

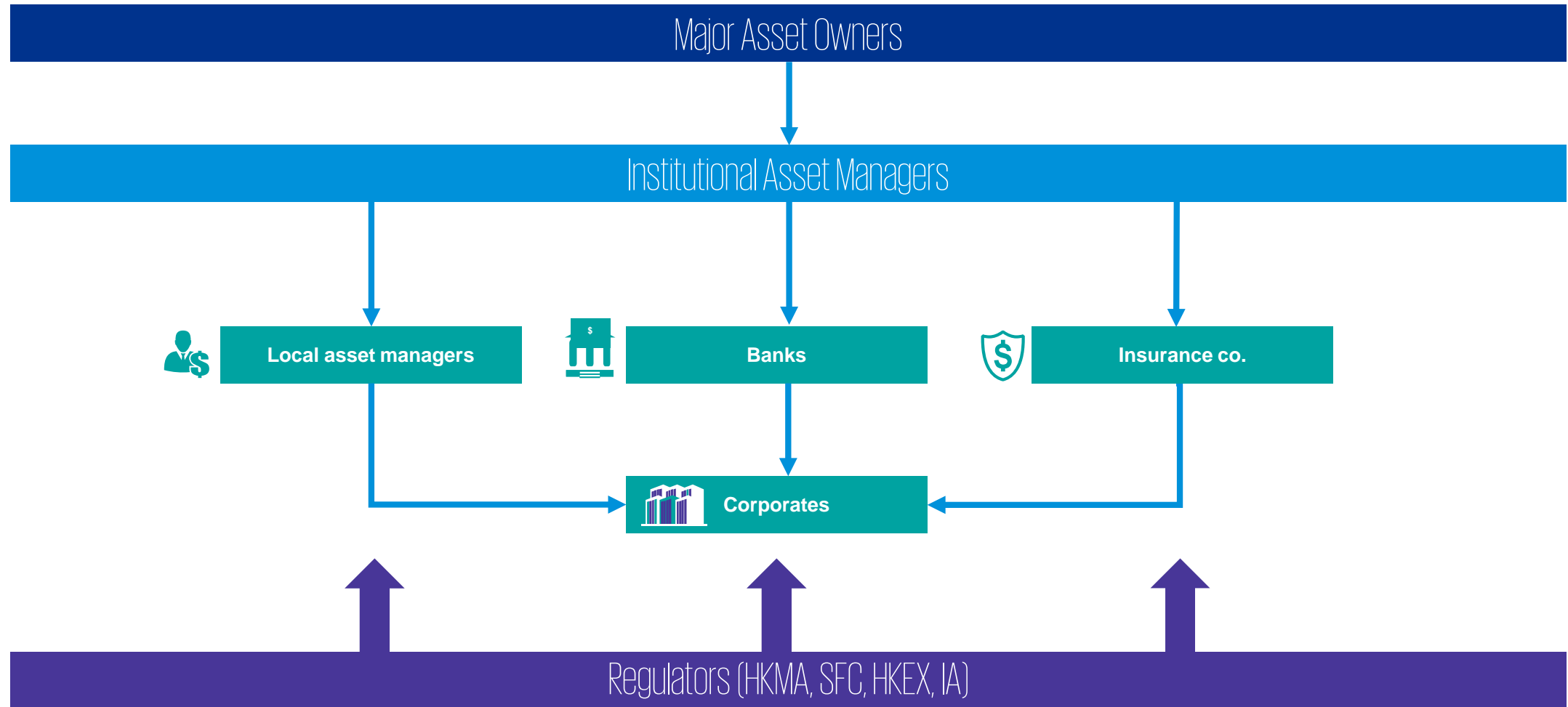


Financial Reporting Webinar Series: ESG Reporting – what entities need to know from the HKEX guide and latest developments

Friday 12 June 2020



Drivers of Integrated Sustainable Finance



Recent major announcements

The government and regulators intend to develop Hong Kong into a green and sustainable finance hub for GBA and Asia Pacific.

May 2020



HONG KONG MONETARY AUTHORITY
香港金融管理局

Common Assessment Framework on Green and Sustainable Banking

Framework for HKMA to assess a **financial institution's readiness to manage climate and environmental related risks**

6 key elements:

(i) governance, (ii) corporate planning and tools (incl. **scenario analysis & stress testing**), (iii) **risk management process**, (iv) business policies, products and services, (v) performance and resources, and (vi) disclosure and communication.

