

# More Than a Trend - Environmental, Social and Governance (ESG) Reporting Benefits Companies

## 這不僅是大勢所趨 - 環境、社會及管治 (ESG) 匯報將可造福公司

Malini Thadani

**W**ith the implementation of the Hong Kong Exchanges and Clearing Limited's "comply or explain" disclosure requirements and the increasingly heightened awareness and demand from investors, Environmental, Social and Governance (ESG) issues are moving mainstream. From the company management perspective, the question is whether this is simply a trend or whether ESG reporting is truly beneficial to the bottom line.

### Stock Exchange Raises ESG Disclosure Rules

On 21 December 2015, The Stock Exchange of Hong Kong Limited (SEHK), a wholly owned subsidiary of Hong Kong Exchanges and Clearing

Limited, announced that the proposed changes as set out in its September consultation would be adopted, with certain modifications. Since then, relevant Listing Rules have been amended to require companies to disclose ESG information on an annual basis, covering the same period as its annual financial report. Going forward, listed companies must state in their annual report or a separate ESG report whether they have complied with the new provisions in the SEHK's ESG Reporting Guide and give an account to explain any deviation.

Key Performance Indicators (KPIs) are prescribed for disclosure on environmental and social issues on a "comply or explain" basis. Most of the new disclosure requirements have been in effect for companies from 1 January 2016. But listed companies are given until 1 January 2017 to prepare for the reporting of environmental KPIs.

Listed companies must now make ESG disclosures in the context of the new SEHK requirements. More than that, SEHK has noted that ESG disclosure requirements will continue to evolve, with a view towards achieving better and more comprehensive ESG reporting amongst listed companies in Hong Kong. It will refer to regional or international legislative and regulatory developments in this area when reviewing the requirements for Hong Kong.

As it is, stock exchanges in virtually every key market in Asia either have similar requirements in place or are considering launching sustainability reporting. Stock exchanges are believed to be well positioned to facilitate the transition to more sustainable financial markets, improve corporate performance on ESG issues, and promote investment that would help meet the sustainability challenges that the world faces today.

### Study: Investors Demand More ESG information

A recent study we conducted at HSBC found that while investors barely paid



attention to ESG a decade ago, 30 per cent of professionally managed assets in the world today acknowledge ESG in some way.

ESG and non-financial indicators have become a proxy for sound management structures and business ethics. As a result, about US\$21 trillion of funds under management globally integrate some form of ESG criteria into their investment process. Our study also leads us to believe that this will continue to expand. The United Nations Principles for Responsible Investment, an initiative to improve investor understanding of sustainability and to advocate incorporating these issues into investment decision-making and ownership practices, has already collected 1,400 signatories from fund managers, with a combined portfolio of US\$59 trillion.

The main driver of ESG investment growth appears to be risk mitigation, followed by ethical considerations and investment performance. Since major investment risks are increasingly perceived as non-economic, these are therefore often not properly accounted for in traditional financial analysis.

One other finding shows that while only 5 per cent of multinational corporations reported significant ESG metrics to investors on a regular basis a decade ago, some 40% do so today. The increase is apparently driven by investor demand as well as changes in regulatory requirements from governments and stock exchanges, which are also driving standardisation.

Various studies have demonstrated that companies with improved ESG practices generally outperform laggards. Investors apparently view environmental indicators as most important, followed by governance and social metrics.

### **Private Sector to Help Attain Global Sustainability Goals**

It is not surprising to note that investors view ESG information as important in the context of risk mitigation. At the World Economic Forum's annual global risk

rankings survey, environmental and social risks such as water crises, climate change and social instability or inequality have often been highlighted as key concerns. In fact, of the five major long-term global risks seen in 2016, four were environmental and only one was socio-economic.

The private sector is expected to play a bigger role to help contribute to sustainable development in general. In a recent United Nations Investor Summit on Climate Change, UN Secretary-General Ban Ki Moon noted: ". . . the private sector is the engine that will drive the climate solutions we need to reduce climate risks, end energy poverty and create a safer, more prosperous future for this and future generations." Hence, more corporates are expected to demonstrate how their business and other activities contribute to attaining the Sustainable Development Goals (<http://sustainabledevelopment.un.org>).

