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ESG UPDATES
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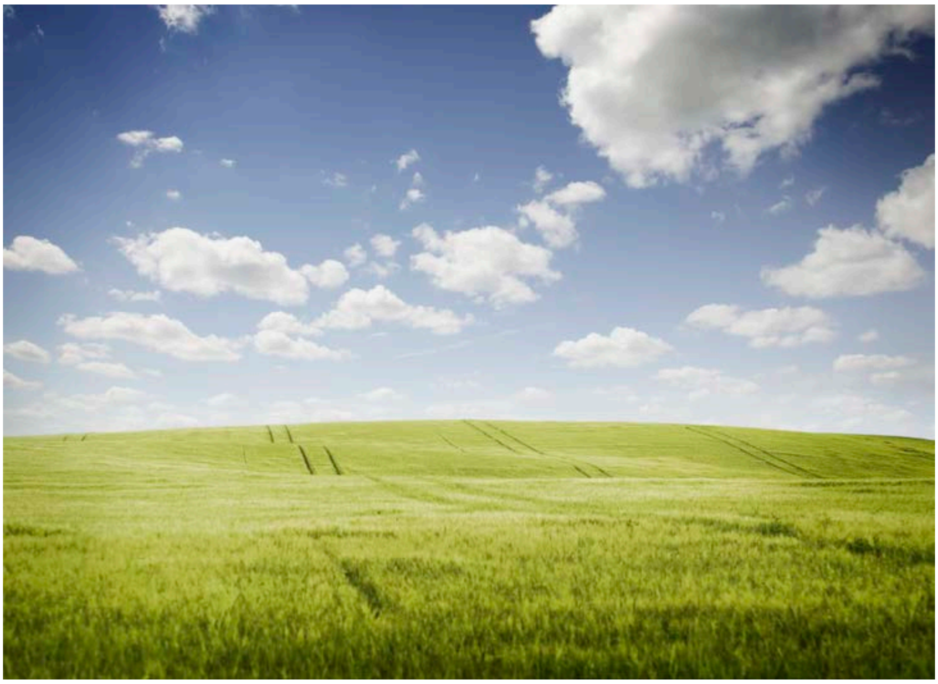

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To achieve corporate sustainability and generate long-term benefits, the integration of environmental, social and governance (ESG) factors into one company's business strategies, management and operation are the key to success. In every monthly issue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

New World Development prices a USD sustainability-linked bond

New World Development Company Limited (NWD) has become the first real estate developer in the world to price a USD sustainability-linked bond (SLB). The SLB was oversubscribed by six times at its peak, with strong participation from international ESG investors (~80%) including fund managers, asset managers and insurance companies across Asia and Europe. This deal was priced at T+275 basis points, implying negative 5 basis points new issue premium.

The 10-year US$200 million bond (coupon rate: 3.75%) has a sustainability performance target that is aligned to the company's 'Renewable Energy Roadmap', which commits to achieving 100% renewable energy for NWD's Greater Bay Area rental properties by financial year end 2025/26. The performance against the target, which will be reviewed by a third-party assurance provider, will be reported in NWD's annual report until the SLB matures in 2031. Should NWD fail to achieve the target, it will purchase carbon offsets in an equivalent amount to 25 basis points per annum from 2027 until the SLB matures. The proceeds of the SLB will be allocated to NWD's long-term sustainability initiatives, as well as general corporate purposes.

Echoing the commitment of 'New World Sustainability Vision 2030' to reduce 50% carbon emissions intensity across diversified businesses, the 'Renewable Energy Roadmap' and the SLB's target will further reduce Scope 2 emissions (indirect greenhouse gas emissions from energy consumption) in NWD's rental properties. These commitments will help the company decarbonise at the science-based target level, under the Paris Climate Agreement's 1.5°C scenario. NWD will increase its renewable energy uptake via onsite generation, power-purchase agreements and renewable energy certificates.

Read more from the source:
https://www.nwd.com.hk/content/new-world-development-becomes-world%E2%80%99s-first-real-estate-developer-price-usd-sustainability-0

Companies with science-based targets have slashed emissions a quarter since Paris Agreement

New data published by the Science Based Targets initiative (SBTi) shows that companies with science-based targets are delivering on large-scale emissions reductions. Target-setting companies have successfully reduced their emissions by 25% since 2015, a difference of 302 million tonnes of CO2 equivalent, the same as the annual emissions from 78 coal-fired power plants.

Five years on from the Paris Agreement, the SBTi analysed the emissions of 338 companies (including Enel, Mastercard and Tesco) whose climate targets have been approved by the SBTi as aligned with climate science and the goals of the Paris Agreement. SBTi finds that the typical company with SBTs actually slashed direct (scope 1 and 2) emissions at a linear annual rate (6.4%) that exceeds the rate required under the SBTi's criteria to meet 1.5°C-aligned warming scenarios (4.2%). This shows companies with SBTs are taking climate action at rates that not only meet, but are faster than, the pace of action required by the Paris Agreement. These figures compare to an average increase of around 0.85% per year in global emissions for energy and industrial processes over the same period.

Despite the challenges of COVID-19, 2020 was a milestone year for corporate climate commitments. Over 1,000 companies, making up 20% of global market capitalisation, have now set, or committed to set, a science-based target. Companies that joined the SBTi in 2020 included Amazon, Facebook and Ford. The SBTi's analysis finds that the rate of adoption of science-based targets doubled in 2020 versus the period 2015-2019, with over 370 companies joining the SBTi in 2020 at an average rate of 31 per month in 2020.

