



Effective Approaches to Fostering the Implementation of ESG Principles in the Business Sector

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Growing trends of ESG in China and Hong Kong



China:



China officially submitted its **carbon neutrality “before 2060” target** and updated NDC targets to the UNFCCC

China’s imperative to control air pollution is forecast to create **RMB 20 trillion** (USD 3.2 trillion) in investment opportunities in the coming 12 years



Hong Kong: announced Hong Kong's **Climate Action Plan 2050**², set out more proactive strategies and measures on reducing carbon emissions, and would pursue more vigorous interim decarbonisation targets to reduce Hong Kong's carbon emissions by **50%** before 2035 as compared to the 2005 level.

Regulatory initiatives for Hong Kong Financial Services sector and Hong Kong-listed companies



HKMA, SFC, Insurance Authority: May 2020 - establishment of the **Green and Sustainable Finance Cross-Agency Steering Group** to accelerate the growth of green and sustainable finance in Hong Kong and support the Government’s climate strategies

Jul 2021 - announced next steps to advance Hong Kong’s green and sustainable finance strategy



HKEx: December 2019 – issued revised **ESG Reporting Guide**. All listed companies are required to publish their ESG reports for financial years starting from 1 July 2020 in accordance with the revised ESG Reporting Guide

Note:

1. Report: Air pollution battlefield brings investment opportunities, China Daily, 18 April 2018, <http://www.chinadaily.com.cn/a/201804/18/WS5ad69dc6a3105cdcf6518f2c.html>

2. Government announces Hong Kong's Climate Action Plan 2050 (with photos), The Government of HKSAR Press Release, 8 October 2021 <https://www.info.gov.hk/gia/general/202110/08/P2021100800588.htm?fontSize=1>

The ESG agenda is more urgent and more complex



Key Drivers



Increased Awareness of Climate & Social Risks

75% of leading global companies have strategies and targets for decarbonisation



Changing consumer & employee expectations

76% of millennials consider a firm's ESG commitments before deciding to work there



Growth of Sustainable Finance

China, HK & Taiwan - 41 sustainable bond transactions worth US\$19bn in first 6 months of 2021



Pressure on and from Governments & Regulators

Hong Kong will introduce mandatory TCFD aligned climate disclosures by 2025 or earlier

Increasing standards for Social License to Operate (SLO)

ESG risks have a financial value impact



Physical Risks

Impacts of a changing and more variable climate

-  Water stress
-  Wildfires
-  Droughts or floods
-  Rising sea levels



Transitional Risks

Regulator and market response to curbing physical risks

-  Meeting consumer expectations
-  Changes in consumer preferences and spending trends
-  Talent retention
-  Policy change (eg. energy efficiency standards, access to capital)



Which could lead to consequential risks and opportunities to businesses, such as:



