BDO NEWS

October 2020

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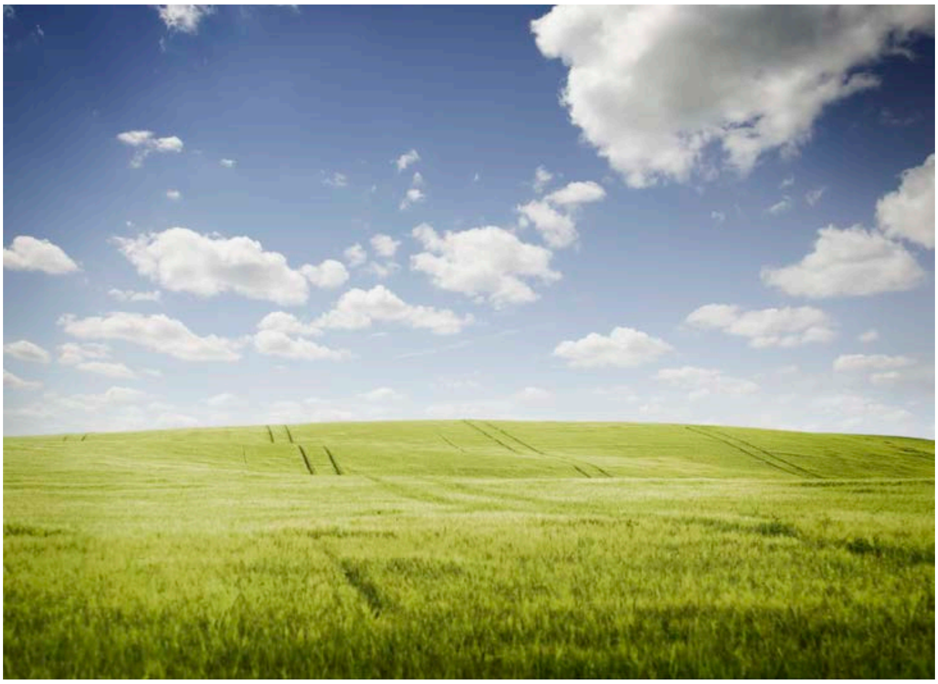
ESG UPDATES
October 2020 Issue



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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.

New Zealand plans to become first country to require climate risk reporting

The New Zealand Government announced mandatory disclosures of climate-related risks for companies and financial institutions in September 2020, in line with the emerging global standard from the Task Force on Climate-related Financial Disclosures (TCFD). If approved by the Parliament, financial entities would be required to make disclosures in 2023 at the earliest. This would help New Zealand meet its international obligations and achieve its target of zero carbon by 2050. It would also help to address climate change risks outlined in the National Climate Change Risk Assessment by making its financial system more resilient.

There are around 200 entities in New Zealand that would be required to make climate-related financial disclosures:

- All registered banks, credit unions, and building societies with total assets of more than $1 billion.
- All managers of registered investment schemes with greater than $1 billion in total assets under management.

- All licensed insurers with greater than $1 billion in total assets under management or annual premium income greater than $250 million.
- All equity and debt issuers listed on the NZX.
- Crown financial institutions with greater than $1 billion in total assets under management.

New Zealand's Exchange (NZX) has a market capitalisation of around NZ$170 billion, while the four big New Zealand banks (all subsidiaries of Australian banks) have assets, consisting largely of loans, of around NZ$500 billion. Including banks and insurance companies in the new mandatory disclosure rules means the whole of the economy will be seen through a climate risk lens, not just large companies listed on the stock market.

Read more from the sources:
https://theconversation.com/new-zealand-will-make-big-banks-insurers-and-firms-disclose-their-climate-risk-its-time-other-countries-did-too-146392

https://www.mfe.govt.nz/climate-change/climate-change-and-government/mandatory-climate-related-financial-disclosures

United Nations Global Compact CFO Taskforce launches principles for integrated SDG investments and finance to focus private sector investment on sustainable development

The UN Global Compact CFO Taskforce launched the first principles for integrated SDG finance and investment in September 2020. The principles seek to guide companies in aligning their sustainability commitments with credible corporate finance strategies to create real-world impact on SDGs. The goal is to work with the investment value chain, including investors, banks, development finance institutions, credit ratings agencies and sustainability assessment firms to create a broad, liquid and efficient market for SDG investments and capital flows.

