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# ESG DISCLOSURES IN ASIA PACIFIC: KEY FINDINGS FROM HONG KONG-LISTED COMPANIES

Presenters:

**Piotr Zembrowski, CFA**, Manager, Advocacy Research and Content, Asia-Pacific, CFA Institute

**Ricky Cheng**, Director, Head of Risk Advisory, BDO

**Dr. Artie W Ng**, Deputy Director, School of Professional Education and Executive Development, The Hong Kong Polytechnic University



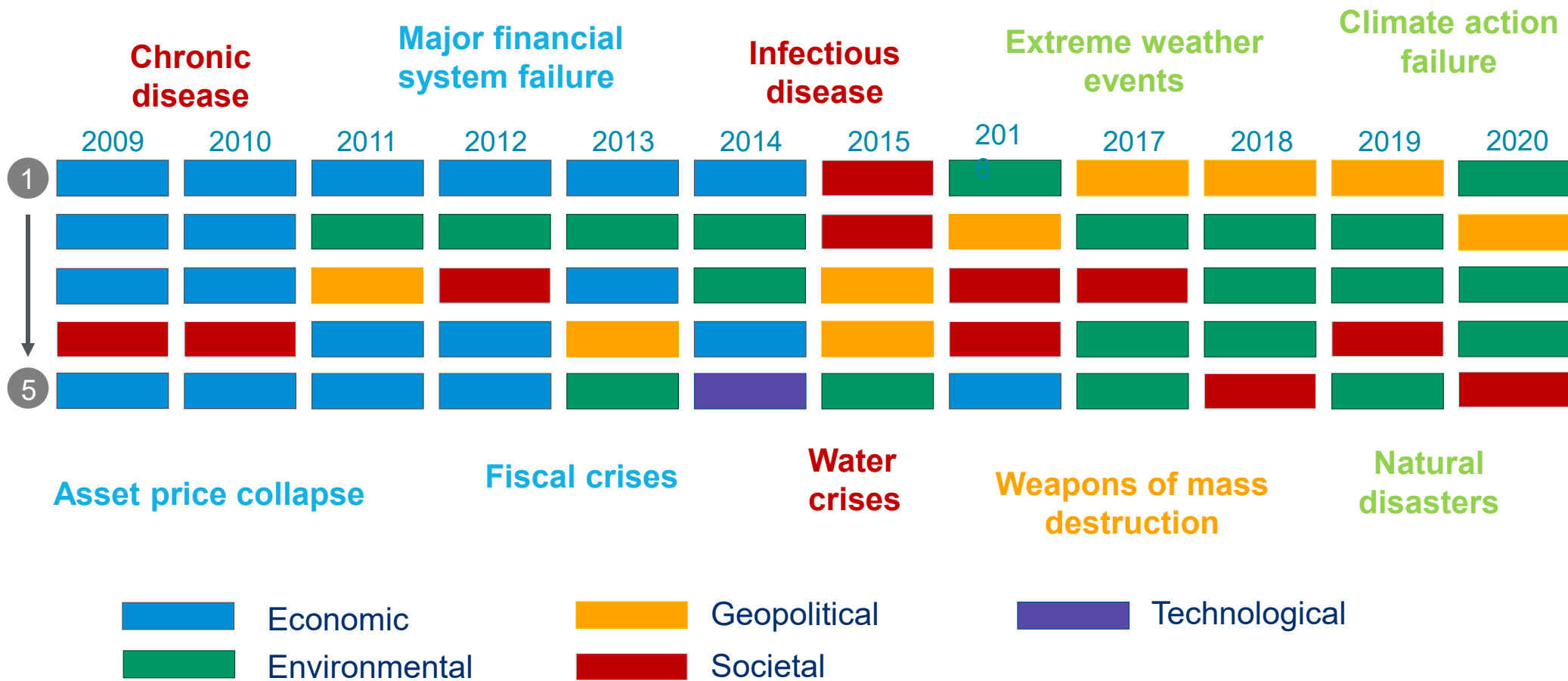
# ESG DISCLOSURES IN ASIA PACIFIC

Piotr Zembrowski, CFA  
5 May 2020



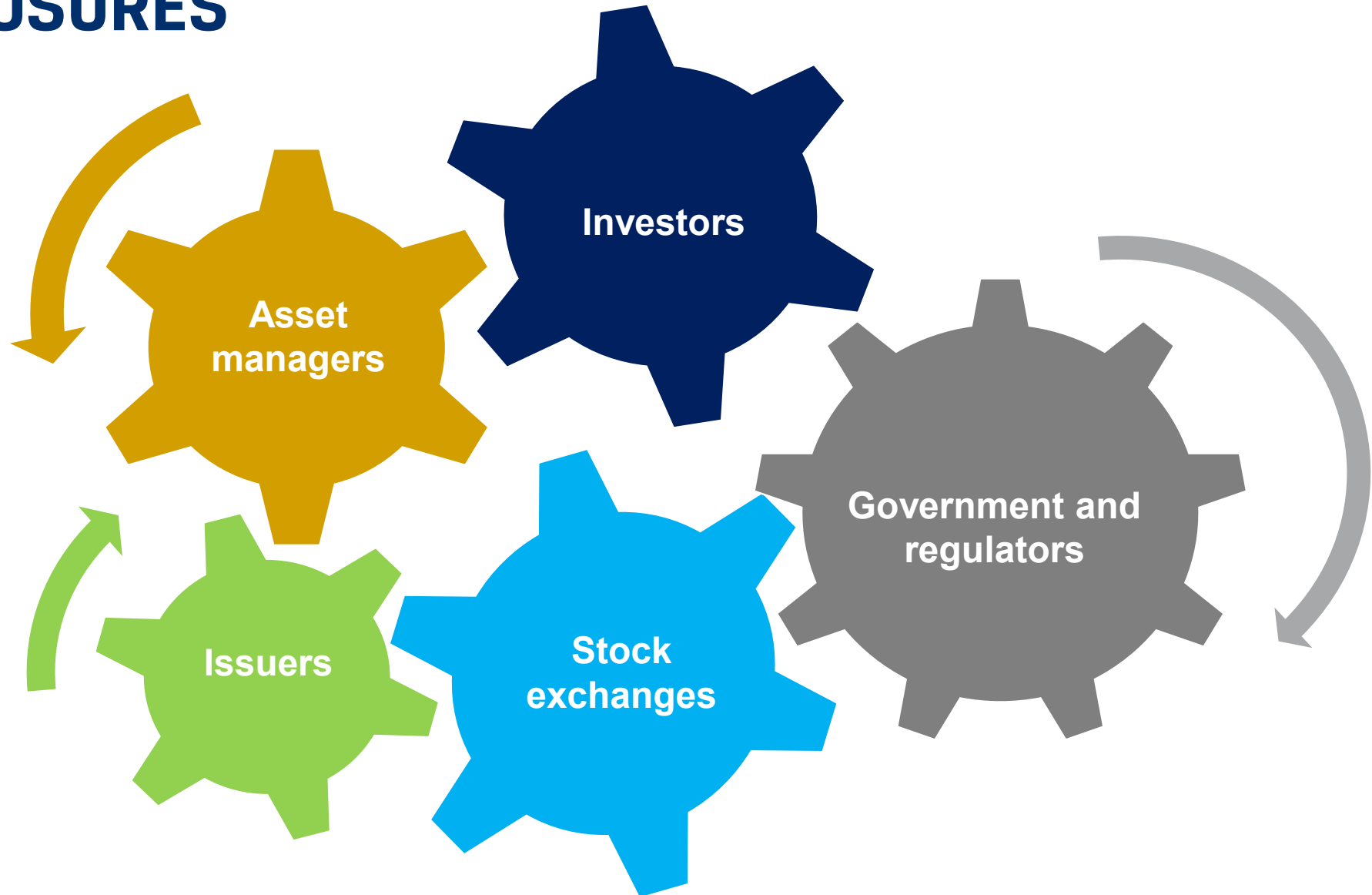
# THE EVOLVING RISKS LANDSCAPE: 2009-2020