05 May 2020

Joint statement on the establishment of the Green and Sustainable Finance Cross-Agency Steering Group



- Hong Kong Monetary Authority
- Securities and Futures Commission
- Environment Bureau
- Financial Services and the Treasury Bureau
- Hong Kong Exchanges and Clearing Limited
- Insurance Authority
- Mandatory Provident Fund Schemes Authority

Key global and local sustainability ratings / indices



How ESG-related issues are influencing companies

 **BUSINESS INSIDER** [Subscribe](#)

Facebook employees are revolting after it chose to not moderate a Trump post. Here's what's going on inside Facebook, and how its identity problem is tearing the company apart.

Lisa Eadicicco Jun 7, 2020, 1:30 PM

PG&E: The First Climate-Change Bankruptcy, Probably Not the Last

The fast fall of PG&E after California's wildfires is a jolt for companies considering the uncertain risks of a warming planet

By [Russell Gold](#)
Jan. 18, 2019 9:00 am ET





Animals farmed
Revealed: UK banks and investors' \$2bn backing of meat firms linked to Amazon deforestation

Investigation uncovers ties between financial institutions and three Brazilian firms connected to environmental destruction

Animals farmed is supported by 

About this content
Emma Howard, Andrew Wasley and Alexandra Heal
Thu 4 Jun 2020 09:00 BST

Coronavirus forces investor rethink on social issues

APRIL 30, 2020 **FINANCIAL TIMES**

ESG passes the Covid challenge

Investment with a sustainable focus is only likely to grow, wealth managers believe
Attracta Mooney JUNE 2 2020

 **BUSINESS** 

Apple, Google, Microsoft, Dell and Tesla are sued over alleged child labor in Congo

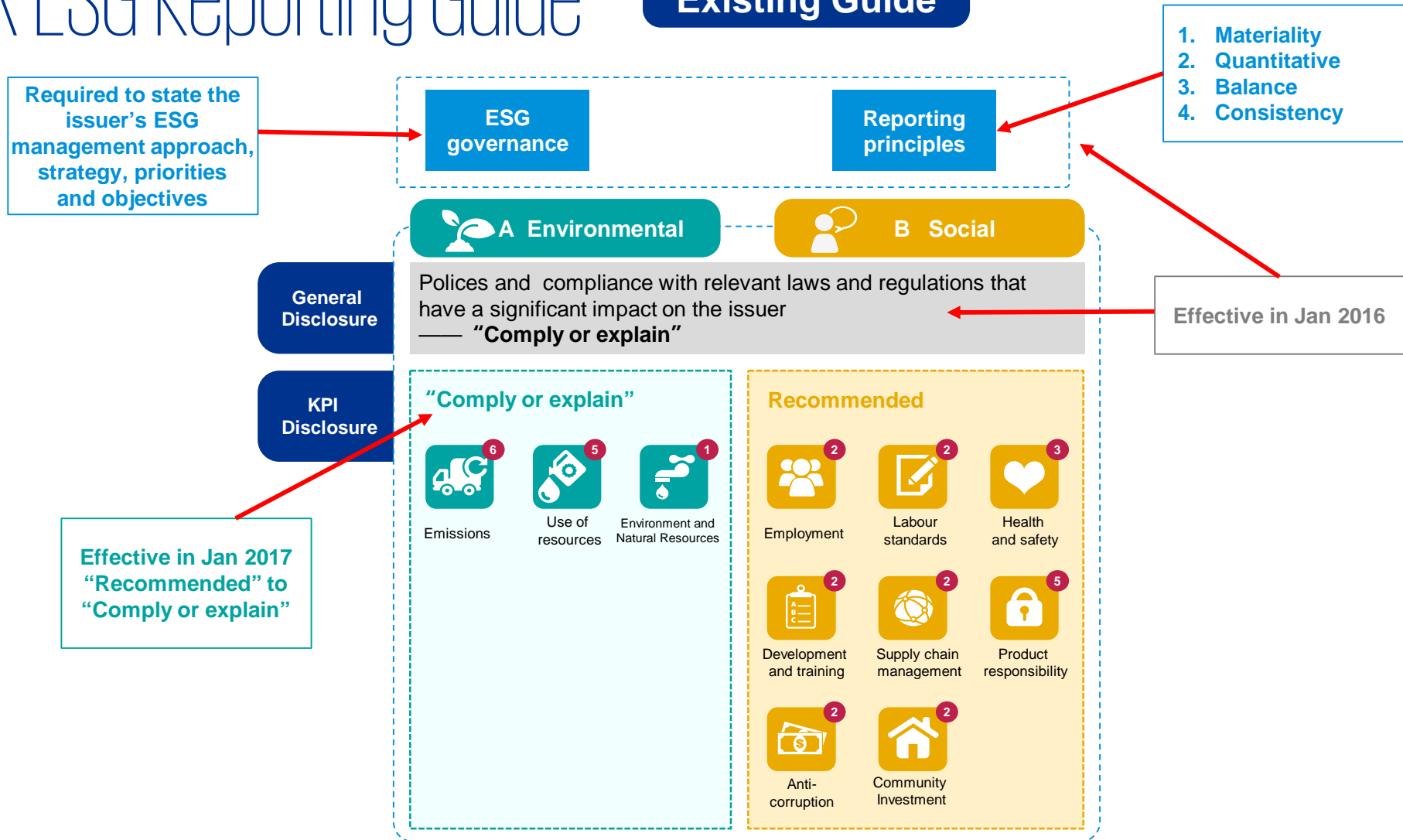
By [Michelle Toh](#), [CNN Business](#)
Updated 0945 GMT (1745 HKT)
December 18, 2019

