BDO NEWS

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ESG UPDATES
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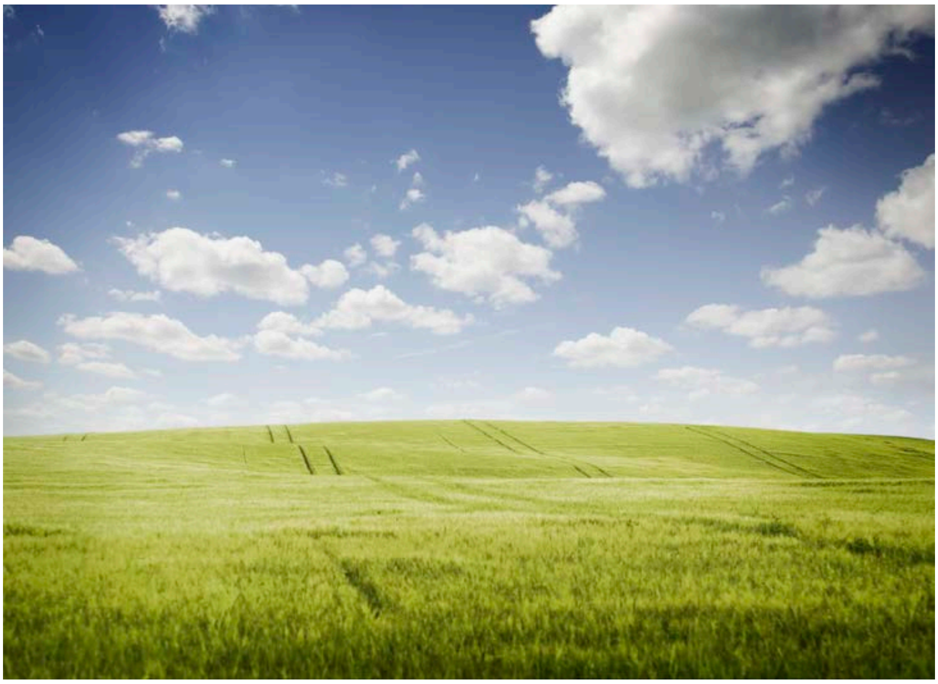

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To achieve corporate sustainability and generate long-term benefits, the integration of environmental, social and governance (ESG) factors into one company's business strategies, management and operation is the key to success. In every monthly issue of our 'ESG Updates', it will include the latest updates from various aspects in ESG.

SFC proposes climate risk requirements for asset managers

On 29 October 2020, Hong Kong's Securities and Futures Commission (SFC) issued a consultation paper on proposed amendments to the Fund Manager Code of Conduct (FMCC) that would require fund managers to consider climate-related risks in their investment and risk management processes. The amendments would also require fund managers to make appropriate disclosures to meet investors' growing demands for climate risk information and to combat greenwashing.

The consultation paper proposes amendments to the FMCC addressing climate-related risks in four key areas: governance, investment management, risk management and disclosure. In developing these requirements, the SFC has referred to the recommendations of the Financial Stability Board's Task Force on climate-related financial disclosures (TCFD) to foster a more consistent disclosure framework and minimise the industry's compliance burden.

Governance	The consultation paper sets out new requirements for the board and management, respectively, to address climate-related risks. At a high level, the proposals would require the board to oversee the incorporation of climate-related considerations into investment and risk management processes, as well as their firm's progress against goals for addressing climate-related issues. Management would be required to maintain an appropriate structure for managing climate-related risks and reporting to the board and develop related action plans, controls and procedures. The SFC also expects management to set specific goals for addressing climate-related issues.
Investment management	The revised FMCC would explicitly state that fund managers should ensure that climate-related risks are taken into account in the investment management process for funds. Practically, fund managers will need to identify climate-related risks, perform relevance and materiality assessments and factor climate-related risks into investment processes. • Identifying climate-related risks: Fund managers are asked to consider physical, transition and liability risks relevant to their investment strategies and funds, assess their impacts and prioritise material risks in investment processes. • Relevance and materiality assessment of climate-related risks: In determining materiality, fund managers should consider climate risks on medium- to long-term time horizons and apply both qualitative and quantitative assessment methods. • Factoring material climate-related risks into the investment process: If a climate-related risk is considered material, fund managers can apply a range of methods and strategies to address the risk in the portfolio construction process. The SFC highlights various options including exclusionary screening, best-in-class screening, norms-based screening and impact investing strategies.
Risk management	The proposed amendments to the FMCC specify that fund managers should implement adequate procedures for identifying, assessing, managing and monitoring material climate-related risks. Fund managers can apply a range of tools and metrics to assess and quantify climate-related risks, including carbon footprint-related metrics, forward-looking metrics or physical climate-related metrics (eg portfolio warming potential and weather-related losses for real assets). All covered fund managers should adopt appropriate risk management measures, including reallocating assets under management and exercising stewardship through engagement and voting. Further, fund managers are expected to monitor any risks that they determine to be immaterial, and re-evaluate materiality assessments periodically. Here, the SFC mandates additional, specific risk management processes in enhanced standards for large fund managers. At the initial stage, large fund managers would be required to make 'reasonable efforts' to acquire or estimate the weighted average carbon intensity (WACI) of direct (scope 1) and indirect (scope 2) greenhouse gas emissions for certain funds. WACI is a measure of a portfolio's exposure to carbon-intensive companies recommended by the TCFD. Large fund managers would also be required to assess the relevance and utility of scenario analysis for evaluating the climate resilience of their strategies and keep internal records of those assessments. If an assessment proves to be relevant and useful, large fund managers will also be required to develop a plan to implement the related scenario analysis within a reasonable timeframe.