There are a total of four principles, to support companies in the transition to sustainable development and to leverage corporate finance and investments towards realisation of SDGs:

1. SDG impact thesis and measurement

- Business should develop a specific SDG impact thesis, which maximises their unique capabilities and assets, promotes the most effective private-sector solutions to sustainable development and is updated or expanded over time
- Identify and mitigate significant negative impacts on relevant SDGs, based on an analysis of the corporate portfolio and the supply chain and benchmarked against impacts generally associated with comparable assets, activities, or operating contexts
- Align impact theses with countries' own needs and priorities for SDG investments (climate and SDG gap analyses and investment plans), and where relevant, focus on priority sectors in less developed markets, considering the unique characteristics of each market, and respecting a common but differentiated approach to the sustainability transition
- Set goals, targets, and indicators that promote and credibly measure the company's contribution to relevant SDGs and its mitigation of significant negative impacts, using consistent and comparable metrics that are based on the official SDG targets and indicators

2. Integrated SDG strategy and investments

- Business should translate their SDG impact thesis into strategic objectives and initiatives that build upon the existing corporate strategy and business model
- Determine specific internal resources, investments (R&D, capex, M&A, FDI) and funding needs to implement the SDG impact thesis and integrated strategy and analyse the financial risk-return profile (IRR) of SDG investments
- Adopt investment criteria and decision-making processes based on SDG impact, alongside financial risk and return investment criteria
- Leverage and strengthen corporate governance mechanisms to incentivise and monitor the implementation of the integrated SDG strategy and investments (board oversight, internal controls and audit, executive remuneration, and disclosure)

3. Integrated corporate SDG finance

- Business should develop a comprehensive corporate SDG finance approach to support their contribution to the SDGs, and raise SDG-linked finance commensurate with the nature of SDG investments and the degree of their strategic integration;
- Leverage a full range of financial instruments for SDG-linked finance, including debt (loans and bonds) and equity, whether privately placed or publicly traded, and ranging from short- to long-term maturities
- Structure financial instruments based on the nature of SDG-aligned investments and the degree of their strategic integration, starting with specific-purpose instruments for isolated assets and activities with generally accepted impact theses (eg EU taxonomy), and evolving towards general-purpose and performance-based instruments for more integrated SDG strategies and investments
- Maximise the credibility of SDG-linked financial products through a combination of contractual mechanisms (use of proceeds, covenants, pricing) and corporate governance oversight (board of directors, internal controls, accounting, audit and verification, and reporting)
- Leverage blended finance from governments, development finance institutions, philanthropic foundations and impact investors to de-risk or subsidise corporate investments for technologies, sectors and geographies that are critical for the SDGs but currently underfunded

4. Integrated SDG communication and reporting

- Business should engage in proactive investor communications about their SDG impact thesis, strategy, and investments, including through investor calls and engagement, annual financial disclosures, and integrated financial and sustainability reports
- Enhance integrated reporting practices with key elements of SDG-aligned investments and finance, including impact measurement and valuation, alignment of investments with strategy, and accounting and monitoring performance
- Work with rating agencies, external auditors, and second-party opinion providers to ensure the relevance and accuracy of publicly disclosed information and data related to SDG impact, SDG-aligned investments, and SDG-linked finance
- Work with peer companies and standard setters to harmonise practices and maximise the utility of integrated reporting, by promoting simplification, readability and a balance between innovation and comparability

Read more from the sources:

https://unglobalcompact.org/news/4591-09-21-2020

https://unglobalcompact.org/library/5788

ESG no longer an optional 'add-on' for asset managers

Russell Investments' sixth annual ESG Manager Survey analyses the practices and views of 400 asset managers globally across a broad range of asset classes (eg equity, fixed income, real assets and private markets) to assess their attitudes towards responsible investing and how firms are integrating ESG factors into their investment processes.

The survey finds that asset managers are increasing the extent to which they incorporate ESG-specific considerations into their investment activities. 78% of managers surveyed globally now explicitly incorporate qualitative or quantitative ESG factor assessments into their investment processes (an increase of 5% compared to last year).

Almost all regions surveyed as part of the Russell Investments study showed progress in the extent to which ESG considerations are regularly embedded into investment processes. The US (+11%), Canada (+15%) and the UK (+11%) show the most growth since last year's survey.

The results of the 2020 survey show that the fund management industry continues to embrace ESG integration, even amid pandemic-related challenges and volatility. They are seeking better ESG information, deeper resources, broader consideration within investment processes and clearer regulatory standards.

The Russell Investments study also identifies that an increasing number of asset managers are now using external ESG data providers to supplement their in-house views, reflecting growing recognition among the asset management community of the importance of ESG integration when analysing investment opportunities.

ESG is no longer an optional 'add-on'. It is now an essential consideration that asset managers have to incorporate into their decision-making processes. The investment industry is moving towards the right direction, with increased support for sustainability-related initiatives and improvements around reporting practices marking important steps in the journey. Clear challenges to progress remain, particularly in certain regions. However, the broad direction of travel is clear and the asset managers who do not adapt to the changing landscape will be left behind.

Read more from the source:
https://www.institutionalassetmanager.co.uk/2020/10/06/290515/esg-no-longer-optional-add-asset-managers-finds-russell-investments-study

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, 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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