Typical structure and elements of an ESG report



HKEX ESG Reporting Guide

Existing Guide



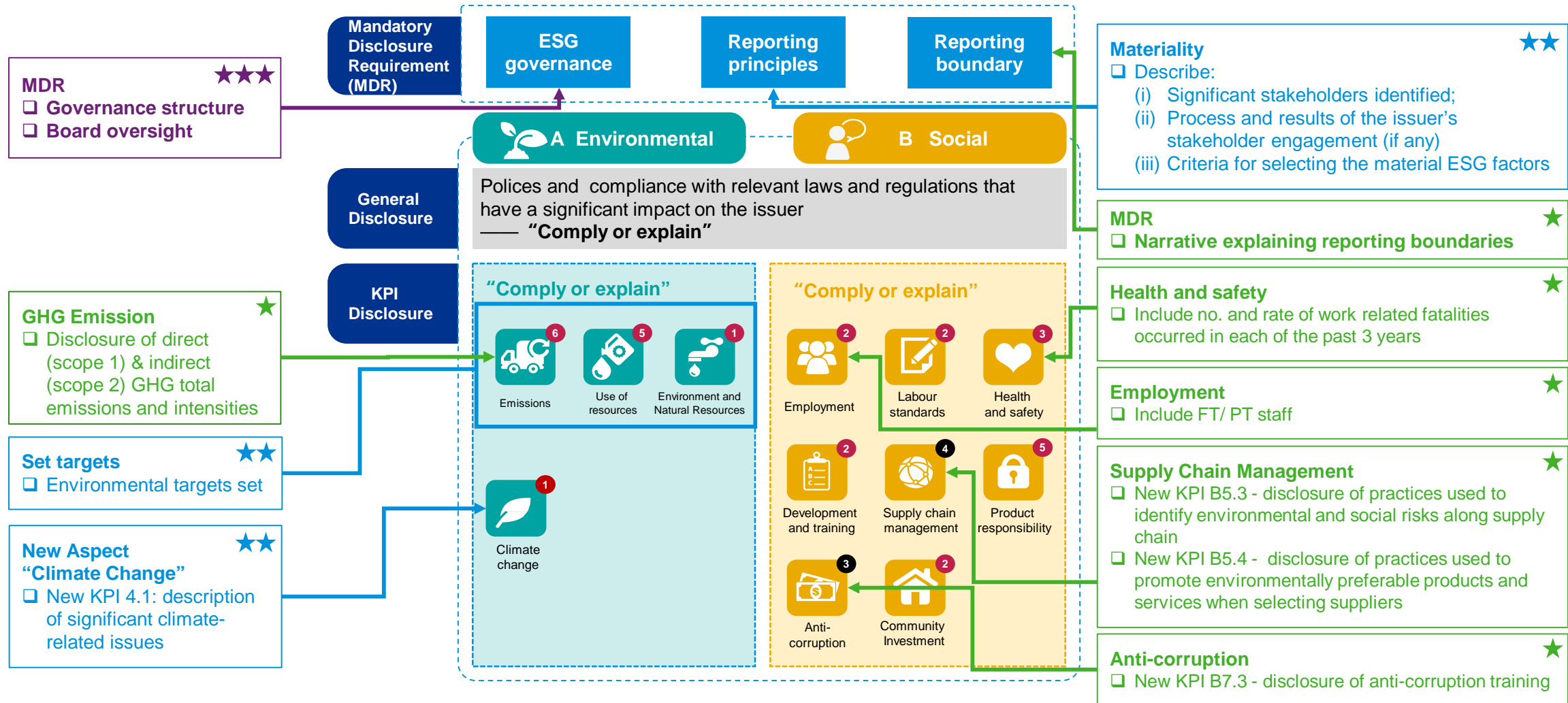
HKEX ESG Reporting Guide

New Guide

★★★ Strengthening board's responsibility

★★ Improving ESG management

★ Enhance reporting quality



Governance



Aim

- Strengthening the board/ senior executives' oversight, proactive management and ongoing dialogue on ESG topics



