Asia Pacific CFO Vision 2019
Sustainability and Climate Change

26 April 2019
From Sustainability to ESG
From sustainability....

**Sustainable development:** Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

*Brundtland Report, 1987*

**Corporate sustainability** means balancing environmental stewardship, social well-being, and economic prosperity while driving toward a goal of long-term success for the health of the company and its stakeholders.

*Farver, 2013*
...to ESG...

Environmental
- Climate change
- Carbon emissions
- Water stress
- Renewable energy
- Natural capital
- Waste management

Social
- Human capital
- Labour practices
- Human rights
- Privacy and data security
- Product quality and safety
- Customer welfare

Governance
- Board composition
- Business ethics
- Corruption and bribery
- Accounting
- Shareholder rights
- Ownership
Sustainable Development Goals (SDGs)
Blueprint to achieve a better future

• 17 development goals set by the United Nations in 2015 for the year 2030 to address global challenges

• Governments often employ SDGs as a framework to achieve a more sustainable future for all; companies increasingly setting corporate targets aligned with SDGs


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ESG is more than taking on responsibility…

- ESG = social responsibility + create values to the company

- 90% of the studies show that sound sustainability standards lower the cost of capital
- 88% of the research shows that solid ESG practices result in better operational performance in firms
- 80% of the studies show that stock price is positively influenced by good sustainability practices
Recent media coverage

Chinese city shuts down chemical plant after explosion that killed 78 people

- Authorities in Yancheng city act after country’s deadliest industrial accident in four years
- Decision follows action by Jiangsu provincial government to reduce number of chemical plants

157 child slaves in Benin and Nigeria rescued by Interpol

11 killed, 2 injured in China construction site accident

Source: Xinhua | 2019-04-25 12:05:25 | Editor: ZX

SHIJIAZHUANG, April 25 (Xinhua) -- Eleven workers were killed and two others were seriously injured after an elevator collapsed at a construction site in north China’s Hebei Province Thursday morning, local authorities said.
ESG performance and stock price

93% of CFOs believe there is a direct link between sustainability program and business performance.

The Deloitte CFO Survey: Sustainability and the CFO
Substantial growth in ESG assets
Investors increasingly connecting financial performance with ESG performance

- According to Global Sustainable Investment Alliance, ESG investing assets increased from $22.9 trillion in 2016 to $30.7 trillion in 2018
- UN PRI, the world’s leading advocate of responsible investment, has more than 2,200 signatories in 2018

Principles for Responsible Investment (PRI)
- Developed by Kofi Annan in 2005; launched April 2006
- Supported by the UN and engages with global policymakers
- ~2,200 signatories in 2018 ➔ approx. $81.7 Trillion in AUM

Number of PRI signatories

Source: PRI, 2017 and 2018, Principles for Responsible Investment - PRI

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The world of investors is now vocal
BlackRock Chairman & CEO, Larry Fink's Letter to CEOs

- Larry Fink encouraged CEOs to be more intentional and transparent about their purpose, culture, and environmental, social and governance performance (ESG). Clarity of purpose helps companies more effectively make strategic pivots in the service of long-run goals.

- Mr. Fink stated that within the next five years all investors will measure a company’s impact on society, government and the environment to determine its worth.

- BlackRock’s Investment Stewardship engagement priorities for 2019 are: governance, including company’s approach to board diversity; corporate strategy and capital allocation; compensation that promotes long-termism; environmental risks and opportunities; and human capital management.

- “With the world undergoing the largest transfer of wealth in history: $24 trillion from baby boomers to millennials. As wealth shifts and investing preferences change, environmental, social, and governance issues will be increasingly material to corporate valuations.”

