



Sustainability in Corporate Decision Making

Companies are under increasing pressure to respond to growing investor demands for Environmental, Social and Governance reporting. New initiatives are now in place to assist organisations in stepping up on sustainability. – By Sally Wright

Hong Kong Exchange (HKEX) has recently undergone a consultation on a proposal to make certain elements of Environmental, Social and Governance (ESG) reporting mandatory for Hong Kong listed companies. A voluntary reporting scheme has been in place since 2014 and some companies have embraced this with comprehensive annual reporting to shareholders.

However, many have still to make progress to truly embed sustainability within the core business and decision-making processes. The proposals in the HKEX consultation aim to improve governance

and disclosure of ESG activities and metrics and, in particular, emphasise the board's leadership role and accountability for ESG matters. The proposed

rules would require Hong Kong listed companies to provide an annual report on ESG, assessing performance against 11 aspects of ESG, disclosing material risks, and stating whether they are in compliance. [Non-compliance with the standards is not necessarily an issue if it can be explained with good reason and where appropriate the steps

been taken to address compliance.] The consultation closed on 19 July 2019 and has received mixed

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responses with the asset management community broadly in favour of the new proposals but with business having some concerns about disclosing further information and the cost of undertaking the reporting.

The HKEX proposals are aligned with an increasing push from investors and shareholders to hold company boards to account for ESG factors. Individual investors are also more frequently seeking opportunities to ensure that their values around ESG factors are reflected in the way that their money is managed. In response, an increasing number of asset managers are incorporating ESG factors into their decision making across their businesses, viewing environmental considerations, climate risk and labour issues in supply chains as important risk factors, that can impact a business's future operations.

The HKMA has also recently launched new guidelines to support its mission to reduce climate change risks and to achieve sustainable finance.

On 7 May it announced measures to engage the banking industry and other relevant stakeholders in a consultation on Green and Sustainable Banking, to promote green and sustainable developments in the Hong Kong banking industry. The HKMA has also published its own priorities for investing HKMA assets into responsible investments which include:

- incorporating ESG factors in HKMA's credit risk analysis of bond investments;
- participating in ESG-themed public equities investments through external managers in passive


or active mandates targeting ESG benchmark index; and

- incorporating green accreditation as a predominant factor in investment in their real estate portfolio.

So how can companies respond to the increasing demands for ESG reporting, and increased scrutiny of ESG activities by investors? It is clear that engagement at Board level is imperative, and there is a growing consensus that the Chief Financial Officer, as the custodian of capital, should play a key role in supporting the integration of sustainability within the organisation.

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One initiative that aims to bring together the broader finance community globally is The Prince's Accounting for Sustainability Project (A4S). A4S was started in 2004 by HRH The Prince of Wales who recognised that in order to effect change, the finance community was key. The organisation aims to inspire finance leaders to adopt sustainable and resilient business models,

to incorporate environmental and social issues into risk management and business decisions. There are now A4S networks and circles of practice in the UK, US, Canada, Singapore and several other markets which give C-Suite leaders, accountancy leaders and business schools the opportunity to share best practice and influence how the finance community integrates ESG principles into business and culture. The British Chamber of Commerce will be hosting an event on 22 October 2019 to hear from A4S representatives on how other markets are making the change and gain practical tips on how finance leaders can support their companies to embed sustainability into core finance and decision-making processes. 



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