Read more from the source:
https://sciencebasedtargets.org/news/330-target-setting-firms-reduce-emissions-by-a-quarter-in-five-years-since-paris-agreement

Climate change: a key imperative for financial services

Despite the pressures of the ongoing COVID-19 pandemic, the financial services industry has been keen to progress the climate risk agenda. While on the surface it may seem that financial institutions (FIs) have less impact on the environment than, say, industrial manufacturers, they are in a unique position to influence the climate agenda. In their role as financial intermediaries, FIs have important relationships with, and investments in, companies whose operations may cause harm to the environment. FIs are evaluating these relationships to proactively identify, measure, monitor and control climate-related risks.

Physical risks can arise from events like storms, floods and droughts, while transition risks can arise from changes in environmental policy, such as the Paris Agreement, and technology, such as the growth of renewable energy. Transitioning to a greener, net zero economy could mean that some sectors face big shifts in asset values or higher costs of doing business, for example. FIs must also consider future liability risks, as people or businesses may seek compensation for losses suffered because of the physical or transitional impact of climate change. However, climate issues can also have wider macroeconomic effects. A country whose key infrastructure is destroyed by a physical event may also see its productivity hindered and its economy deteriorate if workers are impeded from performing their tasks.

Regulatory developments

Climate change issues are global in nature, and hence demand a global response. Central banks, financial regulators and FIs themselves need to coordinate their efforts to reduce risks to the financial system. This includes supporting the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), which encourages firms around the world to disclose more information on the financial risks arising from climate change.

Incorporating climate change considerations into an FI's existing risk management framework should be the best way to ensure the organisation assesses the potential risks and impacts. This should encompass a range of risk categories, including market, credit, underwriting and so on, with relevant risk management tools and processes created to address each kind of risk.

To keep FIs committed to tackling climate change issues, boards are being urged to regularly review the response. They should also aim to be transparent about how climate change is incorporated into the decision-making process. For example, tying climate change-related targets into remuneration packages is one way to encourage and incentivise senior leaders to keep the issue on their radar.

Previously, the adoption of climate change-related policies may have been driven solely by compliance concerns, but today there are larger forces at play. Asset managers are systematically integrating sustainability into their investment frameworks, considering environmental and social factors as a key part of their client mandates and increasingly engaging with management teams to analyse their sustainability plans and the impact on a firm's long-term value. BlackRock, for instance, has been quite vocal about working climate risk into its risk management frameworks.

A number of FIs have also pooled their resources to launch collective efforts such as the Climate Action in Financial Institutions Initiative, an organisation made up of 44 institutions as of January 2020, to create policies and drive change within the financial services community. These collective bodies allow for the implementation of uniform strategies and objectives among institutions. Some FIs have begun to include environmental and social risk management indicators in their due diligence process, while others have decided to implement advisory teams to help clients capitalise on sustainable investment opportunities.

Read more from the source:
https://www.financierworldwide.com/climate-change-a-key-imperative-for-financial-services#.YCI-zugzY2w

Australian Securities and Investments Commission considers enforcement action for climate risk disclosure failures

Australian Securities and Investments Commission (ASIC) has previously highlighted climate-related risk as a systemic risk that has the potential to significantly impact companies, investors and consumers. Its focus is on ensuring listed companies have appropriate governance structures in place to manage this issue, and providing the market with reliable and useful information on their exposure to material climate-related risks and opportunities.

Before the pandemic struck, ASIC looked at a selection of listed companies to assess how they were managing and disclosing this issue. It focused on reporting by companies under the framework established by the Financial Stability Board's Taskforce for Climate-related Financial Disclosures (TCFD). It previously recommended the TCFD framework to listed companies, including via its guidance on prospectuses and operating and financial reviews in annual reports. The ASX's Corporate Governance Principles and Recommendations include a similar recommendation. As part of the reviews, ASIC is in the process of following up with companies to pass on targeted guidance as they commence their next reporting cycle. Separate to the review processes, ASIC has also written to several companies that had come to its attention as 'potential "laggards" in this area to remind them of their statutory obligations'.

ASIC intends to adopt a consultative approach as it continues to monitor the adoption of TCFD reporting. It may consider enforcement action should there be serious disclosure failures. This includes whether the failures relate to the impact of climate change, or to other matters such as operations or the prospects of the business.

While ASIC acknowledges that climate-risk disclosure practices are still evolving, it encourages directors and advisers of listed companies to consider four high-level recommendations relating to climate-risk management and disclosure:

1. **Consider climate risk**

   Directors and officers of listed companies need to understand and continually reassess existing and emerging risks that may be applicable to the company's business, including climate risk. This should extend to both short-term and long-term risks. Boards should ask if they have considered climate risk in their decision-making process.

2. **Develop and maintain strong and effective corporate governance**

   Strong governance facilitates better information flows within a company and facilitates active and informed engagement and oversight by the board in identifying and managing risk. Boards should consider if they are comfortable with the level of oversight they maintain over climate risks and opportunities and the governance structures in place to assess, manage and disclose these risks and opportunities.

3. **Comply with the law**

   Directors of listed companies should carefully consider the requirements relating to operating and financial review (OFR) disclosures in annual reports under s299(1)(a)(c) of the Corporations Act 2001. ASIC considers that the law requires an OFR to include a discussion of climate risk when it is a material risk that could affect the company's achievement of its financial performance. Depending on the circumstances, disclosure of climate risk may also be required by the law in other contexts, such as a prospectus or continuous disclosure announcement. Boards should ask if material climate-related disclosures have been made and updated where necessary and appropriate.

4. **Disclose useful information to investors**

The voluntary disclosure recommendations issued by the TCFD are specifically designed to help companies produce information useful for investors. ASIC recommends listed companies with material exposure to climate risk consider reporting under the TCFD framework.

Read more from the source:
https://aicd.companydirectors.com.au/membership/company-director-magazine/2021-back-editions/february/managing-climate-risk-for-directors

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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