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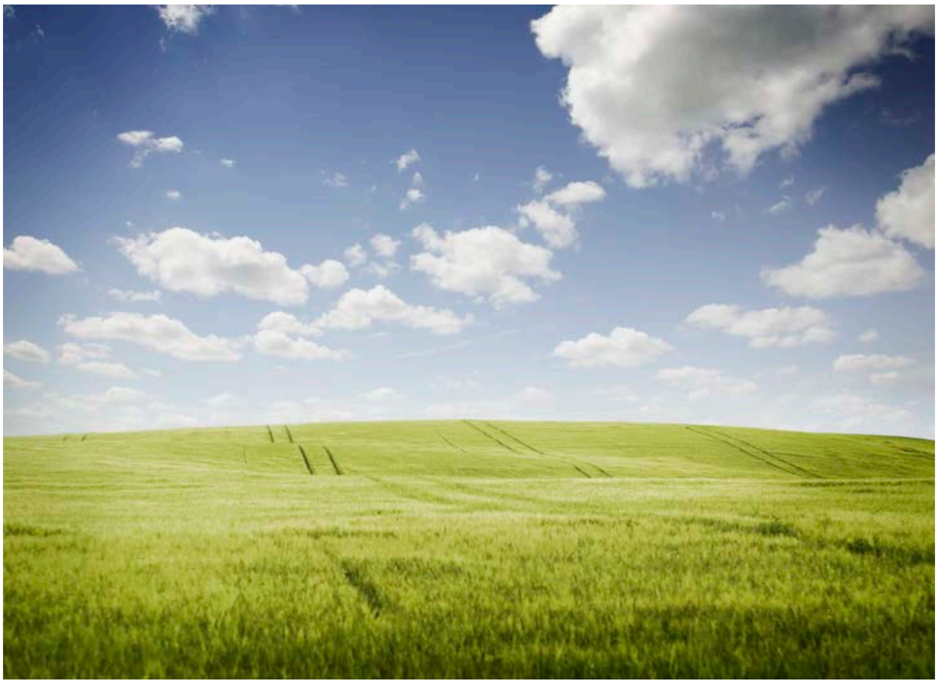
ESG UPDATES
June-July 2021 Issue



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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 are the key to success. In every monthly issue of our 'ESG Updates', it will include the latest updates from various aspects in ESG.

China proposes new ESG disclosure regulations

Revised disclosure rules for listed companies had been proposed by the China Securities Regulatory Commission (CSRC).

The proposed revisions as proposed in the consultation papers in May include the improvement of the chapter on corporate governance. Currently, the provisions related to corporate governance have been scattered across various chapters, according to the CSRC.

The draft rules also propose the enhancement on annual disclosures on the performance and functions of the board of directors and its special committees, as well as information on controlling shareholders and actual controllers. It also requires companies to introduce internal control systems to facilitate control over and management of subsidiaries.

An additional chapter on environmental and social responsibility has been proposed, requiring listed companies to disclose administrative penalties arising from environmental issues. Companies are encouraged to voluntarily disclose the measures they have taken during the reporting period to reduce carbon emissions, revitalise rural areas and alleviate poverty.

In June, the CSRC published revised versions of the information disclosure rules. All listed companies are required to disclose in their annual reports any administrative penalties arising from environmental issues received during the reporting period. The key polluting entities are under more stringent environmental disclosure obligations, including pollution discharge and status of pollution control facilities. The draft rules also encourages the disclosure on any actions to reduce carbon emissions due to the general promotion of low carbon transition of China.

As for the environmental and social disclosure, the draft rules include a mandatory disclosure obligation on environmental penalties for all listed companies. Such disclosure is mandatory for all listed companies, whether or not they are 'key polluting entities'. In respect of other items, listed companies which are not identified as key polluting entities are not obliged to make disclosure, but they have to state sufficient explanations if they prefer not to disclose.

The draft rules also added some voluntary disclosure items whose disclosure is encouraged but not mandated, including the information on the measures taken to reduce carbon emissions during the reporting period and the effects of these measures, as well as information relating to actions taken to strengthen the achievements of poverty alleviation and development in rural areas during the reporting period.

As for the corporate governance disclosure, the draft rules require disclosure of any shares with special voting rights and subsequent changes to such arrangement. Improvements have been made to existing disclosure requirements, such as the disclosure of the members of board special committees and meeting details, measures to ensure the independence of the company from its controlling shareholder and controlling person and any potential conflict of interests.

Read more from the source:
https://www.esginvestor.net/csrc-adds-environment-social-responsibility-to-disclosure-rules/

https://sites-herbertsmithfreehills.vuturevx.com/95/26634/july-2021/china-refines-esg-disclosure-rules-for-listed-companies.asp?sid=f006b320-bd97-4a60-bccc-e4eaa5d25c0c

China green energy ETFs deliver best performance in first half of 2021

China's green energy-themed exchange-traded funds (ETFs) outperformed other thematic and broad-based ETF strategies in the first half of 2021. Currently, China's economy is showing signs of transition to greener energy and more environmentally friendly consumer products.

