



Environmental, Social and Governance (ESG) reporting

PASS Seminar

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Speakers



Derek Yuen

Partner
Business Reporting and Sustainability

Catherine Chung

Manager
Business Reporting and Sustainability



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”

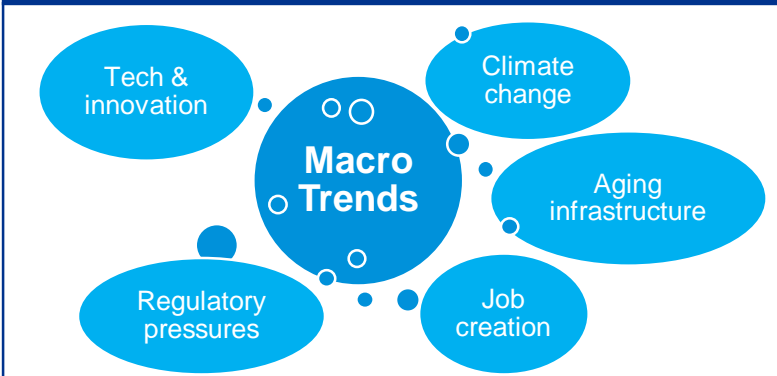
Focus On:

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



Sustainability demand drivers

1. Disruptive macro trends



2. Connectivity and reputation

Reputations can be damaged quickly in an increasingly connected world.

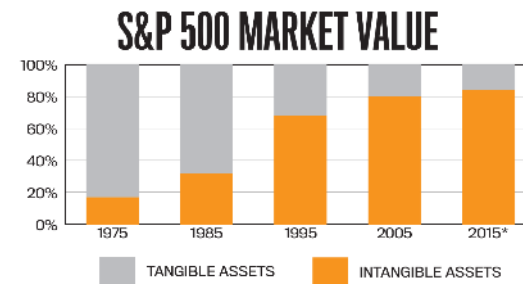


3. Opportunity to innovate

- Provides new perspectives, partnerships, and constraints



4. Intangible assets & investor interest



Source: Ocean TOMO, LLC
* January 1, 2015

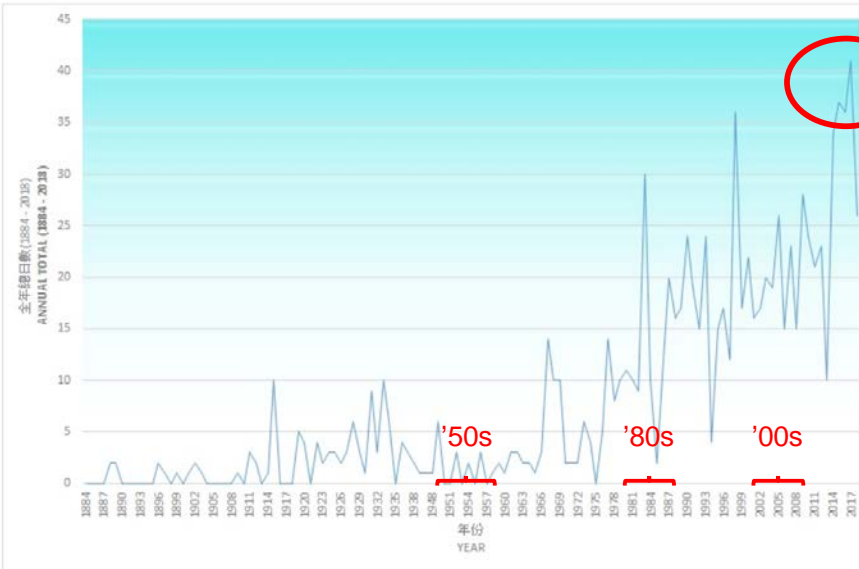
Do you feel hot??

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

Rank	Year	Number of Days
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...