“Attracting and retaining the best talent increasingly requires a clear expression of purpose... In a recent survey by Deloitte, millennial workers were asked what the primary purpose of businesses should be – 63 percent more of them said ‘improving society’ than said ‘generating profit.’” – Larry Fink, 2019 Letter to CEOs

Click here to access
Hong Kong Green Finance Association (HKGFA) launched in September 2018
Key Recommendations:
• Government leadership on ESG integration
• Hong Kong Monetary Authority – ESG requirements for external managers
• Mandatory Provident Fund Schemes Authority to incorporate ESG standards
• Securities and Futures Commission to strengthen emphasis on ESG
• Hong Kong Stock Exchange to strengthen emphasis for both listing applicants and listed companies
# Green Bonds in Hong Kong

<table>
<thead>
<tr>
<th>Date</th>
<th>Issuer</th>
<th>Details of issuance</th>
</tr>
</thead>
<tbody>
<tr>
<td>06/2015</td>
<td>Xinjiang Goldwind Science and Technology</td>
<td>• 3-year USD 300 million bonds with coupon rate of 2.5%</td>
</tr>
<tr>
<td>07/2016</td>
<td>The Link REIT</td>
<td>• 10-year USD 500 million bonds with coupon rate of 2.875%</td>
</tr>
<tr>
<td>11/2016</td>
<td>MTR Corporation</td>
<td>• 10-year USD 600 million bonds with coupon rate of 2.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Further issuance in 2017 through private placement</td>
</tr>
<tr>
<td>07/2017</td>
<td>Castle Peak Power Company Limited</td>
<td>• 10-year USD 500 million bonds with coupon rate of 3.25%</td>
</tr>
<tr>
<td>11/2017</td>
<td>China Development Bank</td>
<td>• 5-year USD 500 million bonds with coupon rate of 2.75%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 4-year EUR 1 billion bonds with coupon rate of 0.375%</td>
</tr>
<tr>
<td>11/2017</td>
<td>Hong Kong and China Gas Company Limited</td>
<td>• 10-year USD 600 million bonds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 10-year JPY 2 billion bonds</td>
</tr>
<tr>
<td>01/2018</td>
<td>Swire Properties</td>
<td>• 10-year USD 500 million bonds with coupon rate of 3.5%</td>
</tr>
</tbody>
</table>

Source: Media and company websites, BOCHK Research
Beginning ESG journey – questions to consider

- **Governance structure**
  - Who is the “owner”?
  - Who needs to be involved?

- **Strategy**
  - What are the key risks and opportunities on ESG to the company?
  - What are the objectives?

- **Positioning**
  - How are the industry and competitors doing?
  - How ambitious the company wants to be?

- **Implementation and Monitoring**
  - What targets and KPIs that could be set?
  - How to monitor and report progress over time?

- **Reporting**
  - What kinds of report are required?
  - What are the availability and quality of data?
## ESG data vs financial data

<table>
<thead>
<tr>
<th></th>
<th>Financial data</th>
<th>ESG data</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reporting objective</strong></td>
<td>Report business performance</td>
<td>Showcase the impact made – both positive and negative</td>
</tr>
<tr>
<td><strong>Reporting methodology</strong></td>
<td>International / local accounting standards</td>
<td>Mainly high-level principles, standards still developing</td>
</tr>
<tr>
<td><strong>Reporting basis</strong></td>
<td>Mainly based on actual transaction records and 3rd party evidences</td>
<td>Mainly based on estimations and judgements, and internal evidences</td>
</tr>
<tr>
<td><strong>Knowledge required</strong></td>
<td>Accounting</td>
<td>Environmental, HR, safety, engineering + Accounting</td>
</tr>
<tr>
<td><strong>Independent assurance</strong></td>
<td>Required</td>
<td>Voluntary, but important</td>
</tr>
</tbody>
</table>
More regulations are coming….