HKEX's new requirements:

- **Mandate disclosure of a statement from the board** setting out the board's consideration of ESG Issues.
- Board statement should include:
 1. Board's **oversight** of ESG issues
 2. Process used to identify, evaluate and manage ESG issues (including **risks to the issuer's businesses**)
 3. Board's reviews of progress against **ESG-related goals and target**



Readiness questions

- Does the board understand its full responsibility for managing ESG issues?
- Has the company established any formal ESG governance framework, e.g. setting up a separate ESG committee or an existing committee with ESG agenda?
- Does the board contain any personnel who have knowledge and experience in ESG issues?
- Are there any ESG-related criteria (e.g. relevant ESG experience) when selecting the board members?

Example: CLP



Best Practice Example

CLP - 2018 Sustainability Report [Link](#)

Sustainability Committee, chaired by the CEO, meets at least twice a year, which shows how the highest sustainability decision-making authority and how it fits into the wider corporate governance structure and clear reporting lines

1

Board Oversight

A strong governance framework is key to ensuring the sustainability issues that CLP faces are incorporated into our corporate agenda. To ensure senior management oversight of crucial ESG issues, sustainability governance is integrated into corporate governance structures throughout the Group – from board-level committees to management-level group functions and business units.

Our highest governance body is the CLP Board, which discharges some of its responsibilities by delegating to six board-level committees. As a result, the Sustainability Committee and the Audit & Risk Committee have primary roles in overseeing the management of the Group's sustainability issues.

Sustainability Committee

The Sustainability Committee oversees our positions and practices on sustainability issues, principally in relation to social, environmental and ethical matters that affect shareholders and other key stakeholders. Chaired by the CEO, it is the highest governance body charged with oversight on our ESG performance. The Committee meets no less than two times a year.

The Committee's primary responsibilities include:

- reviewing, endorsing and reporting to the Board on CLP's sustainability frameworks, standards, priorities and goals, and overseeing Group-level strategies, policies and practices on sustainability matters to attain those standards and goals;
- reviewing and reporting to relevant board committees on key international sustainability trends, benchmarking against peers, sustainability risks and opportunities and other emerging issues, benchmarking against peers;
- overseeing, reviewing and evaluating CLP Group's sustainability performance in terms of internationally-recognised metrics, as well as the requirements of sustainability stock indices and the desirability of CLP's inclusion in those indices;
- reviewing and advising the Board on CLP's public reporting with regard to its performance on sustainability matters; and
- overseeing our community, charitable and environmental partnerships, strategies and related group-level policies, and making recommendations to the Board on any changes to those partnerships, strategies and policies.

The Terms of Reference of the Sustainability Committee are available [here](#).

The full report on the Sustainability Committee's activities for 2018 is available in our Annual Report.

2

Role & responsibilities of its Sustainability Committee, with clear leadership commitment to sustainability

Materiality assessment



Aim

- Identify, prioritise and validate the **most material ESG issues** that the company should focus on so as to optimise the use of resources



HKEX's new requirements:

- Materiality: The threshold at which ESG issues **determined by the board** are sufficiently important to investors and other stakeholders that they should be reported.
- The ESG report should disclose:
 - Description** of significant stakeholders identified;
 - Process and results** of the issuer's stakeholder engagement (if any); and
 - The **criteria for the selection** of material ESG factors.



Readiness questions

- Which ESG issues **are truly core to the business strategy** and key to the long-term sustainability of the company?
- Are the internal stakeholders involved in assessing and prioritising topics **sufficiently senior and knowledgeable** to provide meaningful insight?
- What kind of **criteria are used in assessing and prioritising** the topics, e.g. level of interest to stakeholders and potential impact on business?

HKEX's Reference Sectoral Materiality Table

Materiality table – by industry and aspect

This materiality table is for reference **ONLY**. An issuer should conduct its own materiality assessment to determine the materiality of each Aspect based on its own circumstances. Depending on an issuer's own industry and sector, as well as its own business operations, materiality of an Aspect may be different from what is depicted in this table.