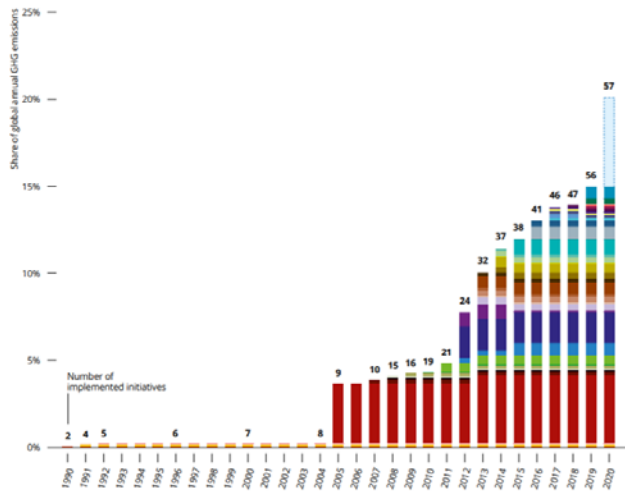
Finance: green lending, climate insurance...

...

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



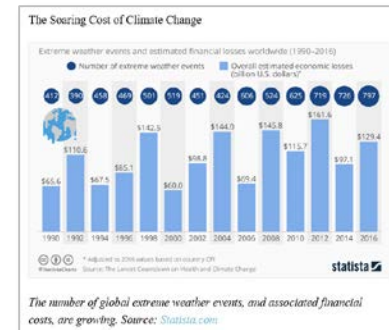
Source: State and Trends of Carbon Pricing 2019, World Bank

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

BURBERRY
LONDON ENGLAND

♡ 2,498 1:04 PM - Sep 6, 2018

💬 1,023 people are talking about this

Source: The Hollywood Reporter 2018

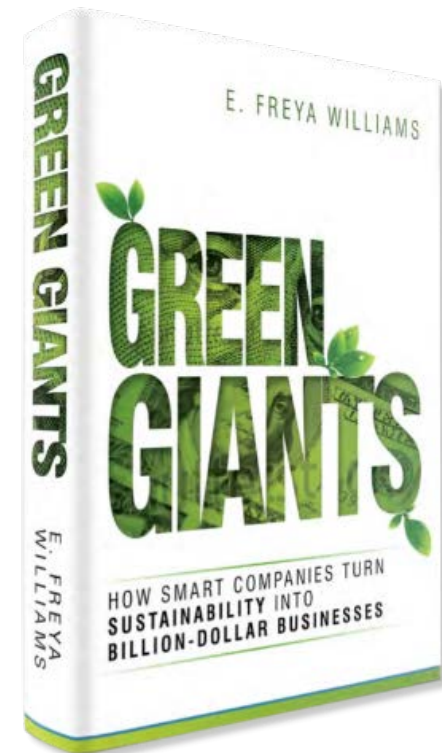
Source: The New York Times 2018

Sustainability innovations

Opportunities

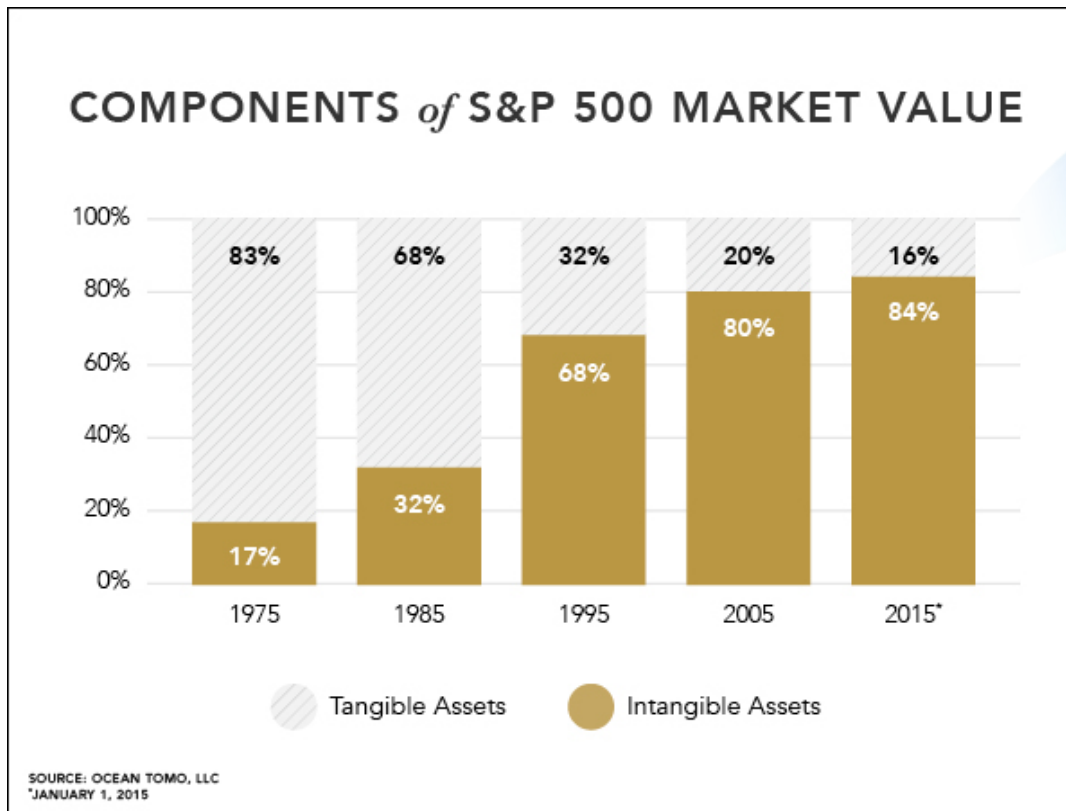
Green Giants: How Smart Companies Turn Sustainability into Billion Dollar Businesses Freya Williams