According to data from Wind Info, in the first half of this year, ETFs that invest in green energy have dominated the list of China's best performing ETFs. Out of ten ETFs on the list, seven were green energy-themed products.

President Xi Jinping has set targets for domestic carbon emissions in China to reach its peak by 2030, after which the country will gradually transition to a carbon-neutral economy by 2060. It is agreed that the increasing domestic supply and demand has contributed to the rise of the green energy sector, and that a clear, collective focus in China on tackling climate change was spurring growth in green energy ETFs.

It is likely that investors and asset managers would develop their ESG strategies around climate change mitigation, in response to the goals on reducing carbon emissions set by the Chinese government to mitigate the climate-related risks. There will be a growing incentive for companies in China to actively engage in conserving energy and using clean energy. They would also follow the Chinese government's Climate Finance Guidance, jointly issued by five government ministries to promote investment and financing addressing climate change, which aligns financial flows with the ecological and climate goals of China.

According to Wind data, out of 205 ETF launches this year, 11 green energy-themed. It is anticipated that Chinese authorities would push for green energy and electric vehicles to encourage more fund flows into ESG-related ETFs in its efforts to reach the carbon neutrality target. It is expected that the performance of green energy ETF would probably continue to be strong thanks to the regulatory push.

Read more from the source:
https://www.ft.com/content/80ffb1e9-238c-4f23-a6e4-85c3efcf8a81

Sustainable investments surge to US$35 trillion

On 19 July 2021, the Global Sustainable Investment Alliance published the Global Sustainable Investment Review 2020, providing a snapshot of sustainable investing across the globe. The size of sustainable investments globally has expanded to US$35.3 trillion in professionally managed assets and accounts for 36% of all such assets across the US, Canada, Japan, Australasia and Europe. Over the past two years, there has been a growth of 15%, with Canada experiencing the largest increase in absolute terms (48% growth), followed by the US (42%) and Japan (34%). Canada is also the market with the highest proportion of sustainable investment assets (62%), followed by Europe (42%), Australasia (38%), the US (33%) and Japan (24%). It is agreed that the growth is being fuelled by rising consumer expectations, strong financial performance and the increasing materiality of social and environmental issues such as biodiversity, racial equity and climate change. In Asia, Japan had the highest compound growth rate between 2014 to 2020, in terms of sustainable investing assets, which is believed to be driven by policy and regulatory changes, including the national action plan on business and human rights, and also the revision of the stewardship code and corporate governance. It is believed that policy and regulatory pressure also play an important role in driving sustainable investment in China, as well as pressure from global clients and investors. Furthermore, a total of US$24.6 trillion of assets under management had been deployed to ESG integration, making it the most common sustainable investment strategy. However, while these numbers are promising, asset owners based in Asia have also raised concerns over the vagueness of ESG investing, greenwashing, and inconsistent standards in the investment industry.

Read more from the source:
https://www.asianinvestor.net/article/sustainable-investments-surge-to-35-trillion-with-more-likely-to-follow/471197

First global ESG index focusing on China market to be launched soon

China's International Institute of Green Finance (IIGF) published the first global stock index in the world that measures the ESG performance of the listed companies on China's A-share market. The index was jointly developed by STOXX, a unit of German index provider Qontigo, and Chinese think tank IIGF, as global investors jump on the green bandwagon. It will debut by the end of this year.

The index will track the ESG performance of 900 Chinese A-share listed companies, based on qualitative and quantitative indicators of ESG contribution, as well as the negative indicators arising from company behaviour and risks. It aims to facilitate international investors' sustainable investment by giving them a deeper view of the companies they evaluate in China. Not only will it help in the rapid development of the green financing industry in China, but it also provides a Chinese perspective to the global green financing market, as there has been some views that the international ESG market still does not have a clear China focus.

However, an expert pointed out that these issues arise due to current international ESG standards, which heavily weigh toward Western market principles, lacking local considerations.

Investors are showing an increasing appetite for the sector, as China has taken major steps to promote sustainable investment in the country. Nearly 92% of China-based institutional investors plan to increase ESG-related investments this year, according to a survey conducted by American private investment bank Brown Brothers Harriman.

But experts think there will still be some time before a global consensus can be achieved on ESG parameters. Meanwhile, the key players, from investors to companies, still need some time to increase ESG awareness and translate it into real-world business operations.

Read more from the source:
https://news.cgtn.com/news/2021-07-15/First-global-ESG-index-focusing-on-China-market-to-be-launched-soon-11ULt1XurC0/index.html

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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