	Consumer Discretionary	Consumer Staples	Healthcare	Energy	Financials	Industrials	Information Technology	Materials	Properties & Construction	Tele-communication	Utilities
A1 Emissions	●	●	●	●		●	●	●	●	●	●
A2 Use of Resources	●	●	●	●		●	●	●	●	●	●
A3 The Environment and Natural Resources	●	●		●		●		●	●		●
A4 Climate Change		●	●	●	●	●		●	●	●	●
B1 Employment	●	●	●	●	●	●	●	●	●	●	●
B2 Health and Safety	●	●	●	●		●	●	●	●		●
B3 Development and Training			●		●		●	●		●	
B4 Labour Standards	●	●	●	●	●	●	●	●	●	●	●
B5 Supply Chain Management	●	●		●		●			●	●	●
B6 Product Responsibility	●	●	●		●	●	●		●	●	●
B7 Anti-corruption	●	●	●	●	●	●	●	●	●	●	●
B8 Community Investment			●	●	●	●			●		●

● Very likely to be material to issuers in the industry
 ● Likely to be material to issuers in the industry

Source: HKEX - HOW TO PREPARE AN ESG REPORT – A Step-by-Step Guide to ESG Reporting

Notes:

- 1) An issuer may find an Aspect to be material to its business or operations, but consider a KPI under such Aspect not to be material.
- 2) Industries in the table have been classified in line with Hang Seng Industry Classification System, except that "Conglomerates" is not included since issuers from this industry may be engaged in businesses classified as other industries.

Example: MAERSK

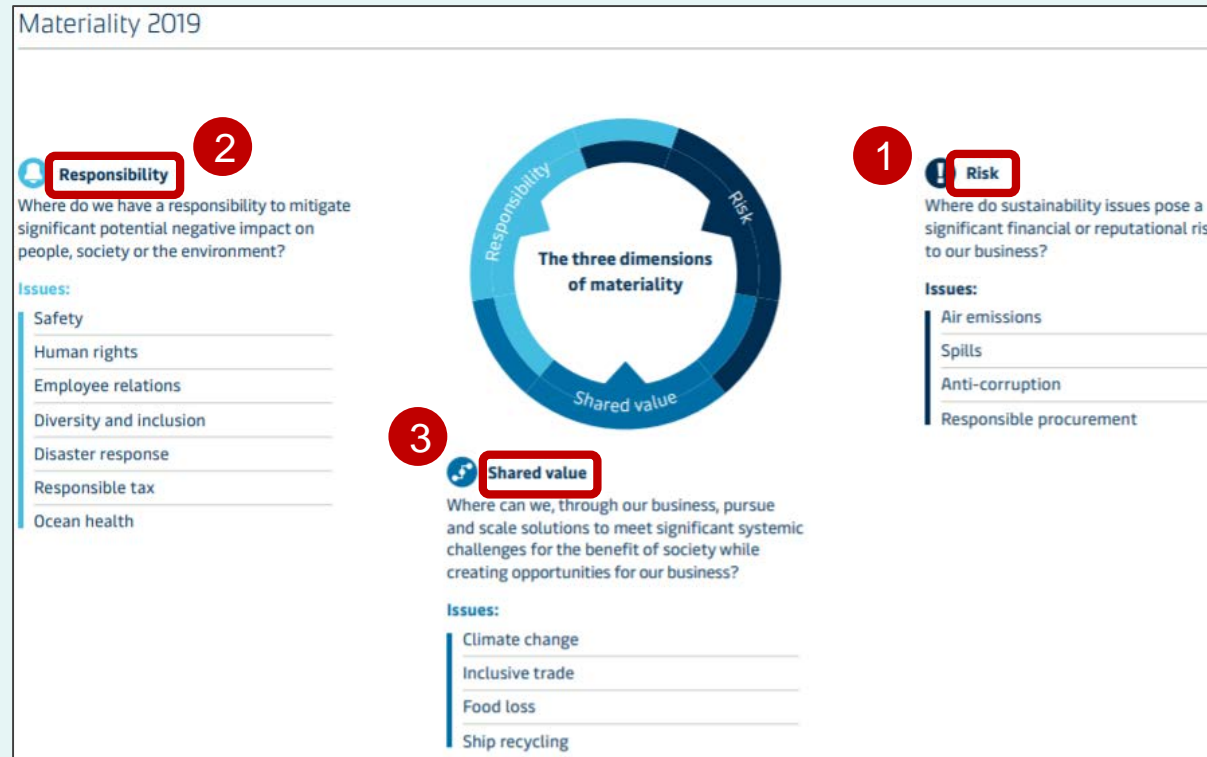


Material issues identified through three dimensions

- Materiality approach assesses and groups sustainability issues under risk, responsibility or shared value.



Source: [MAERSK 2019 Sustainability Report](#)



KPIs & targets



Aim

- Determine KPIs and targets to measure and evaluate ESG performance, with an aim to improve ESG performance in short, medium or long term.