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.

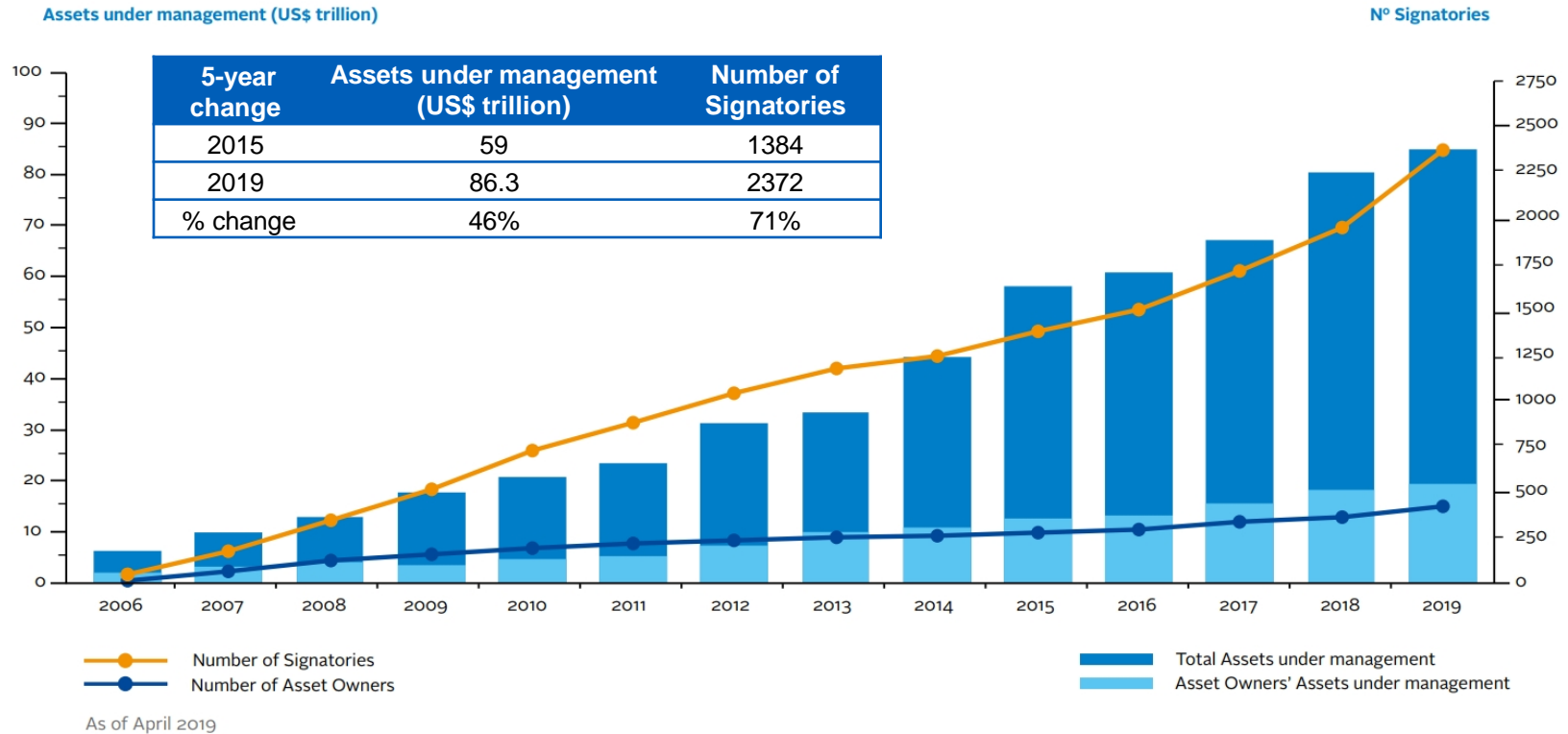


Intangible assets

- 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