- Top 5 risks in terms of potential impact



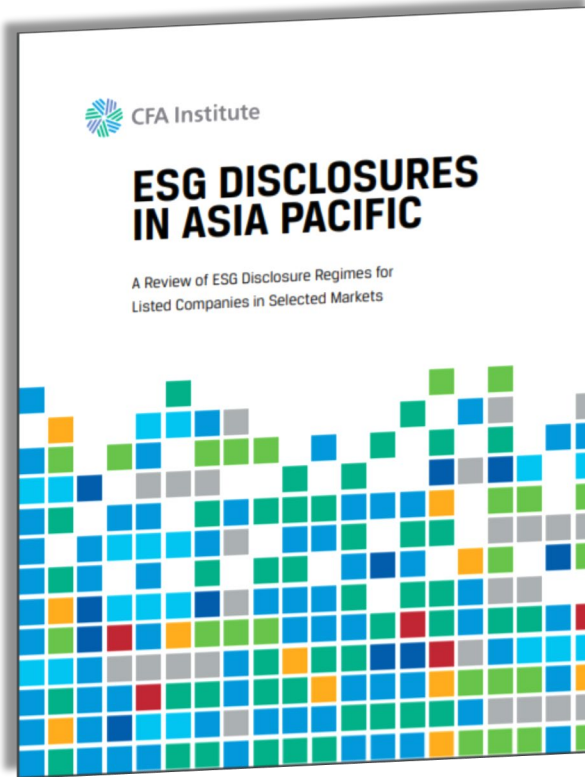
Source: World Economic Forum, Global Risks Report 2019

# ESG DISCLOSURES



# ESG DISCLOSURES IN ASIA PACIFIC

- Australia
- China
- Hong Kong SAR
- India
- Japan
- Singapore
- Thailand
- United Kingdom



DOWNLOAD THE REPORT

<https://cfainst.is/2xTsrKM>



# MAIN FINDINGS

- Volume of ESG disclosures increases, but **quality lags**
- Solid ESG disclosure practices usually take time to develop, but **fast progress is possible**
- **Disclosure regimes differ widely**, in level of obligation, specificity and coverage
- Reporting obligations follow “**race to the top**” pattern of tightening, from voluntary, to “comply-or-explain”, to mandatory.
- Reporting obligations for **large companies** tend to be stricter and broader than those of smaller ones
- Governance issues used to dominate, now **environmental issues** are coming to the forefront
- **Global frameworks** are used by some regulators, but the number of different ones adds confusion

# RECOMMENDATIONS

## *For governments, regulators, and stock exchanges*

- Ensure meaningful, accurate, timely, and comprehensive disclosures
- Work toward harmonisation of global frameworks
- Articulate benefits of ESG disclosures to issuers
- Offer guidance and training to issuers

## *For issuers*

- Educate the board and senior executives on relationship of ESG to strategy and risk management and on the importance of ESG reporting
- Ensure disclosures of relevant and material ESG information

## *For asset owners and investment managers*

- Demand high quality ESG information from issuers
- Articulate the effect of material ESG information on company valuation



# HONG KONG SAR

## Current disclosure requirements – Environmental and Social

**2012:** Stock Exchange of Hong Kong: *Environmental, Social and Governance Reporting Guide*

### Environmental disclosures (subject area A)

- “comply or explain” since 2017
- 3 aspects:
  - emissions
  - use of resources
  - environmental impact

### Social disclosures (subject area B)

- voluntary
- 8 aspects:
  - employment
  - health and safety
  - development and training
  - labour standards
  - supply chain management,
  - product responsibility
  - Anticorruption
  - community investment.

# HONG KONG SAR

## Current disclosure requirements – Corporate Governance

**2012:** Stock Exchange of Hong Kong: Corporate Governance Code and Corporate Governance Report

### Mandatory disclosures

- How principles of the Code have been applied, exceeded, or deviated from
- Composition of the board, number of meetings held, attendance, statement of responsibilities of directors, and relationships among directors
- Board committee roles, functions, number of meetings, and summary of activities
- Auditor's remuneration
- Outline of shareholder rights and related procedures
- Risk management and internal control systems and practices

### Recommended disclosures

- Shareholdings by senior management
- Shareholder breakdown by type
- Details of shareholder meetings, relevant issues, and dates
- Division of responsibilities between the board and management

# HONG KONG SAR

## Strengthening disclosure requirements

**December 2019:** Stock Exchange of Hong Kong published a change to listing rules to improve ESG disclosures:

- **Mandatory** disclosures of board practices around consideration of ESG issues, reporting principles and boundaries of ESG reports
- Disclosures of significant **climate-related** issues
- Requirement to provide **KPI targets** for environmental disclosures
- Tightening of Social KPI requirement to “**comply or explain**” from voluntary
- **Shorter deadline** for publication of ESG reports

# GOLD STAR IN SUSTAINABILITY REPORTING

## Ranking of the world's top 10 exchanges based on ESG disclosures

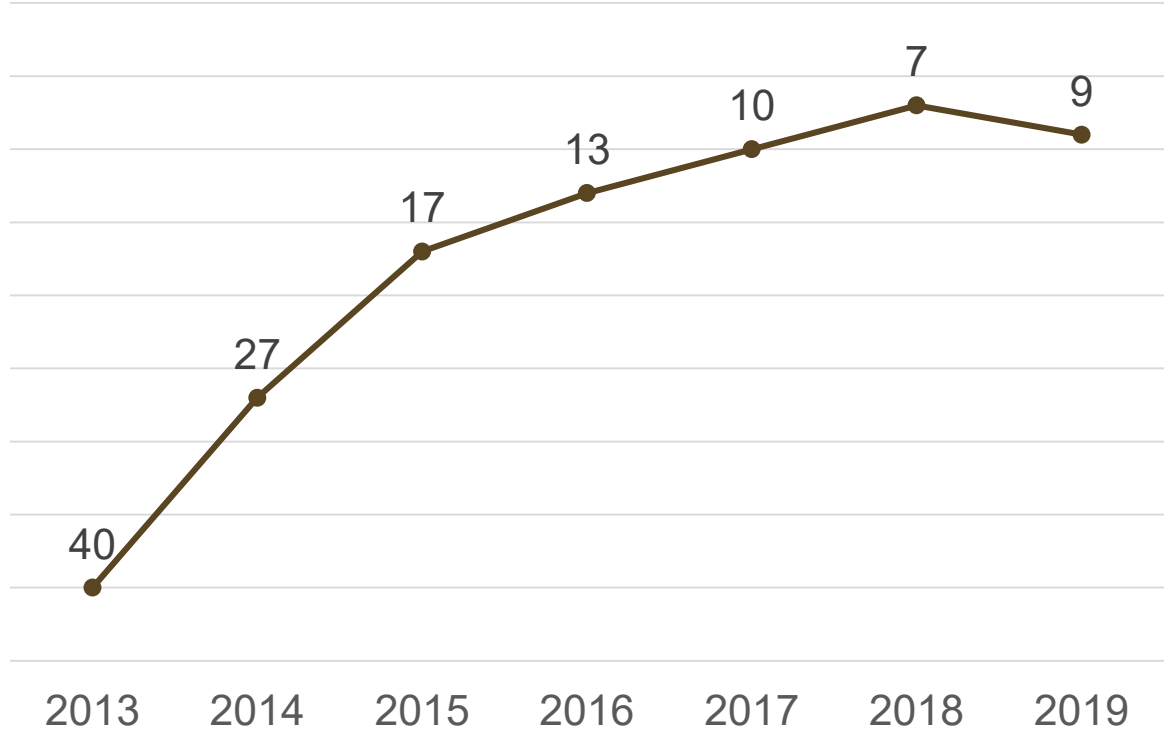
Stock exchange	Disclosure Rate	Disclosure Growth	Disclosure Timeliness
Helsinki Stock Exchange	80.6%	3.6%	126
BME Spanish Stock Exchanges	77.7%	2.3%	181
Euronext Lisbon	73.8%	3.7%	205
Euronext Paris	68.6%	2.2%	190
Johannesburg Stock Exchange	68.1%	0	N/A
Borsa Italiana	66.3%	10.7%	149
Euronext Amsterdam	64.9%	6.6%	134
Bolsa De Valores De Colombia	64.6%	11.8%	124
Stock Exchange of Thailand	60.3%	8.5%	105
Nasdaq Stockholm / Nasdaq Copenhagen	60.0%	5.1% / 2.1%	98 / 73

