INSIGHT
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ESG development and disclosure impacts in Hong Kong and Singapore

Introduction

The two leading financial centers in Asia, Hong Kong and Singapore, in the last few years have embarked on an ESG development journey which predominantly leverages on global regulatory developments for guidance and financial policy frameworks around green finance and sustainability as a whole. Moreover, both cities have been working diligently to achieve their targets under the Paris Agreement through cross-agency steering group initiatives, showing increased expectations on environmental, social and governance (ESG) issues from regulators and the investment community.

Transitioning to a more sustainable future

The global outlook towards sustainability has vastly changed since the Paris Agreement was signed in 2015. This has triggered dialogues across all sectors to innovate and promote sustainable products and practices. Financial services industry has been at the forefront of this new wave. Asia is progressively catching up to global developments. We have identified the five key factors driving the finance industry to integrate ESG and low carbon initiatives into business and strategic scoping:

I. **INCREASED REGULATORY INTERVENTIONS** - Green Finance is becoming a key priority for Asian regulators, as evidenced by the steering group initiatives and the government support for sustainable financing instruments such as the Pilot Bond Grand Scheme (HKMA) and Green Bond Grant Scheme (HKQAA)

II. **PARIS CLIMATE AGREEMENT** - In order to achieve the target of $53 trillion in clean energy investment needed by 203 and to keep global warming under two degrees, the International Energy Agency suggests using several tools, including Green Bonds

III. **CORRELATION BETWEEN SUSTAINABILITY AND FINANCIAL PERFORMANCE** - Over the last few years, studies such as those conducted by Centre of Sustainability and Excellence have proved that there is a strong correlation between financial performance and sustainability performance. This means a company can improve its financial performance by increasing its focus on ESG issues and producing comprehensive sustainability reports

IV. **LOWER COST OF CAPITAL** - Green products such as green bonds are an excellent way to secure large amounts of capital to support environmental investments that otherwise may not be available, or that may be uneconomic using more expensive capital

V. **STAKEHOLDERS DEMAND** - Investors or stakeholders are increasingly demanding socially responsible investment (SRI) opportunities and have expressed a strong appetite for green products by repeatedly oversubscribing issuances. Green products provide governments/ companies with a chance to brand themselves as forward thinking, innovative and sustainable.

Progressing towards a more regulated and standardized ESG approach

In May 2020, the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) issued a joint statement regarding the establishment of the Green and Sustainable Finance Cross-Agency Steering Group. Other members of the Steering Group include Environment Bureau, the Financial Services and the Treasury Bureau, Hong Kong Exchanges and Clearing Limited, the Insurance

Authority and the Mandatory Provident Fund Schemes Authority.

The Steering Group targets to co-ordinate the management of climate and environmental risks to the financial sector, accelerate the growth of green and sustainable finance in Hong Kong and support the Government's climate strategies through:

I. Examining policy and regulatory issues in green and sustainable finance, particularly those which may have a cross-sectoral impact

II. Facilitating policy direction and coordination to ensure Hong Kong has a cohesive and comprehensive green and sustainable finance strategy addressing technical cross-sectoral issues by, for example, forming technical working groups and consulting with different experts and stakeholders

III. Tracking international and regional trends, issues and developments in green and sustainable finance, and considering how Hong Kong should better position itself and provide leadership in the region and globally

IV. Identifying areas where Hong Kong can promote its strengths and provide leadership on green and sustainable finance regionally and globally.

The launch of this Steering Group drives a clear statement of intent to take a coordinated, cross-sectoral approach to provide strategic direction on regulatory and market development to make Hong Kong a hub for green and sustainable finance.

With the increasing concern regarding the effects of ESG factors on business risk, financial performance and prospects, companies are also facing rising expectations from different stakeholders to take a proactive approach to manage ESG risks as part of their business strategies.

Zoom in Hong Kong Markets - Disclosure requirements and impact

Financial regulators in Hong Kong have been making radical changes to tackle climate and environmental risks. Different standards and requirements are being introduced by the regulators covering authorized institutions, listed companies, assets managers and asset owners respectively. All these recent developments will help to raise the bar for ESG and sustainable standards in Hong Kong.