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



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

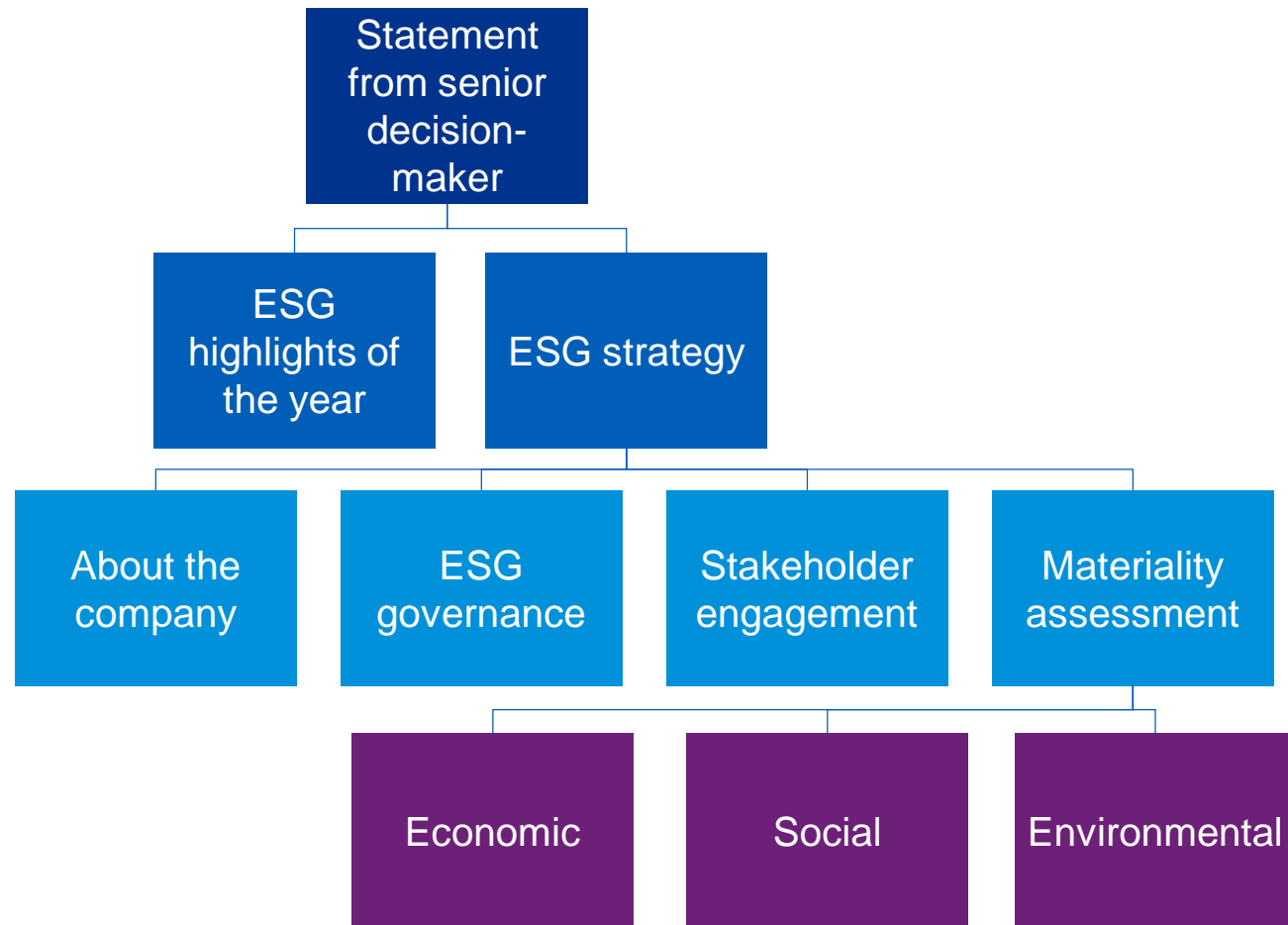