Source: 2019 Measuring Sustainability Disclosure: Ranking the World's Stock Exchange, *Corporate Knights*



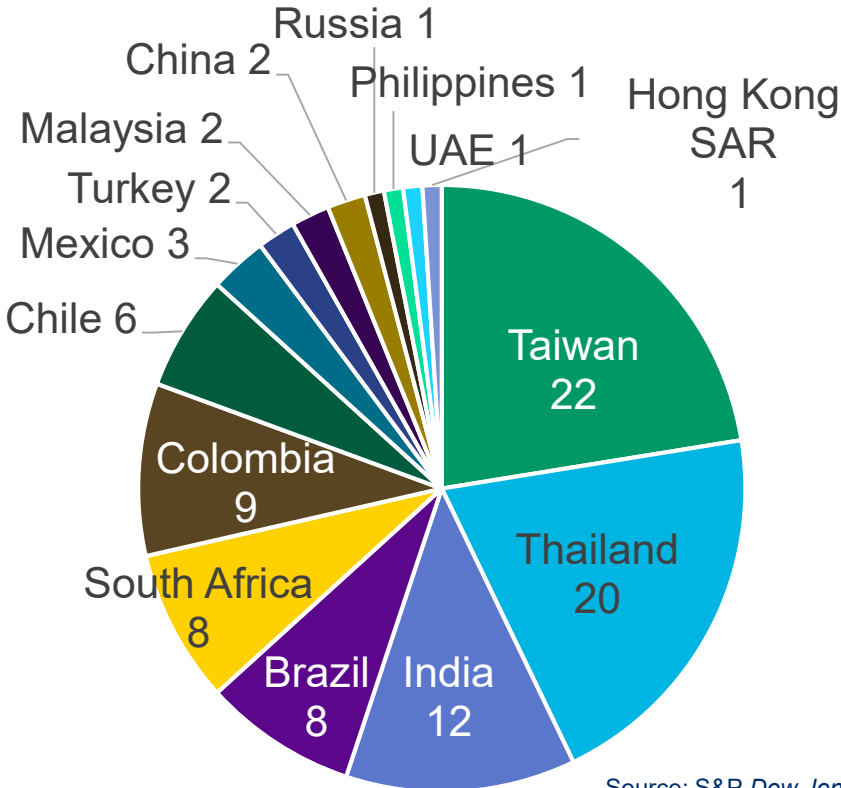
# STOCK EXCHANGE OF THAILAND

Ranking on sustainability disclosures 2013 – 2019  
(out of 49 global exchanges)



Source: Corporate Knights

Dow Jones Sustainability Emerging Market Index  
Number of companies in each market



Source: S&P Dow Jones Indices, Robeco SAM, September 2019

# THAILAND: ESG DISCLOSURE REGULATION

- 2010 – Stock Exchange of Thailand (SET) publishes Guidelines for Sustainability Reporting, based on GRI framework
- 2014 – Securities and Exchange Commission (SEC) requires corporate social responsibility (CSR) disclosures
- 2017 – SEC issues new Corporate Governance Code requiring sustainability reporting
- Disclosure of key performance indicators (KPIs) remains **voluntary**
- SET provides **on-going strategic training** on sustainability reporting, environmental risks, and materiality
- SET views good ESG disclosures as:
  - Diversifying factor
  - Competitive advantage
  - Attracting foreign investors
- Recognition of best practices through **awards for excellence**

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# BDO SURVEY ON THE PERFORMANCE OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORTING OF HONG KONG LISTED COMPANIES FOR FY2018/19

Ricky Cheng  
Dr. Artie Ng  
5 May 2020

# AGENDA

- ▶ 1. The research team
- ▶ 2. About the survey
- ▶ 3. Key survey findings
- ▶ 4. Further insights
- ▶ 5. Recommendations
- ▶ 6. About BDO in Hong Kong & PolyU SPEED



## 1. THE RESEARCH TEAM

# THE RESEARCH TEAM

- ▶ BDO in Hong Kong



*Ricky Cheng*  
Director and Head of Risk Advisory

*Vijo Fok*  
Senior Manager of Risk Advisory

*Vikki Lee*  
Assistant Manager of Risk Advisory

*ESG Team* of Risk Advisory

- ▶ School of Professional Education and Executive Development, The Hong Kong Polytechnic University (PolyU SPEED)



THE HONG KONG  
POLYTECHNIC UNIVERSITY  
香港理工大學

School of Professional Education  
and Executive Development  
專業進修學院

SPEED



*Dr Artie Ng*  
Principal Lecturer/Deputy Director

*Dr Vincent Law*  
Senior Lecturer

*Dr Tiffany Leung*  
Assistant Professor [City University of Macau]

*Dr Tao Wang Yu*  
Lecturer



# ABOUT CSEAR

- The Centre for Social and Environmental Accounting Research (CSEAR) at the University of St Andrew, Scotland is an international membership-based network that aims to mobilize.
- CSEAR aims to be a world-recognized, global community of scholars who engage with students, activists, practitioners, policy makers and other interested groups in order to generate and disseminate knowledge on social and environmental accounting and accountability. Our mission is to encourage and facilitate high quality, relevant research, teaching and external engagement with practice and policy through developing knowledge, expertise, resources and a supportive network for mentoring and career development.
- CSEAR activities include:
  - supporting effective sustainability accounting education;
  - conferences in the UK and around the world;
  - social and Environmental Accountability Journal;
  - engaging with practice, the profession, NGOs, activists, government and academe;
  - making research accessible to society-at-large through communications such as press releases and non-academic articles
- CSEAR Council is Chaired by Professor Ian Thomson (Director of Lloyds Banking Group Centre for Responsible Business, University of Birmingham, UK). PolyU SPEED is the host of CSEAR North Asia Office.

CSEAR

Centre for Social & Environmental Accounting Research  
Accountability      Transparency      Responsibility



## POLL 1

1. In your perception, which of the following is the best description about performance of Hong Kong listed companies in terms of ESG reporting?
  - a. Significant improvement from the past
  - b. Slight improvement from the past
  - c. Up to the international standard
  - d. Below the international standard
  - e. No improvement from the past



## 2. ABOUT THE SURVEY

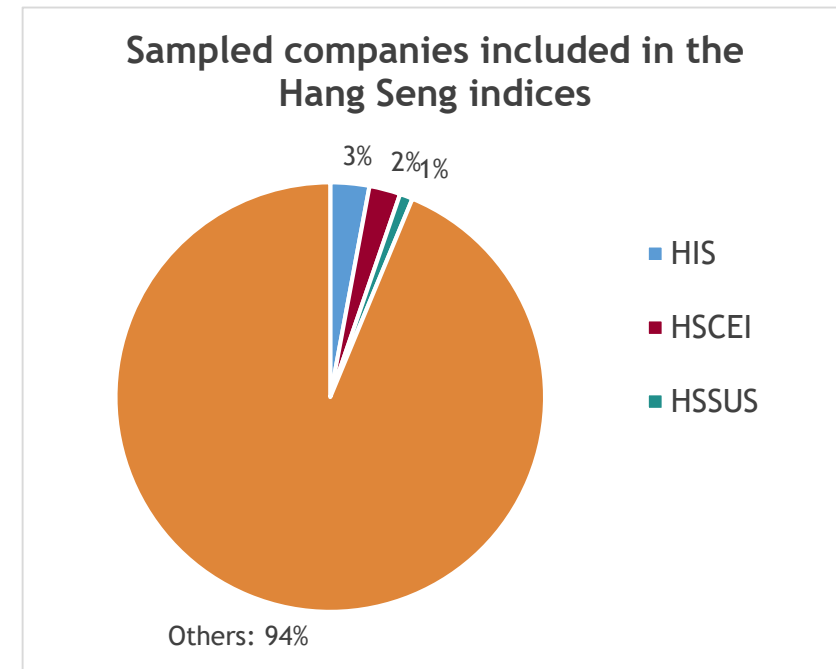
## OUR OBJECTIVES

- ▶ BDO in Hong Kong has invited the School of Professional Education and Executive Development, The Hong Kong Polytechnic University (PolyU SPEED) to jointly conduct the ESG reporting survey for this year
- ▶ This survey study is to:
  - Track and update the ESG reporting quality and performance among the listed companies on **compliance with the mandatory ESG Reporting Guide** in the third year
  - Review the capability of listed companies in **fulfilling the new disclosures requirements** being proposed by the Hong Kong Exchanges and Clearing Limited (HKEx)
  - Identify **potential improvement areas** that listed companies should focus on
  - Provide further **observations on ESG management**
  - Propose **recommendations on enhancing the future ESG practices** in Hong Kong