### **ESG Reporting Plays Strategic Role**

The Global Reporting Initiative, an independent, non-profit organisation that develops and disseminates globally applicable sustainability reporting guidelines, has listed over 400 indicators of corporate non-financial performance ([www.globalreporting.org](http://www.globalreporting.org)). In 2011, the Sustainability Accounting Standards Board was launched to identify which ESG issues are most likely to be material for individual industry sectors ([www.sasb.org](http://www.sasb.org)), which leads then to the question of how ESG reporting is driving company performance. Some key issues are summarised below:

#### *Environment*

Natural capital and ecosystems are vital for economic activity. For some companies, the assessment of environmental risks is embedded in the business model as a licence to operate. For others, pressure from stakeholders has driven increased awareness and disclosure. The potential implications of climate change have also come into sharper focus following the Paris Climate Agreement in December 2015. For any organisation, its carbon

footprint is probably the most important environmental factor to monitor on an operational basis, as it allows stakeholders to benchmark exposure to climate change between companies in the same sector. With carbon pricing expected to gain more support globally, new financial costs that are climate-related will be seen, particularly in carbon-intensive sectors. Through ESG reporting, companies are to demonstrate that they are actively managing climate-related risks and regularly disclosing processes and progress.

#### *Social*

The relationship between a company and its key stakeholders such as employees, customers, suppliers, community and broader society at large, is reflected through social indicators in ESG reporting. While all stakeholders are important – and their importance can vary from one organisation to another – employees are generally considered key to the success of any organisation. As a result, many of the social indicators focus on employees, with key indicators related to motivation and welfare, employee turnover and trade union representation. A current social focus is the promotion of diversity and community welfare. Key indicators reflecting the performance of an organisation in these respects are: share of female employees in the total work force and managerial positions, employment of differently abled staff, share of profit spending on sustainability / CSR activities and average community volunteering hours per employee in a year.

#### *Governance*

The commitment of companies towards ESG is often demonstrated by the level of oversight of ESG-specific issues by the Board and top management. Integration of ESG-related performance targets within executive remuneration provides incentives for ESG performance and reflects Board attention to ESG considerations. The adoption of ESG reporting standards reflects how ESG factors are measured and managed within the organisation. Verification of reporting can provide external validation of the depth of ESG

reporting and monitoring. Policies and indicators related to reputational and legal risks are also crucial.

### Companies to Benefit from Reporting Process

In addition to legal / compliance reasons and the need to meet expectations of external stakeholders (notably investors) for better ESG transparency, companies that have gone through the ESG reporting process would know that the steps taken in preparing an ESG report are beneficial and strategically important.

As shown in many reporting guidelines, including the Business Environment Council's Handbook on Understanding Materiality for ESG Reporting ([http://bec.org.hk/files/images/BEC\\_advisorygroups/BEC\\_ESG\\_Handbook\\_web.pdf](http://bec.org.hk/files/images/BEC_advisorygroups/BEC_ESG_Handbook_web.pdf)), ESG reporting requires the process to ensure appropriate context, data relevance, materiality, and comprehensiveness of the report.

In setting the sustainability context, related policy and strategy are pre-requisites. Determining materiality requires a deep understanding of how and where you operate, and forces management to think outside traditional financial considerations. For example, at the Board level, companies need to consider ESG issues that may significantly impact their bottom line if played out in the market, and how they may be relevant to the company's long-term corporate strategy. This makes continuous reporting obligations meaningful over time and part of prudent risk management.

1. Other considerations taken into account in the reporting process are beneficial to a company's health. These include: mapping out and engaging with stakeholders, having systems to track performance and collect data, reviewing performance and setting targets that are relevant to the company's strategy. When reporting ESG disclosures, make sure to take the following steps: Understand ESG reporting requirements;
2. Set / review sustainability strategy (that aligns with company strategy);
3. Assess level of materiality (sectorial

- focus, involving various stakeholders);
4. Make concerted company-wide effort to track performance;
5. Consolidate and analyse KPIs on a timely basis;
6. Set targets that drive better performance;
7. Use external assurance review system and data integrity; and
8. Incorporate feedback from stakeholders into the next reporting cycle.

The fact that material ESG data are disclosed regularly to the public presents another driving factor for better management and performance.

As SEHK rightly pointed out, ESG performance and reporting are obviously gaining importance around the world. Stakeholders' demand for better corporate ESG transparency is greater than ever. This trend will continue to impact how companies and their investors do business.

While keeping abreast of these developments, companies would appreciate that ESG reporting will help drive better company performance, and as a result, Boards should start evaluating the need for ESG reporting, as well as the benefits associated with it.