REPORTING PRINCIPLES

Define report content

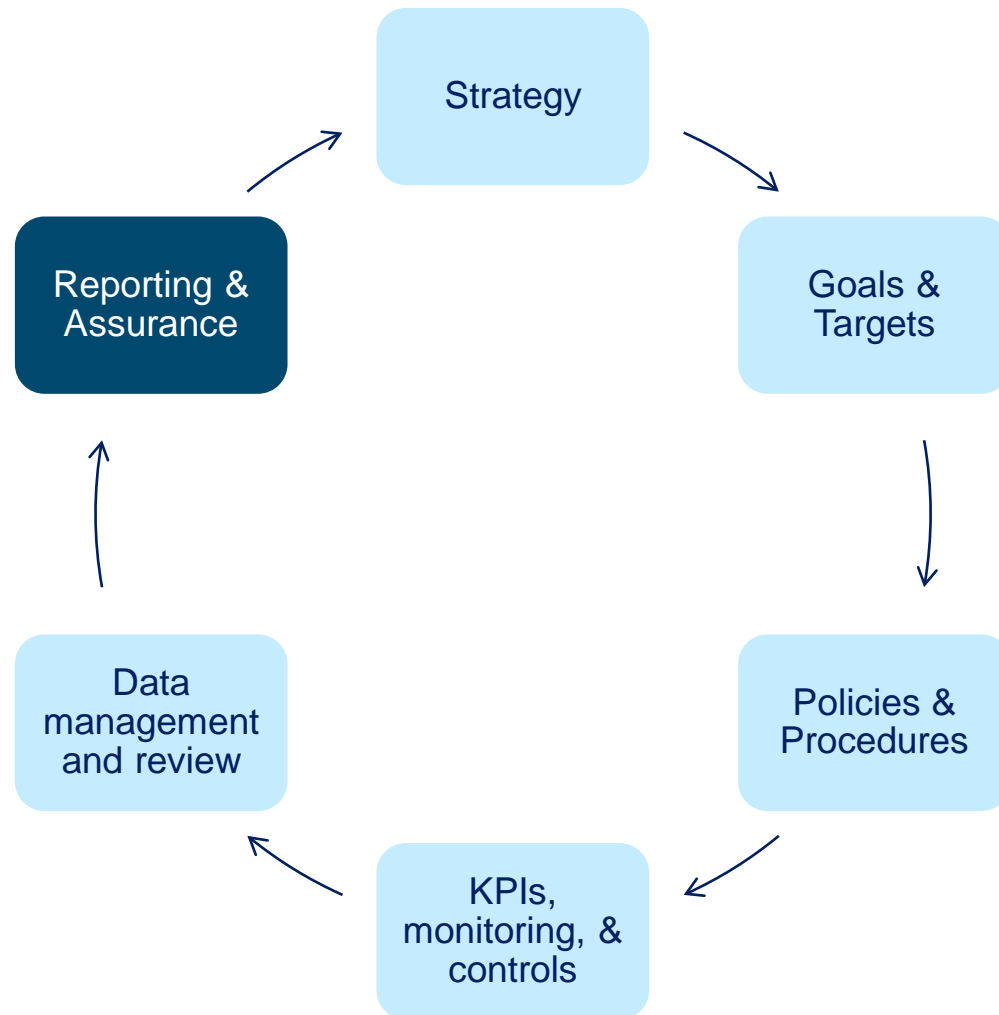
- Stakeholder Inclusiveness
- Sustainability Context
- Materiality
- Completeness