## SURVEY SCOPE AND METHODOLOGY

- ▶ Based on *stratified random sampling*, 500 ESG reports published by Hong Kong listed companies in both Main Board & Growth Enterprise Market (GEM) are surveyed (out of an estimated population of 2,315)
- ▶ The survey reviewed latest publicly available information in ESG reports (either embedded in annual report or published as a standalone report)
- ▶ Survey analyses were based on ESG reports published on or before 30 June 2019. Robust statistical analysis to test significance of relationship was performed.
- ▶ Similar to last year, the sampled companies (hereafter “companies”) included constituents of the following three indices:
  - *Hang Seng Index (HSI)*
  - *Hang Seng China Enterprises Index (HSCEI)*
  - *Hang Seng Corporate Sustainability Index (HSSUS)*

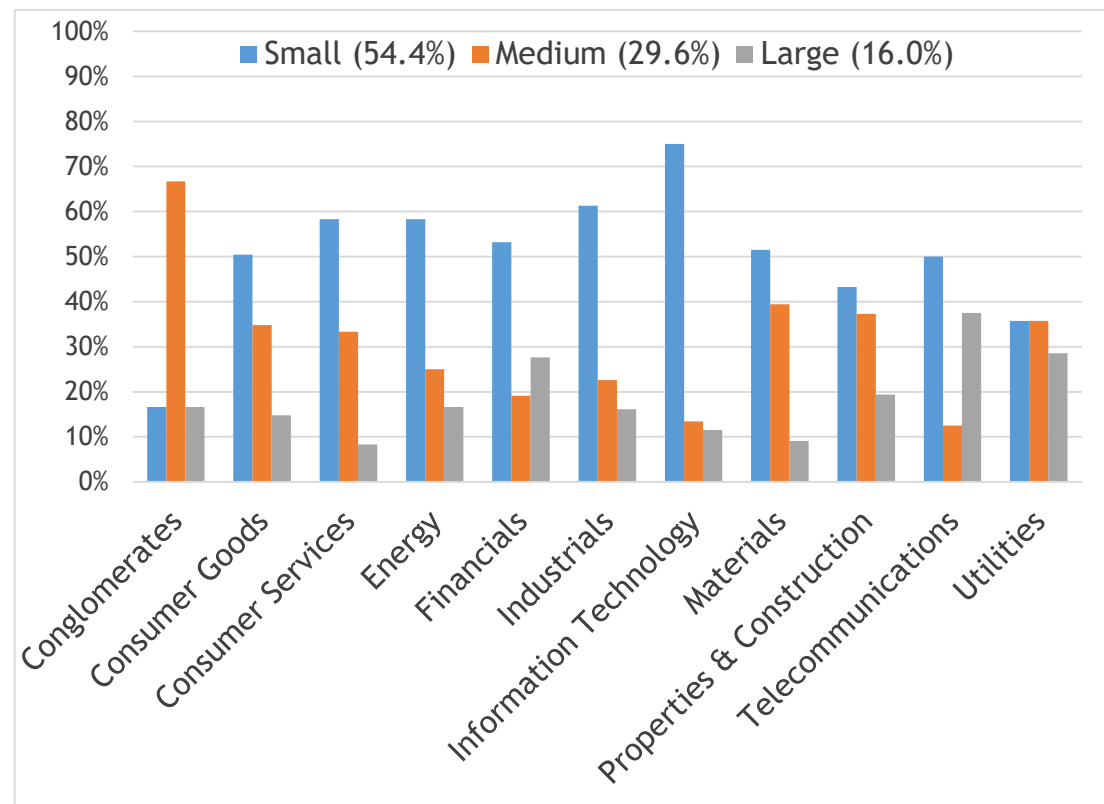
Year	2018	2019
Main Board	331	400
GEM	69	100
Total	400	500



# SURVEY SCOPE AND METHODOLOGY

- The 500 companies are classified in accordance with Hang Seng Industry Classification System and company size

Sectors	Number	%
Energy	24	4.8%
Materials	33	6.6%
Industrials	62	12.4%
Consumer Goods	115	23.0%
Consumer Services	72	14.4%
Telecommunications	8	1.6%
Utilities	14	2.8%
Financials	47	9.4%
Properties & Construction	67	13.4%
Information Technology	52	10.4%
Conglomerates	6	1.2%
Total	500	100.0%



Note: Pursuant to the method of stratified random sampling, the sample sizes of conglomerates, telecommunications and utilities are relatively small compared to other sectors. The result may not fully reflect the overall performance of these sectors as some large and representative companies are not being sampled this time for survey study

# SURVEY SCOPE AND METHODOLOGY

- ▶ ESG reports are scored based on ESG reporting quality and performance

## BDO ESG Scoring Mechanism:

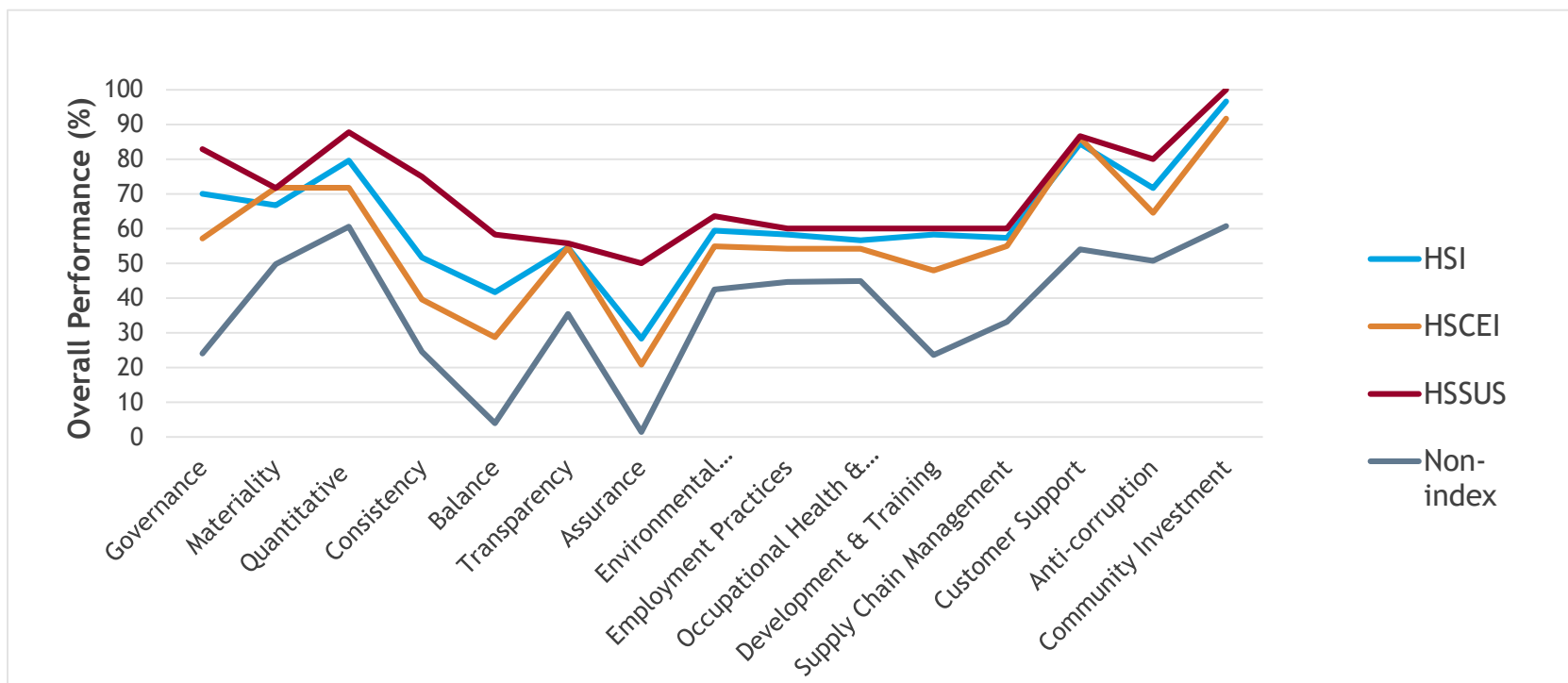




### 3. KEY SURVEY FINDINGS

## OVERALL PERFORMANCE - INDEX VS NON-INDEX

- ▶ Among the sampled companies, companies which are constituents of HSI, HSCEI and HSSUS performed better than those non-index companies in every scoring category
- ▶ Among the three Hang Seng indices, sampled companies belonging to **HSSUS almost outperformed the other two Hang Seng indices in every scoring category** of ESG reporting quality, while there is no obvious difference in ESG performance