Opportunities to access new markets driven by changing customer sentiment



Prolonged business interruption in key locations or stranded assets

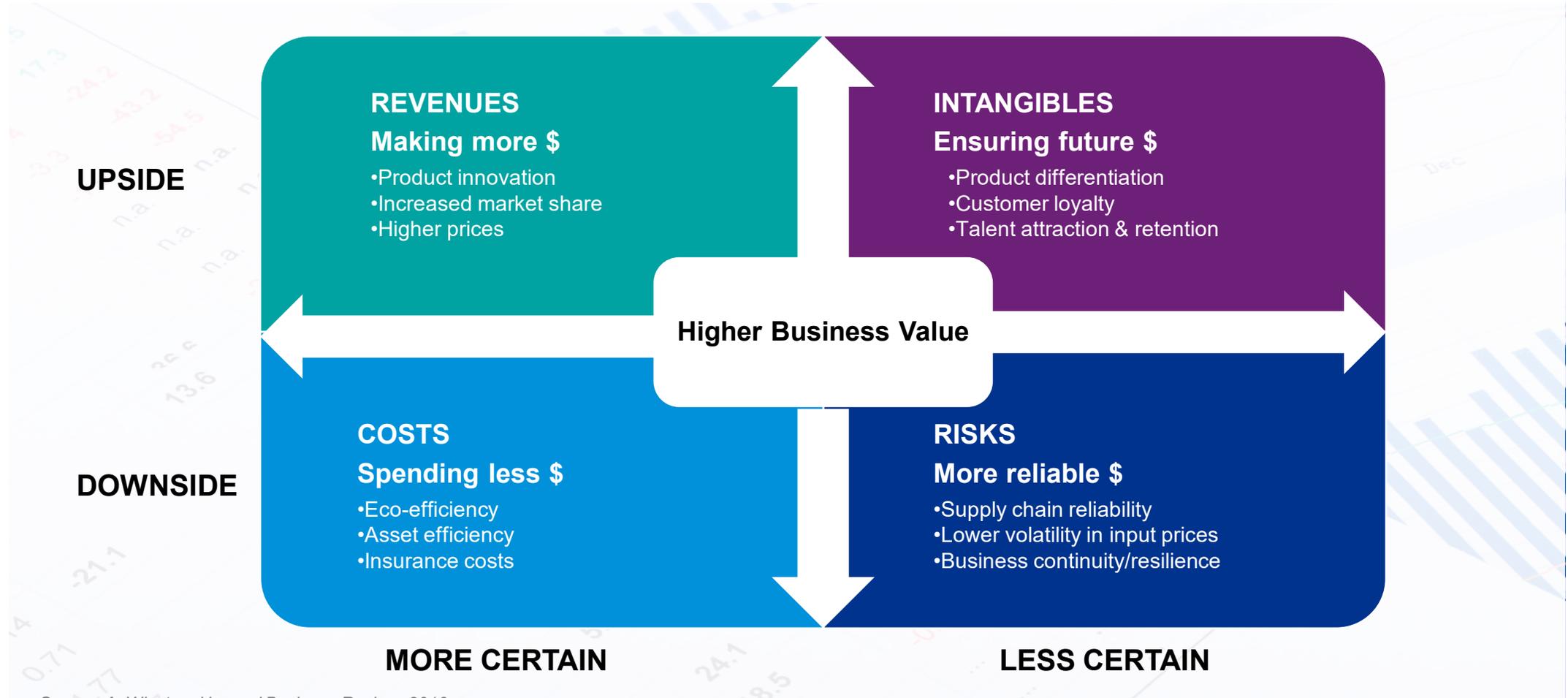


A need to reduce and decarbonize energy consumption



Damage to brands reducing customer demand

ESG drives profit and resilience



Source: A. Winston, Harvard Business Review, 2016

ESG high-performers continue to outperform



CUMULATIVE INDEX PERFORMANCE – GROSS RETURNS (USD)
(SEP 2007 – JUL 2021)



ANNUAL PERFORMANCE (%)

Year	MSCI EM ESG Leaders	MSCI Emerging Markets
2020	20.46	18.69
2019	20.18	18.88
2018	-14.64	-14.24
2017	40.90	37.75
2016	13.83	11.60
2015	-11.99	-14.60
2014	5.20	-1.82
2013	1.63	-2.27
2012	21.64	18.63
2011	-12.78	-18.17
2010	25.88	19.20
2009	76.07	79.02
2008	-48.32	-53.18

Source: MSCI Emerging Markets ESG Leaders Index factsheet

Boardroom Approaches to foster ESG Principles' Implementation



Board governance – ensure that ESG oversight is built into board composition, structure, and processes



Communication – set the tone for disclosure and stakeholder engagement



Risk Assessment – take a comprehensive look at ESG risks for your business



Opportunity assessment – re-evaluate your strategies to identify opportunities for growth and transformation



Integration – encourage engagement across the entire enterprise

Source: Board climate competence: Getting ahead of the curve, KPMG, <https://boardleadership.kpmg.us/relevant-topics/articles/2021/boardroom-climate-competence-getting-ahead-curve.html>



kpmg.com/cn/socialmedia

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