HKEX's new requirements:

- Comply or explain: Description of **reductions target(s) set** and steps taken to achieve them
 - A1.5 – (GHG) emission target(s)
 - A1.6 – hazardous and non-hazardous waste reduction target(s)
 - A2.3 – energy use efficiency target(s)
 - A2.4 – water efficiency target(s)
- How the **board reviews progress** made against these goals and targets is required to disclose also (in board statement)



Readiness questions

1. Do you know what targets and goals have been set by your industry peers/competitors?
2. Has your company set targets for material ESG issues?
3. Is your data collection system robust and reliable enough to establish an appropriate base year for target setting?
4. What controls or processes are in place to ensure data quality (e.g., internal controls over data, external assurance)?

Example: Lenovo



Lenovo



Source: [Lenovo Sustainability Report 2015/16](#)

List of Goals

KPIs used to monitor performance

Specify whether target is to be set in a qualitative or quantitative manner

Target Type	Objective	Key Performance Indicator(s)	Target(s)
Packaging and paper ¹	Minimize packaging material consumption while driving the use of environmentally sustainable materials.	% packaging FSC (Forest Stewardship Council) certified	Use 100% FSC or equivalent virgin fiber packaging.
		% of packaging that is 100% PCC	Increase use of 100% PCC by 10% based upon shipping volume relative to previous year.
		Packaging volume/weight	Achieve 5% reduction in weight or volume for at least one product.
Product energy ¹	Drive reduction in product energy use.	Energy efficiency	New products must show improved energy efficiency relative to the previous generation of the product. Ensure select products are compliant with preferred voluntary energy standards.
	Quantify and reduce lifecycle CO ₂ e emissions associated with the use of Lenovo products.	Task completion	Continue to support external development of PCF methodologies and standards. Ensure product carbon footprint is published for all new Lenovo products. ²

Climate-related risks & opportunities



Readiness questions



HKEX's new requirements:

Disclosure of climate-related issues

- Introduce a **new Aspect relating to climate change** ("comply or explain") comprising:
 - **Policies on identification and mitigation of significant climate related issues** that have impacted and may impact the issuers; and
 - A **KPI description of the significant climate related issues** that have impacted and may impact the issuers, and the actions taken to manage them.

1. Does your company have a policy to identify material impacts on climate-related risks on its businesses?
2. Does your company have any measures to address climate-related risks?
3. Does your company have any framework to track the progress of managing climate-related risks?
4. Is your company aware of any significant laws and regulations in relation to climate change?

Source: [Reporting on climate change: readiness questions](#), HKEX

Resources: TCFD (Task Force on Climate-Related Financial Disclosures)



Types of climate-related risks

1. Physical risks

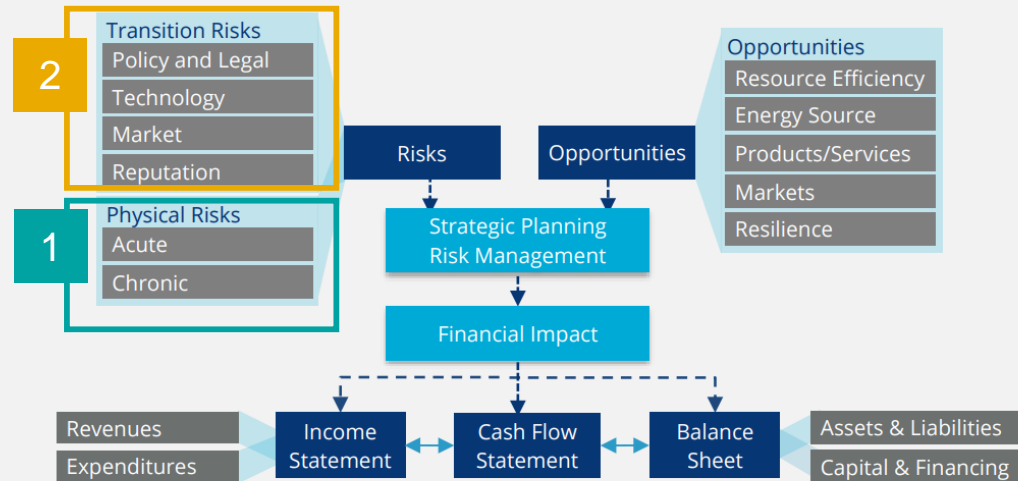
- May have financial implications on business and supply chain disruption, and direct damage to assets.
- Further divided into acute physical risk and chronic physical risk:
 - Acute physical risk: event-driven, including extreme weather events such as droughts, floods or hurricanes.
 - Chronic physical risk: long-term impact of climate change, such as increasing average global mean temperatures and sea level rise.

2. Transition risks

- Occur during the global transition to a low-carbon economy with new regulations, innovations in energy efficiency and market changes.
- Impact the structure of a business.
- Revenues may be affected by shifting customer demands and new regulations.
- Costs can be impacted by the availability and price of raw materials.