# ESG GOVERNANCE

# ESG GOVERNANCE

Survey Area	Key Data Points	2018 Survey	2019 Survey	Trend
ESG governance	Top-level commitment and management	26%	34%	↑
	ESG committee or personnel	20%	24%	↑
	ESG risk management	15%	28%	↑
	ESG strategy	32%	36%	↑

- ▶ The overall **ESG governance of the companies has improved compared to 2018**. However, there is still a long journey to develop a well-rounded structure for ESG management
- ▶ Still **insufficient commitments at director's level or oversight** in ESG management, lack of establishment of independent committee or assigned personnel in ESG management
- ▶ More companies illustrated the **approach of ESG risk management** with risk identification and evaluation, but the percentage remains low



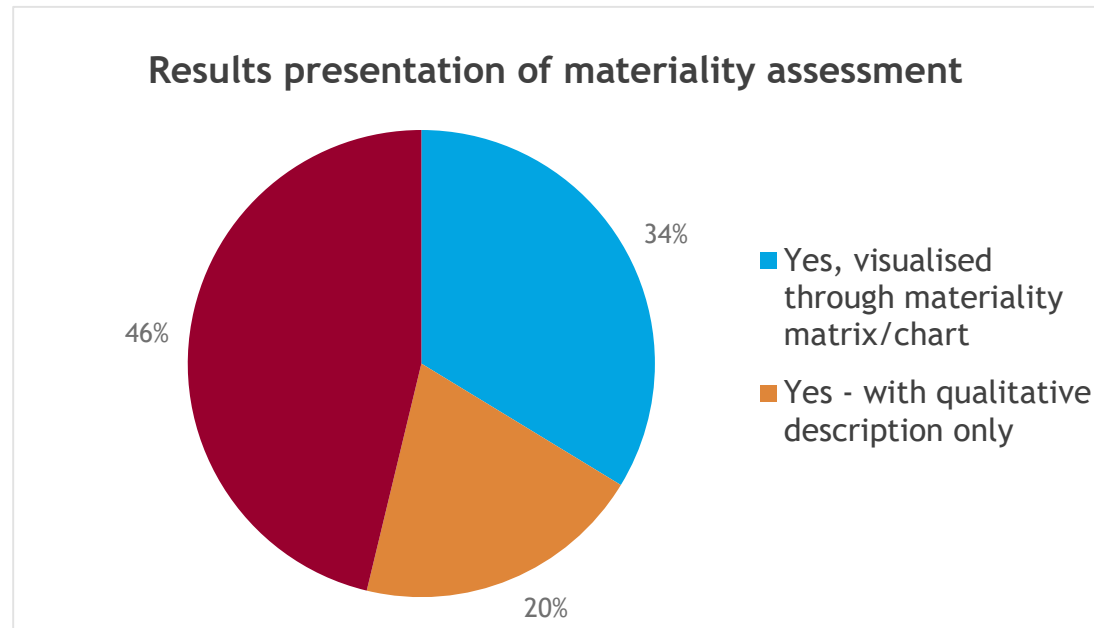
# STRATEGIC RELEVANCE

# MATERIALITY ASSESSMENT

Survey Area	2018 Survey	2019 Survey	Trend
Materiality assessment	51%	66%	↑

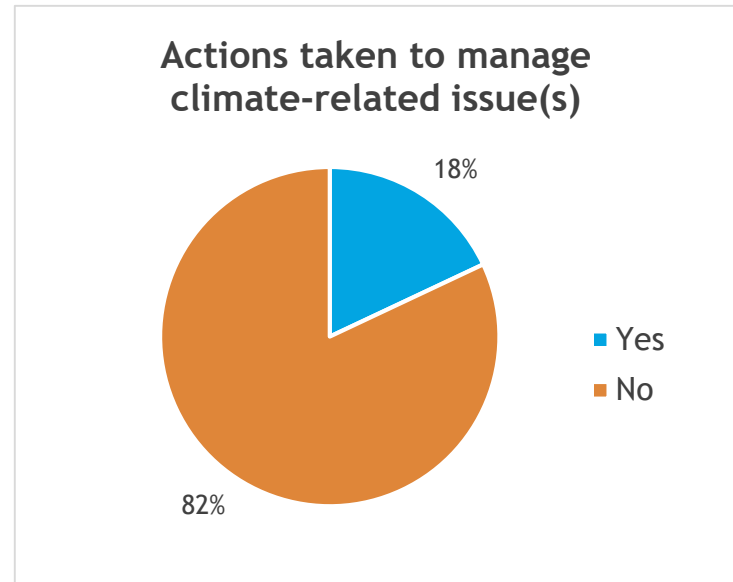
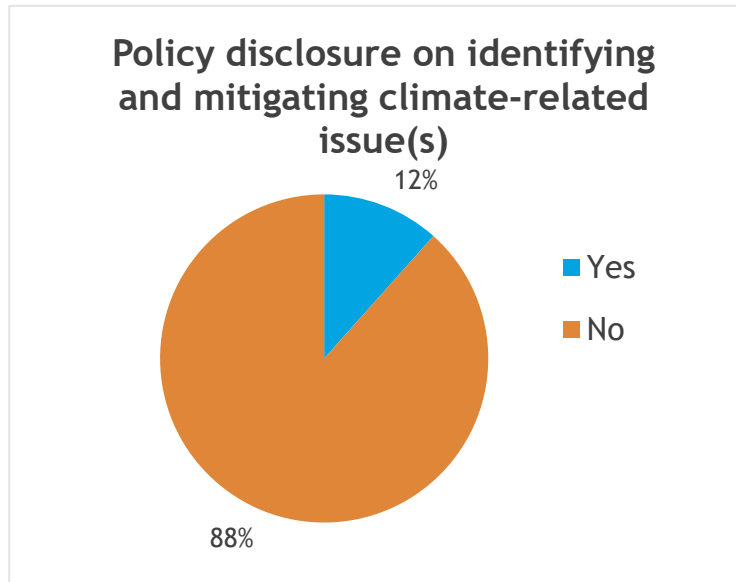
Among companies conducted materiality assessment:

- ▶ Only 34% prioritised the material ESG topics and visualised the results through materiality matrix or charts
- ▶ 46% did not disclose any information relevant to materiality assessment with its result in the report