	Hong Kong Monetary Authority	Hong Kong Stock Exchange Listing Rules	Securities and Futures Commission
Impacted parties	Authorized Institutions ("AIs")	Listed Companies ("LCs")	Assets Managers and Asset Owners ("AMs")
Standard Req.	• HKMA Common assessment framework on Green and Sustainable Banking • Key elements includes: Governance, Corporate Planning and Tools, Risk Management Process, Business Policies, Products and services, Performance and Resources, Disclosure and Communication	• Main Board Listing Rules Appendix 27 / GEM Rules Appendix 20 • The LC's board may consider adopting international standards such as the GRI, CDSB, TCFD and SASB.	• Code on Unit Trusts and Mutual Funds (UT Code) • SFC-authorized fund owners and managers who seeks to be classified as Green or ESG fund shall disclose the one of the following ESG criteria or principles in their offering documents: - United Nations Global Compact Principles - United Nations Sustainable Development Goals - Climate Bonds Taxonomy of the Climate Bonds Initiative
Impacts	• AIs should conduct self assessment and **benchmark its practices** against with the HKMA Common assessment framework on Green and Sustainable Banking • AIs should **perform health check** on the bank's existing policies and procedures to assess their readiness and ensure they are prepared for managing the rising climate and environment-related risks • AIs should **design and implement a green framework** which incorporates green and sustainable banking principles in a bank-wide context	• LCs with reporting period commencing **on or after 1 July 2020** must prepare the ESG reports in accordance with the 2019 Amendments • Key changes includes: **Mandatory** disclosure requirements, **Shortening of timeframe** to publish an ESG report, **Removing** requirement for a **printed ESG report**, **Significant** climate related **issues disclosure,** Upgrading comply or explain requirement for **Social KPIs** • An emphasis on the board's leadership role in the governance structure and accountability for ESG matters.	• AMs should **disclose its Green or ESG criteria/principles** considered in investment selection process • AMs should disclose the **risks associated** with Green of ESG fund's investment theme • AMs should **regularly monitor** and **evaluate** the underlying investments to ensure the stated investment objective and standard requirements are met • AMs must provide **self-confirmation** of compliance or confirmation supported with **independent third party** to demonstrate compliance

Zoom in Singapore Markets - Disclosure requirements and impacts

SGX introduced sustainability reporting in 2017, providing a framework for listed companies to report an assessment of material ESG factors on a "comply or explain" basis. Below we have highlighted the impacts of SGX and MAS requirements on listed companies:

	Monetary Authority of Singapore	Singapore Exchange Listing Rules
Impacted parties	Authorized Institutions (“AIs”), Assets Managers and Asset Owners (“AMs”)	Listed Companies (“LCs”)
Standard Req.	• Code of Corporate Governance • Key elements includes: Leadership, effectiveness, accountability, remuneration and shareholder relations • Guideline 1.1(f) of the Code • Consultation paper on environmental risk management guidelines (ENRM) for banks, AMs - 2020	• Mainboard Listing Rule 711A which mandates annual sustainability reporting on “comply or explain” basis within 5 months after the end of the financial year • Listing Rule 711B which requires issuer to describes its sustainability practices with reference to 5 primary components • The LC’s board may consider adopting international standards such as the GRI, IIRC, CDSB, TCFD and SASB. • Does not mandate independent assurance from external parties
Impacts	• AIs should disclose their corporate governance practices in their annual reports • Board need to include environmental and social factors in its strategic formulation in line with guideline 1.1(f) • AIs, AMs should do right pricing on loans and investments while assessing the standards on governance, risk management and disclosure	• LCs need to submit sustainability report by financial year ending on or after 31 December 2017, and failure to do so needs to be explained • 5 primary components mandatory in the report: - **Material ESG factors**: identify both the risk & opportunities for all ESG factors to determine materiality, any exclusion should be explained - **Policies, practices & performances:** define policy, performance of all material ESG factors compared to previous disclosures - **Targets:** define target for all material ESG factors for forthcoming year - **Sustainability reporting framework:** state the disclosure framework(s) and explain reason for selection - **Board statement:** statement from the Board considering sustainability as part of the business strategy and determining material ESG monitoring

How Can We Help?

Sia Partners has extensive experience in assisting clients to enforce and promote compliance with ESG disclosure requirements. As such, we have developed a risk-based approach and consensual compliance services across various sectors to assess their existing situation, help define their business line’s ambition in green strategy and provide concrete advice and recommendations to deal with ESG related issues.

Along with our professional credentials, Sia Partners has also launched *Consulting for Good*, our international initiative as a purpose-driven company which consists of three pillars:

(a) Climate Centre Analysis;
(b) Ethics and Compliance;
(c) Social Responsibility

Contact us to start discussions on how we can help you with your ESG disclosures and sustainability initiatives.

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