Define report quality

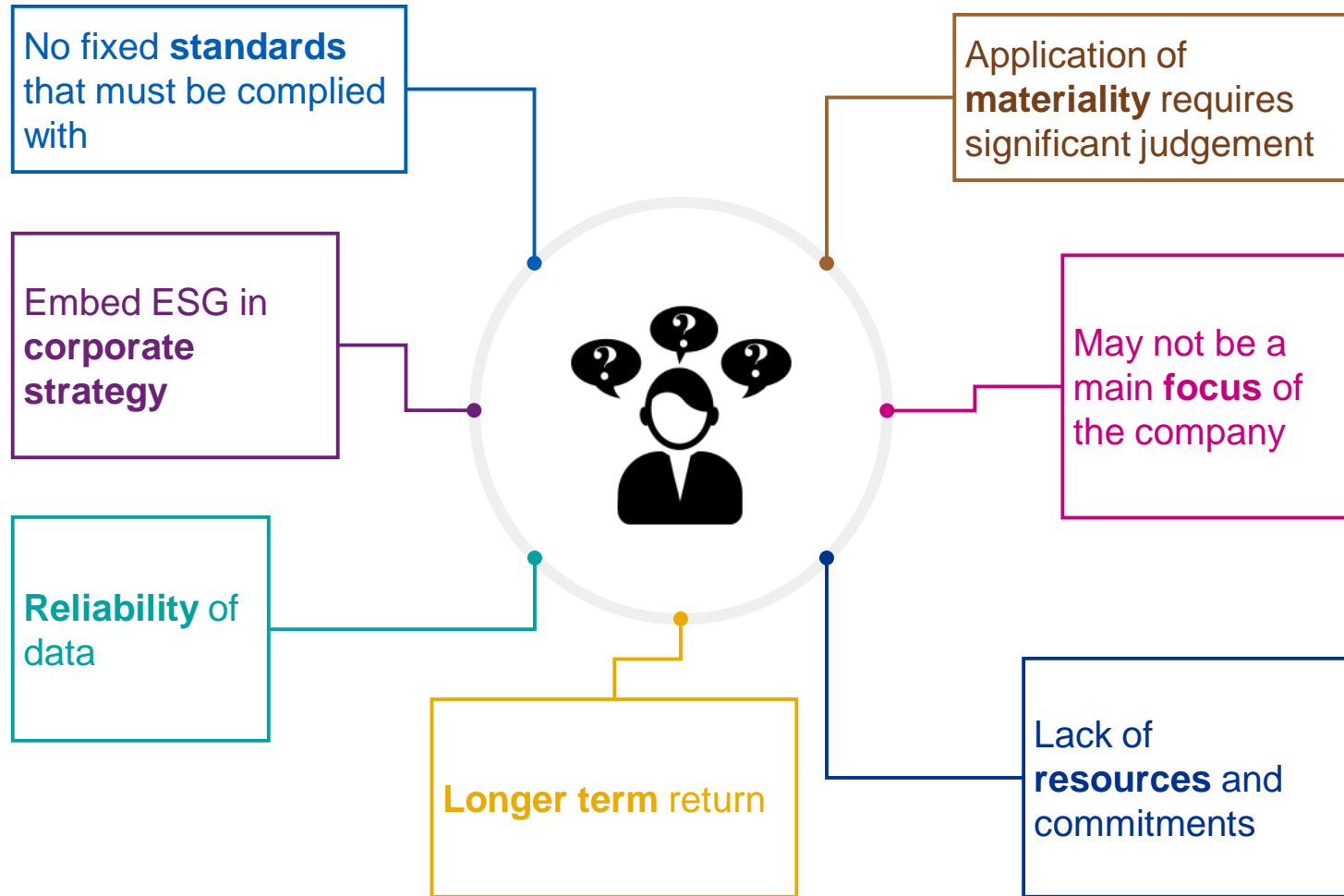
- Accuracy
- Balance
- Clarity
- Comparability
- Reliability
- Timeliness




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 parallel rows, creating a strong sense of perspective. In the upper right quadrant, a single, large, mature tree with a dense, rounded canopy stands out against the green field. The overall color palette is dominated by various shades of green, with a solid blue vertical bar on the left side.

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 Consultation Paper

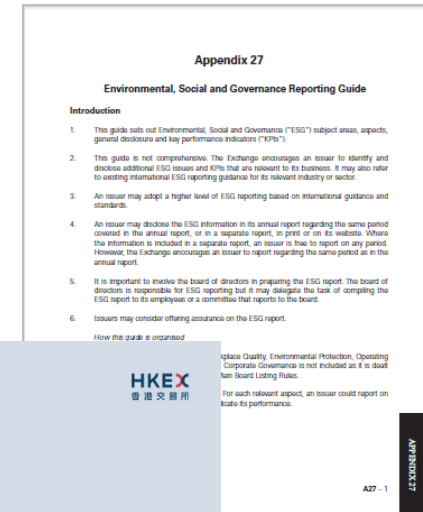


On 17 May 2019, the Stock Exchange of Hong Kong Limited (the Exchange) published a consultation paper on its **proposed changes to the ESG Guide** and related Listing Rules to improve issuers' ESG performance and reporting.