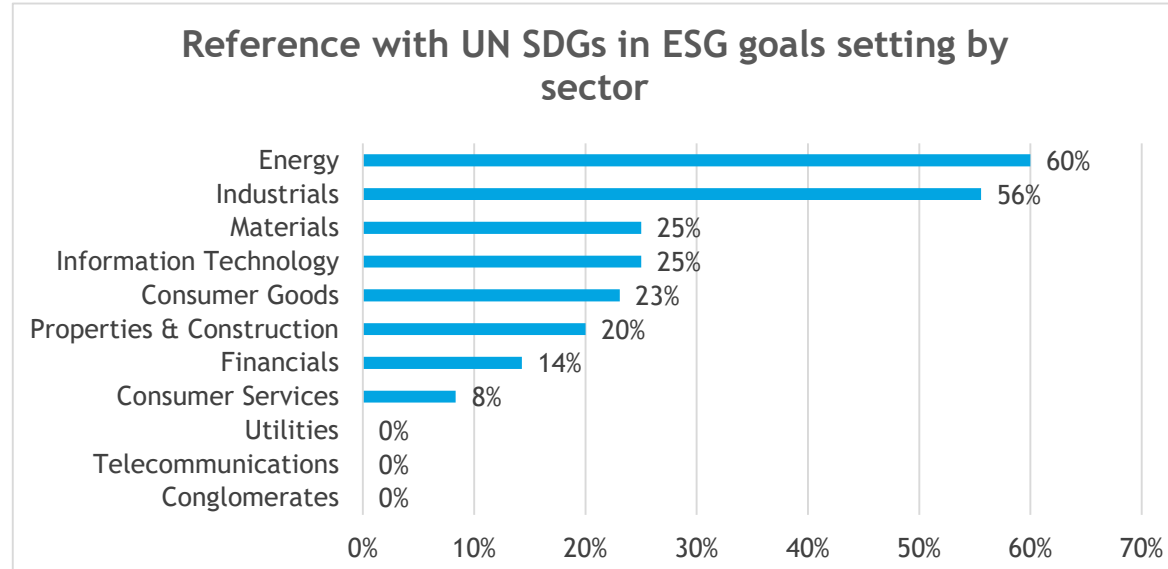
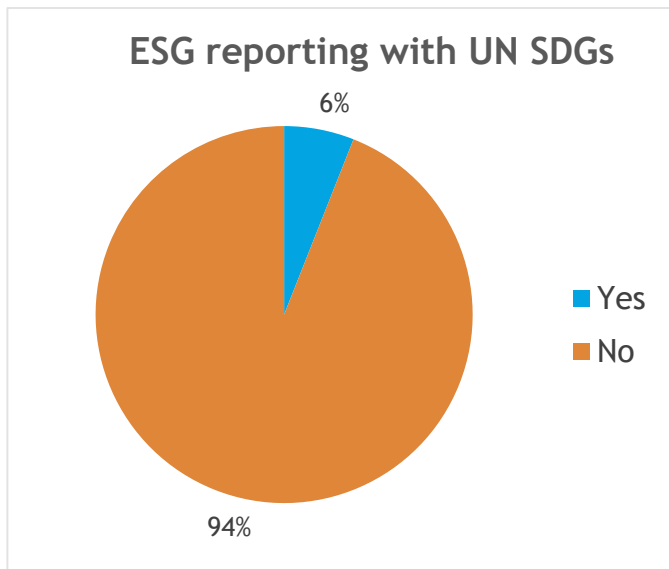
## LIMITED EFFORT IN COMBATING CLIMATE CHANGE

- ▶ The difference of figures indicated that some companies directly linked the existing environmental management practices as the measures in response to climate change, **without a thorough risk assessment on potential threats and opportunities of climate change** brings towards the business operations



## LIMITED EFFORT IN ALIGNING GOALS WITH UN SDGs

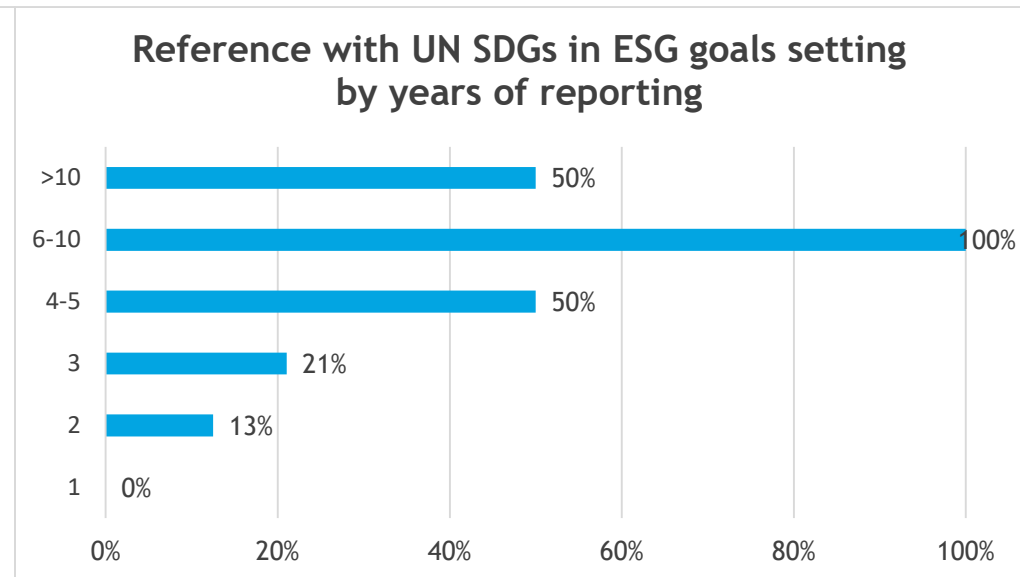
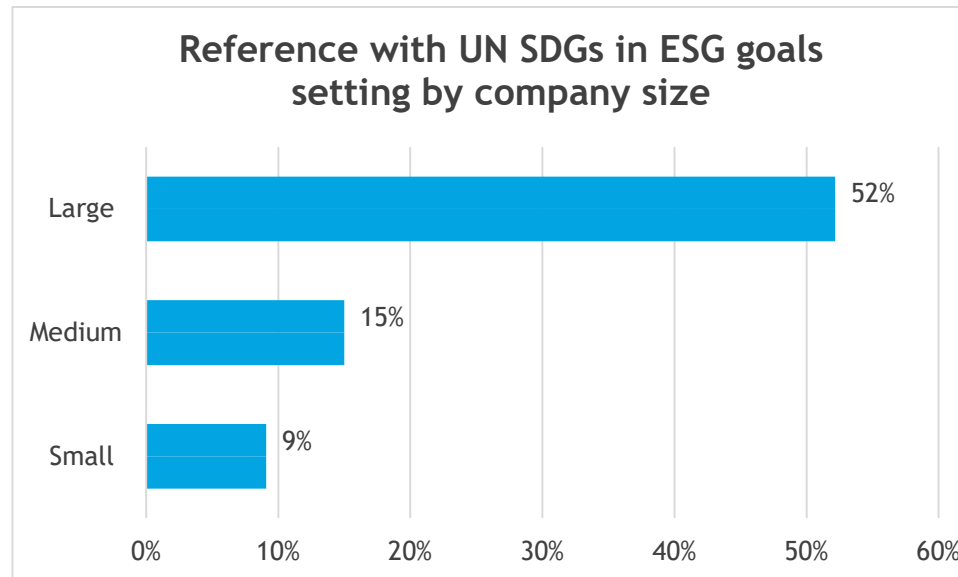
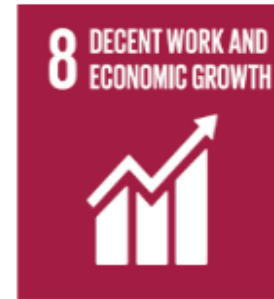
- ▶ Only 6% of the sampled companies identified UN SDGs relevant to their business and discussed the alignment with the identified UN SDGs in their ESG management approaches and/or the actions taken in response to the identified UN SDGs
- ▶ Only 4% of the sampled companies have set the ESG goals aligned with the UN SDGs
- ▶ Companies with global operations have a higher tendency to set ESG goals aligned with UN SDGs
- ▶ Energy and Industrials are the top sectors with goals referenced to UN SDGs



## LIMITED EFFORT IN ALIGNING GOALS WITH UN SDGs

- ▶ The goals setting referred to UN SDGs is highly **correlated with the company size** as well as years of reporting
- ▶ **The larger the company**, the more likely the company would **formulate the ESG goals** with reference to UN SDGs