The consultation will close on 15 January 2021, following which the SFC will issue consultation conclusions along with the final form of proposed requirements in due course. It intends to issue a circular setting out the baseline requirements and enhanced standards for fund managers, together with sample industry practices.

Read more from the sources:
https://apps.sfc.hk/edistributionWeb/gateway/EN/consultation/doc?refNo=20CP5

https://apps.sfc.hk/edistributionWeb/api/consultation/openFile?lang=EN&refNo=20CP5

https://www.lexology.com/library/detail.aspx?g=e050772d-9d1b-4164-91c2-af8b87450742

SASB and IIRC merge to form the Value Reporting Foundation

Sustainability disclosure is at the top of the agenda for many. Reporting and disclosure-focused organisations - the International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) announced an agreement to merge and form the Value Reporting Foundation in November. Through this combination, the organisations aim to provide investors and companies with a comprehensive corporate reporting framework across the full range of enterprise value drivers and standards to drive global sustainability performance.

The IIRC is a global coalition of regulators, investors, companies, standard setters, the accounting profession, academia and NGOs with a mission to establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors. The IIRC has developed the Integrated Reporting 'IR' Framework, a set of guiding principles and content elements to govern integrated corporate reporting.

The SASB Foundation is a non-profit organisation, established with the mission to establish industry-specific ESG disclosure standards for companies. The standards set by SASB are designed to enable investors to assess the materiality of reported sustainability information, and to compare among companies which based on these metrics on a global basis.

Over recent years, investors and other stakeholders have increasingly demanded sustainable business practices from companies in all areas of their businesses. Reporting and disclosure is a key factor in measuring and assessing businesses' sustainability profiles and progress, yet a lack of consistent and reliable reporting standards is often reported as a key obstacle to company and investor efforts.

The Value Reporting Foundation will merge the SASB and IIRC into a credible international organisation that maintains the Integrated Reporting Framework, advocates integrated thinking, and sets sustainability disclosure standards for enterprise value creation. The merger directly responds to calls from global investors and corporates to simplify the corporate reporting landscape, providing the market with a clear solution for communicating about the drivers of enterprise value. The merger will also advance the work of CDP, CDSB, GRI, IIRC and SASB in the 'Statement of Intent To Work Together Towards Comprehensive Corporate Reporting', which outlines a vision for a comprehensive corporate reporting system.

Read more from the sources:
https://integratedreporting.org/news/iirc-and-sasb-announce-intent-to-merge-in-major-step-towards-simplifying-the-corporate-reporting-system/

https://www.esgtoday.com/sasb-merges-with-iirc-to-form-the-value-reporting-foundation/

Global banks launch standard to report financed emissions

The Partnership for Carbon Accounting Financials (PCAF) launched its Global GHG Accounting and Reporting Standard for the Financial Industry in November, enabling banks to measure and disclose the emissions associated with their financed activities.

Banks are critical to ensuring that the economy is moving toward net zero emissions at the scale and pace necessary to avoid catastrophic impacts. Measuring and disclosing total financed emissions is the critical first step for banks to understand their climate impact, and for banks and investors to understand progress in reducing that impact.

As part of the PCAF initiative, 86 financial institutions, representing $17.5 trillion in total assets, have committed to measuring and reporting the greenhouse gas emissions associated with loans and investments. As pressure has mounted on the financial sector to reduce its contribution to climate catastrophe, investors have focused on the need for banks to use a standardised approach to measure and transparently disclose their financed emissions as a critical step to reducing those emissions. Over the summer of 2020, major US banks including Morgan Stanley, Bank of America, and Citigroup joined in committing to PCAF in advance of its launch.

Read more from the source:
https://carbonaccountingfinancials.com/newsitem/the-partnership-for-carbon-accounting-financials-pcaf-launches-first-global-standard-to-measure-and-report-financed-emissions#newsitemtext

https://www.environmentalleader.com/2020/11/global-banks-launch-standard-to-report-financed-emissions/

How can BDO help?

At BDO, our Risk Advisory Services (RAS) team, a group of dedicated professionals trained in ESG reporting requirements, GRI Standard and ISO-14064, have knowledge about carbon audit and experienced in providing all the assistance required to meet your needs in ESG practice. Please do not hesitate to contact us and talk to our consultants. We are pleased to provide further insight or assistance, if needed.

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