



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

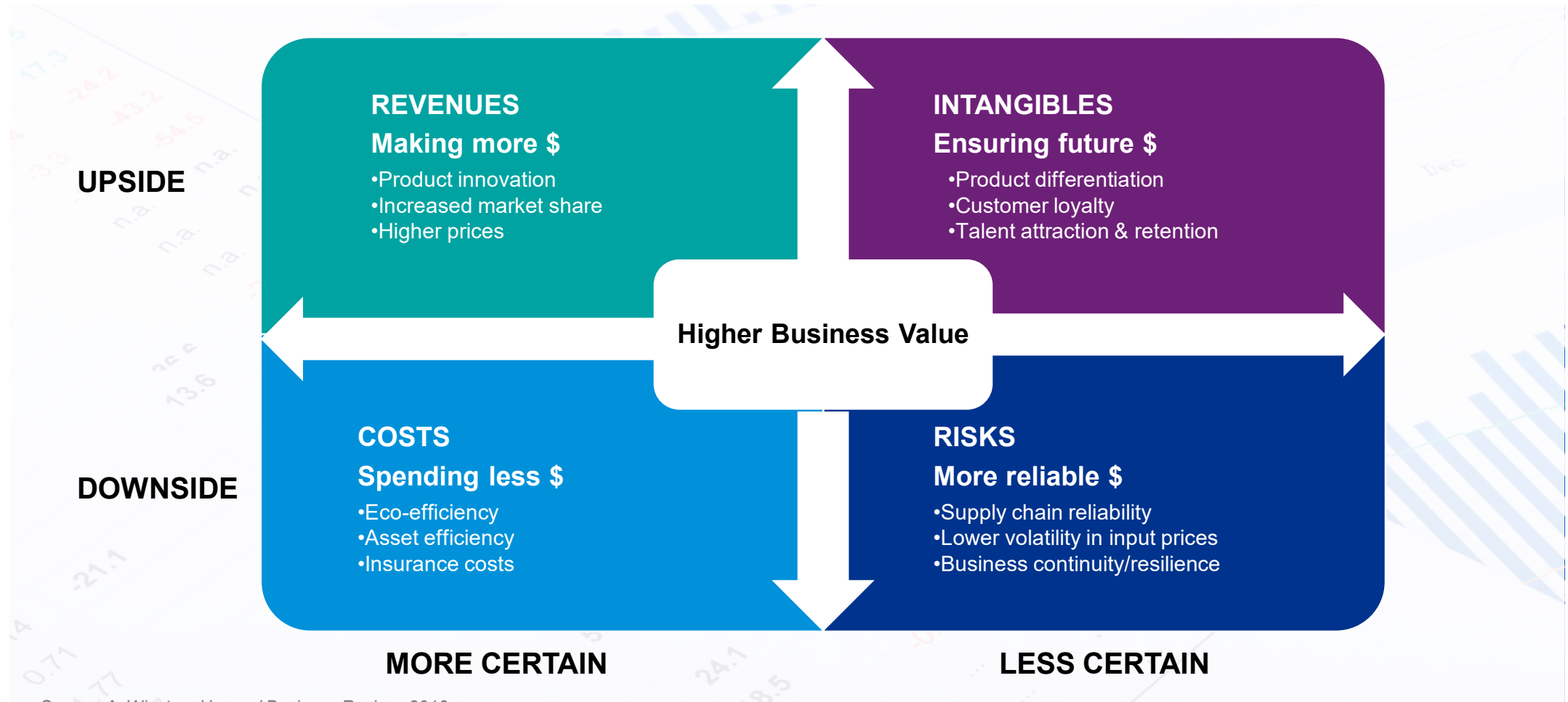


A need to reduce and decarbonize energy consumption



Damage to brands reducing customer demand

ESG drives profit and resilience

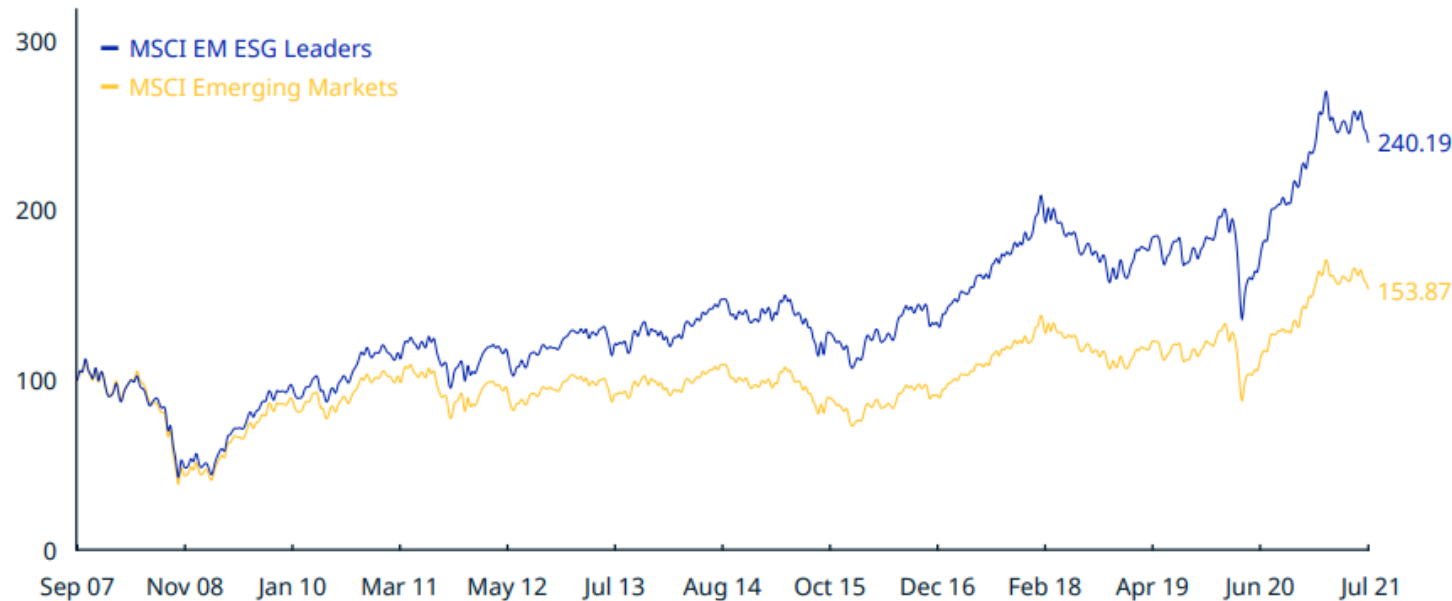


Source: A. Winston, Harvard Business Review, 2016

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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