## 香

港交易及結算有限公司已對環境、社會及管治 (ESG) 匯報實施「不遵守就解釋」(comply or explain) 的披露規定，同時投資者對這方面的關注和要求也越來越高。因此，匯報ESG資料正逐漸成為主流。問題是，從公司管理的角度來看，究竟這僅是一個潮流還是對公司業績真正有益呢？

### 聯交所提高有關ESG的披露條文

2015年12月21日，香港交易及結算有限公司全資擁有的香港聯合交易所有限公司（聯交所）宣佈，在作出若干修改後，將採納9月諮詢時提出的建議修定。自此以後，聯交所修定了相關的上市規定，要求上市公司每年披露ESG資料，而有關資料所涵蓋的期間須與其年度財務報告涵蓋的時間相同。邁向未來，上市公司必須在年報或一份獨立的ESG報告中說明他們是否已

遵守聯交所《ESG報告指引》中的新規定，並就任何有所偏離的情況作出解釋。

新規定列出了「關鍵績效指標」，以協助公司按照「不遵守就解釋」的要求來披露環境及社會資料。新規定大部分條文已於2016年1月1日對公司生效，但上市公司則獲延期至2017年1月1日，以便其有更多時間，就匯報環境方面的關鍵績效指標作好準備。

上市公司現在必須根據聯交所的新規定來披露ESG資料。除此以外，聯交所已表明將繼續更新有關ESG的披露規定，以推動香港上市公司在ESG匯報方面做得更好及更完善。聯交所在檢討香港的披露規定時，將參考亞洲地區在立法及監管方面的地區性及國際性發展。

照目前情況來看，差不多每個亞洲主要市場的證券交易所已實施類似的規定或正在考慮規定上市公司須匯報其可持續發展的情況。社會上普遍認為證券交易所不但在促進金融市場的可持續發展上起着關鍵作用，亦有力推動企業提高其在ESG方面的表現，同時能夠推動投資以應付現今世界在可持續發展方面所面對的挑戰。

### 研究：投資者需要更多ESG資料

最近匯豐進行的研究發現，十年前的投資者極少關注ESG，然而在今天，全球有30%由專業機構管理的資產，都或多或少地關注到ESG這個議題。

ESG和非財務指標已成為公司有沒有良好管理架構和商業倫理的指標。因此，全球約21萬億美元的管理資金已在其投資流程中加入若干形式的ESG準則，而且根據我們的研究，我們相信這個趨勢將不斷擴大。由聯合國發出、旨在提高投資者對可持續發展的理解並提倡將這些考慮因素加入到投資決策及行使所有權的過程之中的《負責任的投資原則》(Principles for Responsible Investment)，已獲得1,400名合共管理着59萬億美元資產的基金經理簽署支持。

根據研究結果，ESG投資的主要增長動力是為了要紓緩風險，其次是基於道德和投資表現的考慮。由於主要的投資風險日益被視為是非經濟性的，因此傳統的財務分析很少能夠適當地將之交待出來。

研究又發現，十年前只有5%的跨國企業表示會定期向投資者匯報重要的ESG指標，

但到了今天，大約有40%會這樣做。這個增長明顯是由投資者的需要及政府和交易所在監管要求上的轉變所帶動的，同時亦促進了標準化的發展。

不同的研究亦顯示，一般而言，在ESG方面做得更好的公司，其表現會較在這方面較為落後的公司優勝。而對於投資者來說，環保指標明顯是最重要的，其次是管治和社會指標。

### 私營機構有助實現全球可持續發展目標

投資者如此重視ESG資料在紓緩風險方面的作用實在是理所當然的。在世界經濟論壇的全球風險排名年度調查中，環境和社會風險，例如水資源危機、氣候變化、社會不穩定或不平等現象等，已常被視為是極需關注的問題。事實上，在2016年的五大全球長期風險中，四個是與環境有關的，只有一個是與社會經濟有關的。

總體上，私營機構應可在可持續發展方面作出更大貢獻。在最近舉行的「聯合國氣候變化投資者高峰會」(United Nations Investor Summit on Climate Change)上，聯合國秘書長潘基文表示：「我們需要降低氣候風險、結束能源匱乏問題及為這一代和未來的人類創造一個安全和更為繁榮的未來，而私營機構就是推動我們所需的氣候解決方案的引擎。」因此，更多企業應示範如何透過其業務及其他活動，實現由聯合國提出的「可持續發展目標」(<http://sustainabledevelopment.un.org>) (英文網站)。

### ESG匯報具有戰略性作用

作為一家致力於推廣和宣傳全球通用的可持續發展報告指引的獨立非牟利組織，全球報告倡議組織(Global Reporting Initiative)列出了超過400個與企業非財務表現有關的指標([www.globalreporting.org](http://www.globalreporting.org)) (英文網站)。可持續發展會計準則委員會(Sustainability Accounting Standards Board)於2011年成立，目標是針對不同的行業，找出最有可能帶來影響的ESG問題([www.sasb.org](http://www.sasb.org)) (英文網站)，由此引申出ESG匯報如何可帶動一家公司的表現。以下將綜述部分主要問題：