### Top three UN SDGs selected by the companies



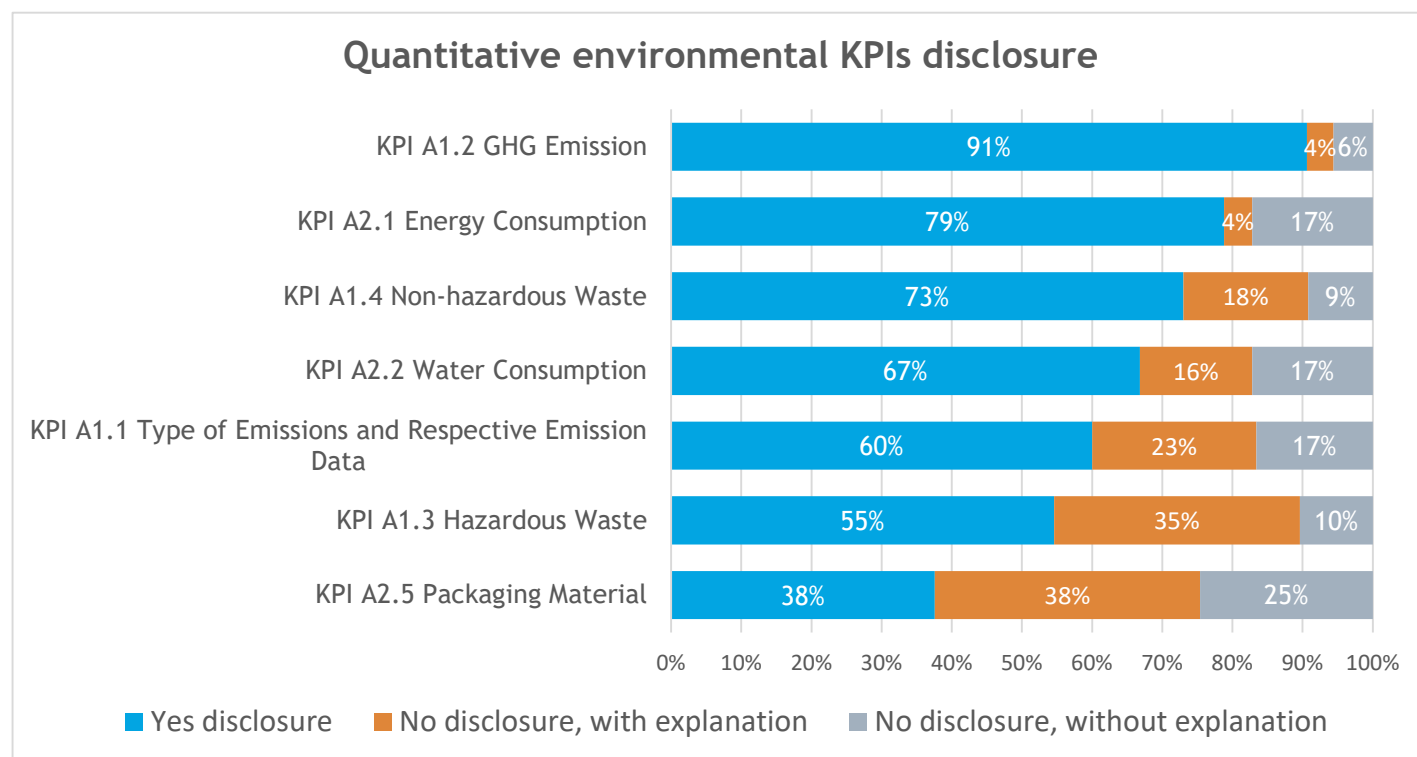


# TARGET SETTING

# LACK OF CLARIFICATION OF ENVIRONMENTAL KPI AND TARGETS

## Quantitative environmental KPIs

- ▶ **Top three quantitative environmental KPIs of disclosure:** greenhouse gas (GHG) emissions (91%), energy consumption (79%), non-hazardous waste (73%)
- ▶ **Packaging material** is the aspect of **lowest compliance** level of disclosure (38%). One fourth (25%) of the companies did not explain any reason for non-disclosure of KPI in the ESG report





# REPORTING PRACTICES

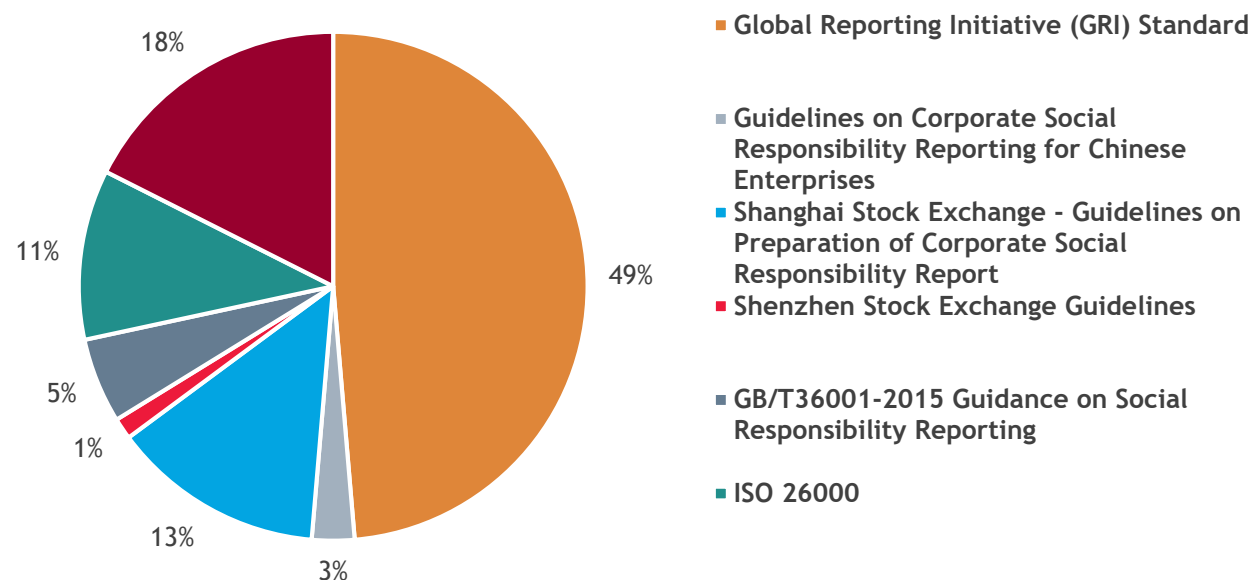
## ADOPTION OF OTHER REPORTING STANDARDS/GUIDELINES

Survey Area	2018 Survey	2019 Survey	Trend
Adoption of reporting standards/guidelines other than HKEx ESG Reporting Guide	10%	9%	➔

Of these 9% of the sampled companies:

- ▶ Mostly adopted **Global Reporting Initiatives (GRI)** standard as its reporting framework
- ▶ Over 40% of them simultaneously adopted the reporting standards/guidelines from stock exchanges or the regulatory authorities in Mainland China

International standards/guidelines referenced or adopted

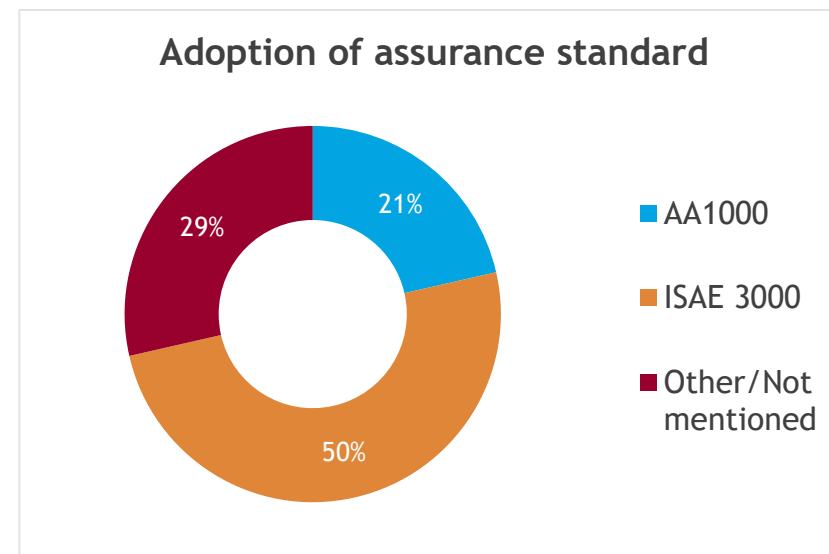
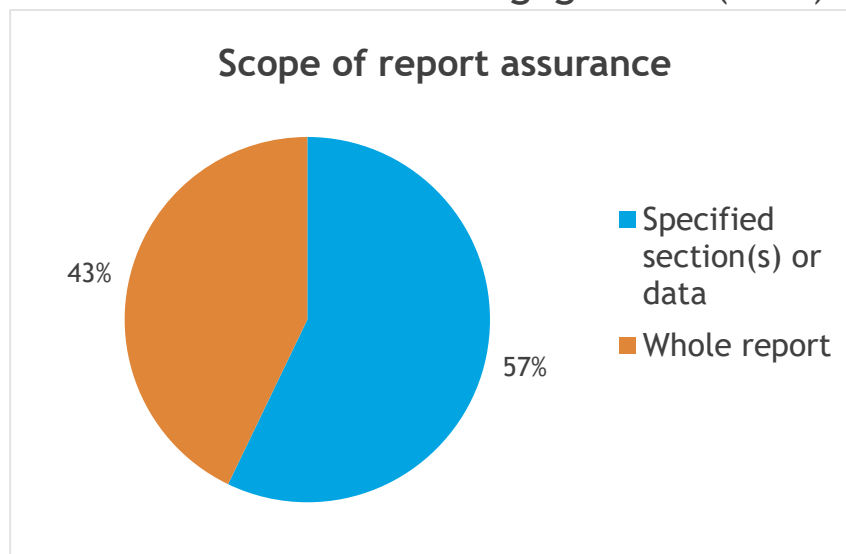