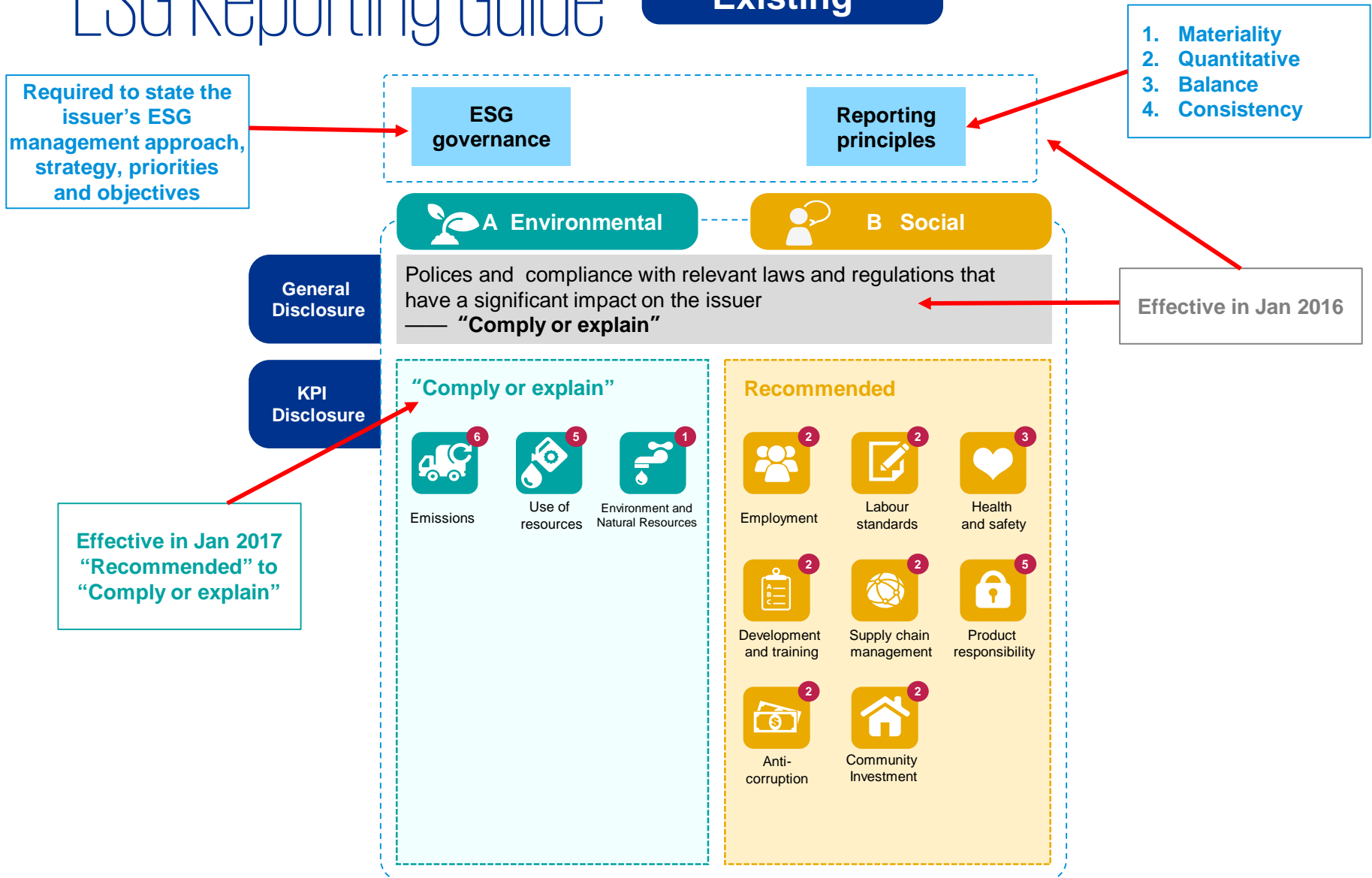
Highlights

- Introduction of **mandatory disclosure requirements (MDR)** and certain changes to the ESG Guide.
- Proposed changes intended to be implemented in the financial year commencing on or after **1 January 2020**. We recommend that companies start preparing to respond.