### 環境

自然資本和生態系統對經濟活動而言是極為重要的。部分公司必須在業務模式中包含環境風險評估才會獲准經營，而其他的公司，則在持分者的壓力下而變得更加關

注ESG問題及披露更多相關資料。而隨著《巴黎氣候協議》在2015年12月簽訂後，氣候變化可能帶來的影響更加受到關注。碳足跡可讓持分者為同一領域的公司制定氣候變化基準，因此對任何機構而言，碳足跡大概是營運上要監察的最重要環境因素。由於全球對碳定價的支持勢將增加，財務上將出現與氣候有關的成本，尤其是在碳密集行業之中，而透過ESG匯報，公司便可證明他們正積極管理與氣候有關的風險及定期披露相關的過程和進度。

### 社會

一家公司與其主要持分者(例如員工、顧客、供應商、所在社區以至整個社會)之間的關係可透過ESG報告中的社會指標反映出來。儘管所有持分者都是重要的一一而其重要性在不同機構之中不盡相同一一員工一般都被視為一個機構能夠成功的關鍵。因此，許多社會指標均聚焦於員工上，其中以員工的積極性和福利、員工流失的情況，以及工會的代表性為主要的指標。目前在社會方面的一大焦點是提高員工的多樣性和社會福利。下列指標可反映一個機構在這些方面的表現：女性員工佔員工總數和在管理層中的比例；能力不同的員工的聘用情況；可持續發展 / 企業社會責任項目開支佔利潤的比例；以及每名員工每年做義工的時數。

### 管治

公司對ESG的承擔往往可從董事會和頂層管理人員如何監管ESG體現出來。在行政人員薪酬中加入ESG表現目標，不但有助激發ESG表現，亦可反映董事會對ESG問題的關注和考慮。機構所採納的ESG報告標準，可反映該機構如何量度和管理ESG因素，而檢查ESG報告的過程，則可為ESG匯報和監察的深度提供外部驗證。此外，與信譽和法律風險有關的政策和指標亦十分重要。

### 公司可得益於匯報程序

除了法律 / 合規原因和有需要滿足外部持分者(尤其是投資者)對公司提高ESG透明度的期望外，公司在完成ESG匯報程序後，便會了解在編寫ESG報告時所採取的措施不但能帶來好處，亦具有戰略價值。

正如商界環保協會出版的《BEC Handbook: Understanding Materiality for Environmental, Social and Governance Reporting》(商界環保協會手冊：認識環境、社會及管治報告的重要性) (<http://bec.org.hk/files/images>

/[BEC\\_advisorygroups/BEC\\_ESG\\_Handbook\\_web.pdf](http://bec.org.hk/files/images/BEC_advisorygroups/BEC_ESG_Handbook_web.pdf)) (只供英文版)及其他多份報告指引所示，在編寫ESG報告時，不但需要確保報告提供了適當的資料和相關的數據，亦要確保報告的重要性和全面性。

在設定可持續發展的背景前需要先了認識相關的政策和策略。在確定重要性時，需要深入了解你如何和在哪裏經營，並強迫管理層在思考時要跳出傳統財政考慮的框框。例如，在董事會的層面上，公司需要考慮可能大幅影響其業績的ESG問題(如果真的出現)，以及這些問題與公司的長遠企業策略有何關係。這不但令長時間實踐持續匯報責任這個舉措變得有意義，亦是審慎風險管理的一部分。

1. 在匯報過程中考慮過的其他因素有助公司維持健康。這些因素包括：釐定和接觸持分者；建立可追蹤表現和收集數據的系統；檢討表現和制定與公司策略有關的目標。在披露ESG資料時要確保採取了以下步驟：了解ESG資料的匯報規定；
2. 制定 / 檢討可持續發展策略(需與公司策略一致)；
3. 評估重要性水平(各個部門的重點領域，涉及不同的持分者)；
4. 全公司共同追蹤表現；
5. 及時地整合和分析關鍵績效指標；
6. 制定有助提升表現的目標；
7. 利用外部保證審核制度和數據完整性；
8. 將持分者的意見加入下一個匯報周期之中。

事實上，定期向公眾披露重要的ESG數據是另一個有助提升管理水平和表現的因素。

聯交所已正確指出，ESG表現和匯報在全球已明顯地越來越被重視。持分者對企業提高ESG透明度的要求比過往任何時候都高，而此一趨勢將繼續影響公司及其投資者如何經營業務。

公司在密切留意這些發展的同時，亦認同ESG匯報有助提升公司表現，而董事會因此應該開始評估是否有需要編寫ESG報告，以及評估其可帶來的益處。

Ms Malini Thadani is the head of Corporate Sustainability, Asia Pacific, The Hongkong and Shanghai Banking Corporation Limited.

唐丹妮女士是香港上海匯豐銀行有限公司亞太區企業可持續發展總監。