Note: Some surveyed companies adopted more than one reporting standards/guidelines

## INDEPENDENT ASSURANCE BY EXTERNAL PARTY

Survey Area	2018 Survey	2019 Survey	Trend
Report assurance by independent external party	4%	3%	→

- ▶ From the survey result, only **3% of ESG reports obtained independent assurance** by an external party. No significant changes compared to the figure in 2018
- ▶ 43% of which obtained assurance for the whole report
- ▶ Half of the reports are assured based on the assurance standard of International Standard on Assurance Engagement (ISAE) 3000





## 4. FURTHER INSIGHTS

## FURTHER INSIGHTS

### ► Salience of governance

Statistical tests are performed to identify significance of governance factors to certain sustainability performance:

- *Significant relationship found between accountability by corporate leadership and commitment to sustainability performance through setting SDGs, engaging stakeholders and energy savings*
- *Significant relationship found between formulating strategy for sustainability performance and engaging stakeholders, as well as mitigating emission of greenhouse gas (GHG)*
- *Significant relationship found between presence of female director (as a proxy for diversity of board) and energy savings performance*

### ► Size and extent of internationalisation

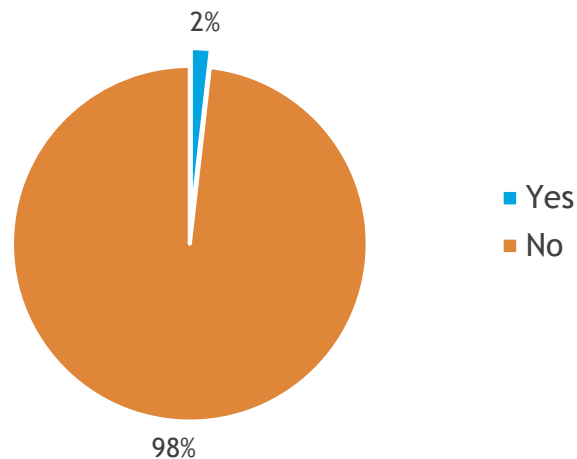
Statistical tests are also used to examine the significance of company size:

- *Company size* tends to have a positive influence over the emphasis on ESG performance
- *Smaller firms* are less likely to offer anti-corruption training to staff
- Companies with *geographical focus on local markets* tend to pay less attention to mitigating emission of GHG

# GREEN FINANCE DEVELOPMENT

- ▶ Due to the **initial stage of developing green financial instruments**, only about 2% of the sampled companies issued green finance instruments such as green bonds and green loans
- ▶ **Key issuers come from the Financial and Energy sectors** (similar observation compared to 2018)

Issuance of green finance



## GREEN FINANCE DEVELOPMENT

- ▶ Among the companies issued the **green financial instruments**, **state-owned enterprises** are in a dominant position
- ▶ Companies with global operations or principally China-based, they tend to have more interests in issuing the green investment products and raising funds for green projects and works
- ▶ The results reveal that the phenomenon is in line with the trend of **green finance system development**: **scaled global and or China-based sustainable development**



## 5. RECOMMENDATIONS

# RECOMMENDATIONS

## To Hong Kong Listed Companies

- ▶ Enhancing ESG Disclosure (reducing information asymmetry) in the emerging green finance system and thereby sustainable investing opportunities
  - Benchmark against the peers/ best practice in the industry
  - Engage and communicate with investors on ESG matters
  - Conduct comprehensive materiality assessment and communicate specific details in ESG report
  - Adopt the widely-used international certification standards and management systems
  - Seek external assurance in ESG data and reporting

# RECOMMENDATIONS

## To Hong Kong Listed Companies (Cont.)

- ▶ Considering climate change as key ESG factor in ESG integration
  - Embed the issue of **climate change in the corporate risk assessment**
    - Understand how the **business models**, portfolio and operation practices affect or are being affected by climate change in detail
    - Combine the result of **stakeholder engagement and materiality assessment** to obtain a better picture about the **priority of ESG issues**
  - **Allocate more resources** (e.g. green projects implementation) to enhance the company capacity in counter to climate adaptation, resilience and mitigation

# RECOMMENDATIONS

## To Hong Kong Listed Companies (Cont.)

- ▶ Setting up strategic ESG goals in line with UN SDGs
  - Review and map the existing ESG metrics and strategic goals to SDGs
    - SDGs provide a **universal framework** for global companies to address the ESG issues
    - Institutional investors, asset management companies and fund managers are increasingly incorporating SDGs into their own **investment frameworks**
  - Identify the direct and indirect relationship between SDGs and the business portfolio
  - Determine clear plan and initiatives to prioritize the impact toward those investible SDGs in alignment with global investors

The top five most investible SDGs:



Reference:

A survey of investors in alternatives - ESG to SDGs: the road ahead, LGT Capital Partners Ltd., 2019

A Berenberg ESG Office Study - Understanding the SDGs in sustainable investing, Joh. Berenberg, Gossler & Co. KG, 2018

UN SDGs - <https://sustainabledevelopment.un.org/sdgs>

## POLL 2

1. In your opinion, which of the following is much needed if significant improvement in ESG reporting and performance is to be achieved?
  - a. Stronger commitment from the board
  - b. Compulsory assurance on ESG reporting
  - c. Staff training and development on ESG performance
  - d. More incentives on ESG compliance (e.g. attachment to crediting rating and green financing)
  - e. All of the above



## ABOUT BDO IN HONG KONG & CSEAR

## ABOUT BDO IN HONG KONG

- ▶ **BDO in Hong Kong** is a firm of **BDO's global organisation**, a global accountancy network with **over 1,500 offices in 162 countries** and over **73,800 people** providing advisory services throughout the world.
- ▶ Founded in **1981**, BDO in Hong Kong combines international expertise with the region's best-available business and advisory services.
- ▶ We have over **50 directors** and **1,000 staff**, and approximately **200 publicly listed companies** on Hong Kong and various international stock exchanges among our clients.
- ▶ By acting locally while thinking globally, we provide truly customised services to local enterprises and multinational corporations alike, playing a significant role in BDO's operation in Asia Pacific
- ▶ Eligible as the reporting accountants for capital markets of Hong Kong (Main Board/ GEM Board), Canada, Singapore, UK
- ▶ We conform to the highest international standards in a full range of professional services including:
  - Audit & Assurance
  - Business services & outsourcing
  - Private client services
  - Risk advisory
  - Specialist advisory
  - Tax



THANK YOU

# Q & A SESSION



**Piotr Zembrowski, CFA**  
Manager, Advocacy Research  
and Content, APAC  
CFA Institute



**Ricky Cheng**  
Director Head of Risk Advisory  
BDO



**Dr. Artie Ng**  
Deputy Director  
School of Professional Education  
and Executive Development at  
The Hong Kong Polytechnic  
University