Figure 1

Climate-Related Risks, Opportunities, and Financial Impact



Source: [Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures \(June 2017\)](#)

Example: Ping An Insurance



Source: [Ping An Insurance 2018 Sustainability Report](#)

Note: some content, denoted by "[...]," was deleted in order to fit the page

Addressing Climate Change Risks

Climate change is a global issue, and its impacts are a topic of universal concern. In China, climate and climate-derived disasters account for 95% of losses from natural disasters. For the insurance industry, the risks brought by climate change include the uncontrollable loss caused by the frequent occurrence of extreme weather events [that] create a wide range of economic and social pressures and reduces insurability.

As the effects of climate change become more apparent, the probability of extreme weather events, natural disasters and other associated incidents will continue to increase. Heightened climate change-related risks will cause impacts on our product design and pricing, affecting our claim policies and our broader business strategy.

Global warming and more frequent extreme weather events have raised questions about the reliability of old product pricing models and hence the revenue impact. As a global leading multi-line insurance company, Ping An has always responded proactively to business risks and operational risks arising from climate change. To this end, we evaluate material risk on an annual basis.

- Ping An Life and Ping An Property & Casualty have initiated researches and developed a management system for climate change-related risks.
- We launched our Smart Environmental Protection solution to monitor and analyze environmental data. This supports the government as it addresses climate change and natural disaster risks.
- We developed DRS, a system for physical risk identification, analysis and management to assess the risk of nine types of natural disasters and manage the associated business risks.
- [Ping An] communicates and addresses concerns from stakeholders including government departments and investors about how we identify and respond to climate change-related insurance and investment risks.

[...]

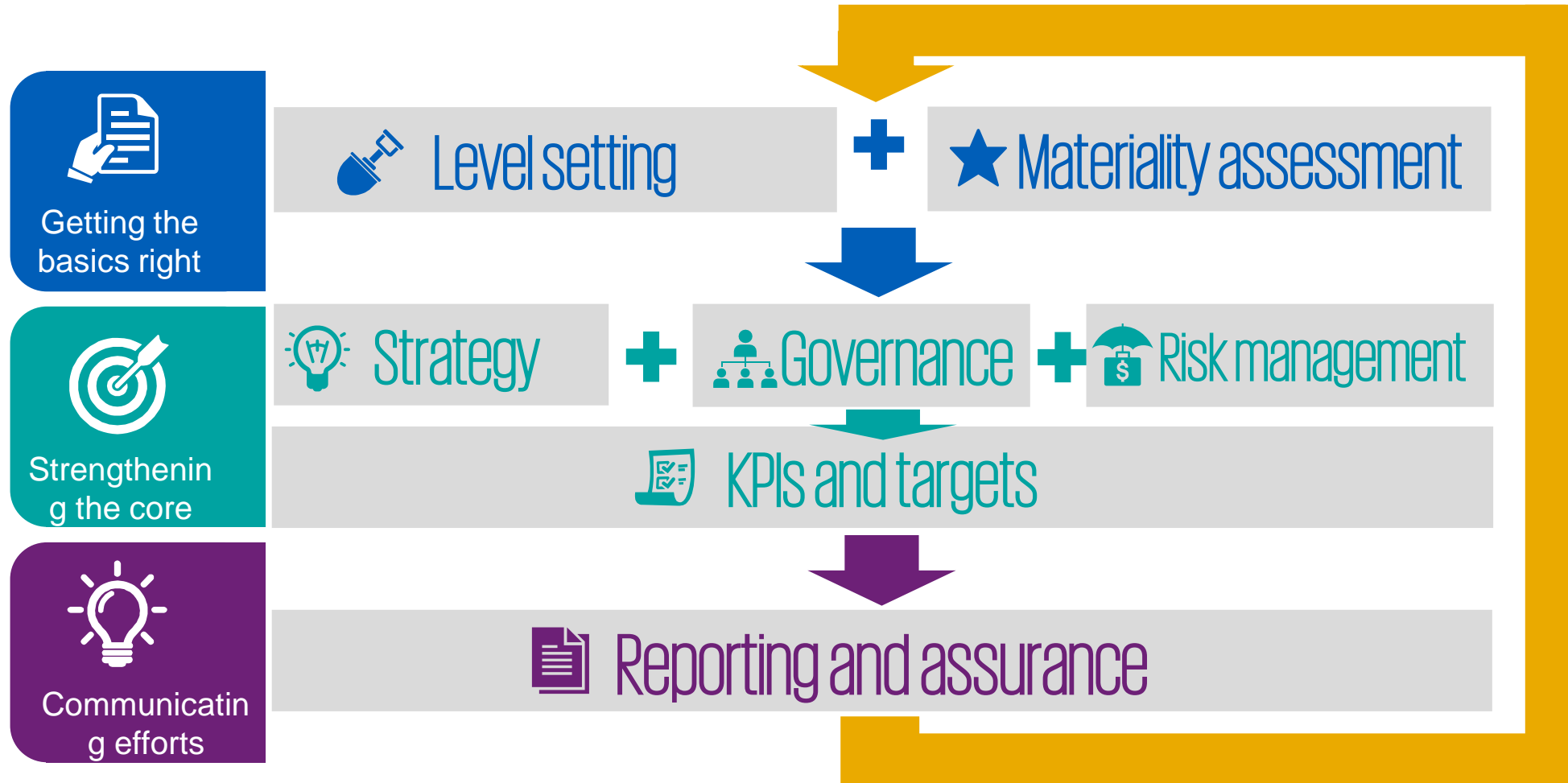
Through risk identification and ex-ante warning, Ping An has developed an effective risk management system to alleviate the associated impacts of climate change-related risks.

