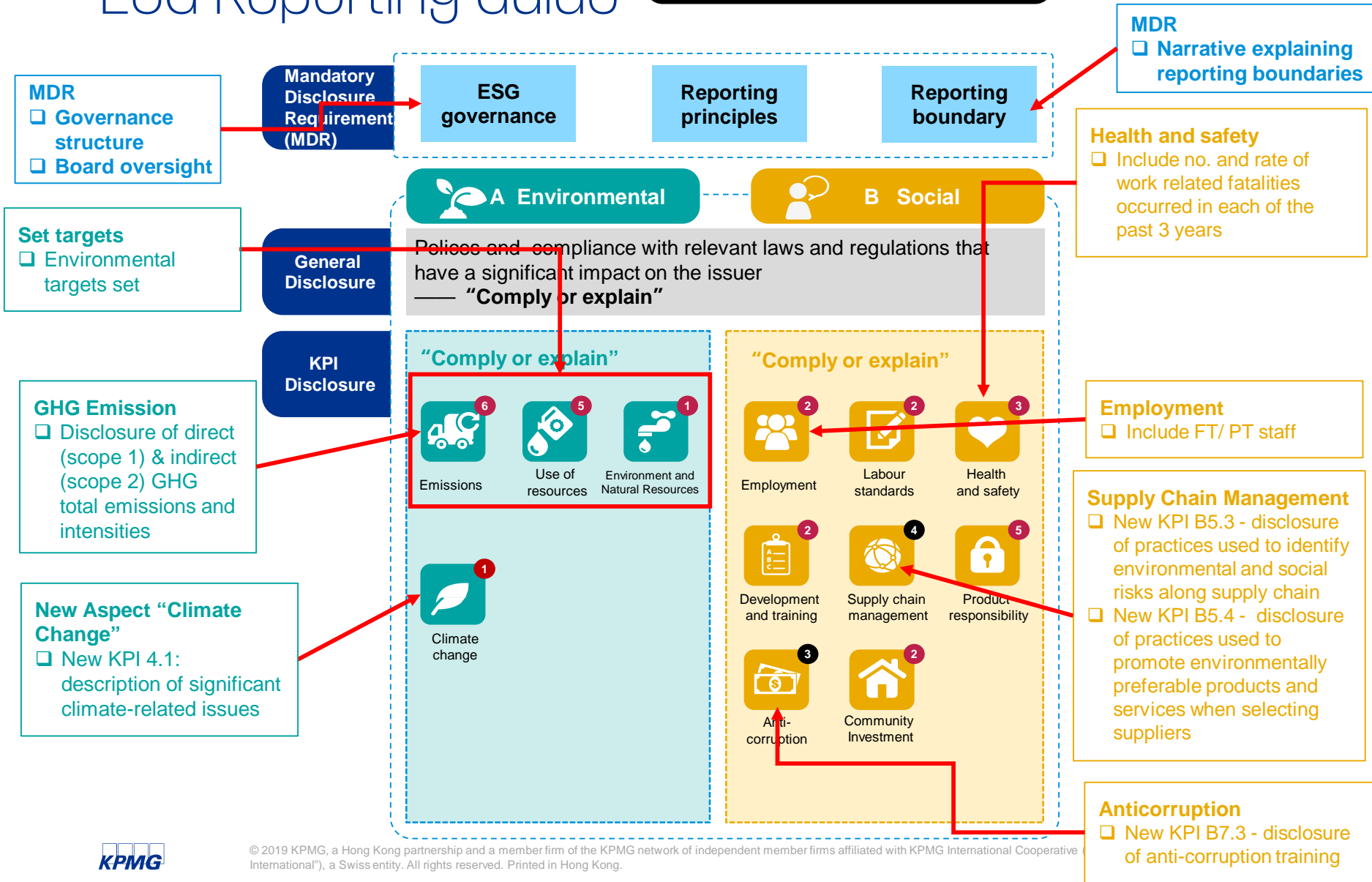
# ESG Reporting Guide

## Existing



# ESG Reporting Guide

## Proposed Changes





# Other Proposed Changes



## Key proposed changes

### Shorten timeframe for ESG report publication

- Required to publish **within 4 months for Main Board issuers** and **3 months for GEM issuers** from the financial year end



## Actions for companies

- Improve **internal reporting practices** and streamline processes
- Plan for **sufficient resources**



### Others key proposals:

- Clarify whether the issuer is not required to provide **printed form** of the report to shareholders unless responding to their specific requests in relation to the ESG report
- Encourage to obtain **independent assurance**



Thank you



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