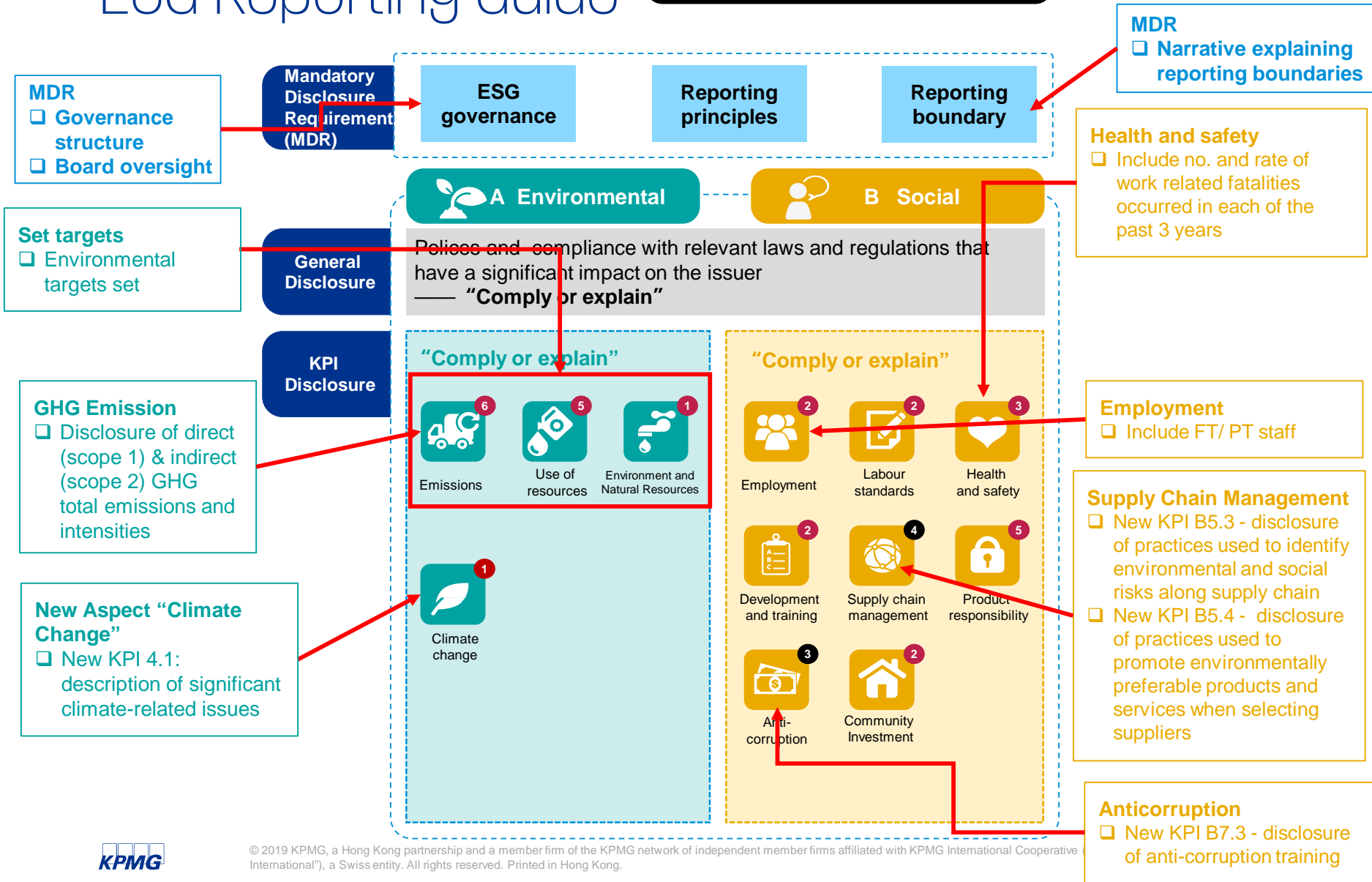
ESG Reporting Guide

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



kpmg.com/socialmedia

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