Processes for identifying and assessing climate-related risks

Common challenges and considerations in ESG data management

Lack of...	Examples	
Ownership & accountability across departments	<ul style="list-style-type: none"> • Data not currently collected (e.g. weight of waste) • No accountability for ESG performance and data accuracy 	✓ Clear guidelines and definitions
ESG knowledge of data owners	<ul style="list-style-type: none"> • Unclear about definitions (e.g. hazardous waste) and calculation (e.g. use of carbon emission factors) • Confusion of data units (e.g. GJ, tonnes, m³) 	✓ Centralised data system and automatic calculation tools
Clarity on the scope & boundary of data points	<ul style="list-style-type: none"> • Exclusion of data from certain facilities / group entities • Unclear about what should be included/excluded from the data (e.g. energy used by tenants) 	✓ Review of data input
Alignment across different departments collecting the same data point	<ul style="list-style-type: none"> • Different definition/ interpretation of data across the departments/ group (e.g. complaints) 	✓ Management review of performance
Systematic approach for collecting data	<ul style="list-style-type: none"> • Manual and simple record keeping system (e.g. Excel spreadsheets with limited control) 	✓ Assurance

Integrate ESG into the business





Contact us

If you have any questions regarding the topics we covered today or any other ESG-related matters, please do not hesitate to contact us.



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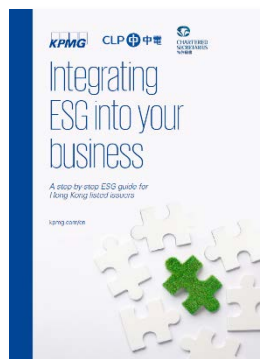
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Resources

To learn more about KPMG Insights and training materials, please [Click or Scan the below QR codes](#):



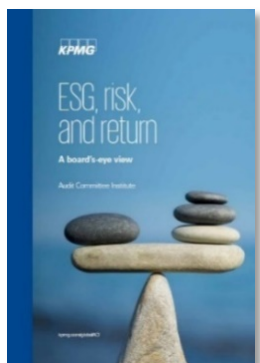
Integrating ESG into your business



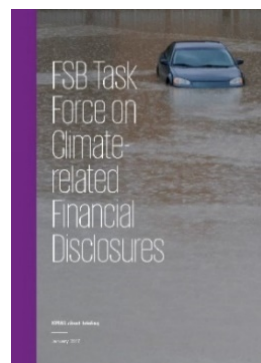
ESG: A view from the top



ESG, strategy and the long view - A framework for board oversight



**ESG, risk, and return
A board's eye view**



FSB Task Force on Climate-related Financial Disclosures



Preparedness assessment for complying with the new HKEX requirements

由“報告”向“管理”轉變
畢馬威就港交所ESG報告指引修訂版系列培訓
(請參閱畢馬威KPMG微信公眾號)



English version
of the e-learning
coming up

課程一 培訓總體框架 (三-8-5)概述



課程二 加強董事會對ESG領導責任



課程三 確定ESG重要事宜



課程四 設定重要管理績效指標和目標



即將推出

課程五 將ESG風險管理 (含氣候事宜) 納入企業全面風險管理中
課程六 定期回顧及報告

Tentative dates and topics for 2020



15 May – Sailing through the storm with clarity (COVID-19 related accounting issues)



12 June – ESG reporting: latest developments



17 July – Use of non-GAAP measures and IASB's primary financial statements project



18 September – IASB major projects and IFRIC update



13 November – Year-end reporting considerations

For more details and access to our webinar series:

<https://home.kpmg/cn/en/home/insights/2020/05/financial-reporting-webinar-series.html>





Thank you



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