- **1992**: UN Environment Programme Finance Initiative (UNEP FI)
- **1997**: Global Reporting Initiative (GRI) Sustainability Reporting Standards were the first of their kind – a widely accepted set of global standards for sustainability reporting. Today, 93% of the world’s largest 250 corporations report on their sustainability performance.
- **2000**: UN Global Compact
- **2001**: The Business Call to Action (BCIA) is an alliance between several donor governments that encourage companies to develop inclusive business models that engage people at the base of the economic pyramid
- **2007**: The Climate Disclosure Standards Board
- **2008**: Accounting for Sustainability Project (A4S)
- **2009**: The United Nations Principles for Responsible Investment (UN PRI) is launched by UNEP Finance Initiative in collaboration with investors to outline commitment to responsible investing. UNPRI has grown to over 1,700 signatures in 2017 and over $68 trillion in AUM
- **2010**: ISO 26000 standard
- **2011**: OECD Guidelines for Multinational Enterprises
- **2011**: The Sustainability Accounting Standards Board (SASB) encourages disclosure of material sustainability information. SASB develops standards (non-legally-binding ones) related to SEC filings relevant to 79 different industries
- **2012**: United Nations Sustainable Stock Exchanges (UN SSE)
- **2013**: International Integrated Reporting (IR) Framework
- **2014**: The United Nations formulated a list of 17 Sustainable Development Goals (SDGs) encompassing poverty, hunger, health, education, climate change, gender equality, water, sanitation, energy, urbanization, environment and social justice. Many investors are using the SDG as guiding principles for their ESG
- **2015**: Hong Kong ESG disclosure mandate: Hong Kong Exchanges and Clearing mandated all HK listed firms to disclose relevant ESG issues
- **2015**: Task Force on Climate-related Financial Disclosures (TCFD)
- **2016**: Paris Agreement
- **2017**: The Business Call to Action (BCIA) is an alliance between several donor governments that encourage companies to develop inclusive business models that engage people at the base of the economic pyramid
- **2017**: IIR and GRI came together to form the join Corporate Leadership Group on Integrated Reporting (CLGIR) to reconcile and integrate ESG reporting standards
- **2018**: Task Force on Green Bond Principles (GBP)
- **2018**: Hong Kong Green Finance Association
Trending – Task Force for Climate-related Financial Disclosure
Climate change is the leading risk of the global economy


**Top 10 risks in terms of Likelihood**

1. Extreme weather events
2. Failure of climate-change mitigation and adaptation
3. Natural disasters
4. Data fraud or theft
5. Cyberattacks
6. Man-made environmental disasters
7. Large-scale involuntary migration
8. Biodiversity loss and ecosystem collapse
9. Water crises
10. Asset bubbles in a major economy

**Top 10 risks in terms of Impact**

1. Weapons of mass destruction
2. Failure of climate-change mitigation and adaptation
3. Extreme weather events
4. Water crises
5. Natural disasters
6. Biodiversity loss and ecosystem collapse
7. Cyberattacks
8. Critical information infrastructure breakdown
9. Man-made environmental disasters
10. Spread of infectious disease


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Task Force for Climate-related Financial Disclosure - Background

G20 Finance Ministers and Central Bank Governors asked the Financial Stability Board (FSB) to review how the financial sector can take account of climate-related issues. The FSB established the Task Force on Climate-related Financial Disclosures (TCFD) to develop recommendations that:

- could “promote more informed investment, credit, and insurance underwriting decisions”

- in turn, “would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system’s exposures to climate-related risks.”

The Task Force’s 31 international members, led by Michael Bloomberg, include providers of capital, insurers, large non-financial companies, accounting and consulting firms, and credit rating agencies.

Industry Led and Geographically Diverse Task Force

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The buy-in for TCFD disclosures is overwhelming

**Government Efforts**
- EC’s Technical Expert Group on Sustainable Finance published its Report on Climate-related Disclosures, outlining how NFRD should incorporate the TCFD
- Japanese Ministry of Economy, Trade and Industry’s TCFD guidance report
- IOSCO statement on importance of considering ESG issues when reporting material information that references TCFD as a framework to consider using
- UK’s Financial Conduct Authority discussion paper seeking to build on the work of the TCFD
- BoE PRA consultation paper referencing the TCFD in a draft supervisory statement to improve banks’ and insurers’ management of financial risks from climate change
- Network for Greening the Financial System, a group of 18 central banks and supervisors, published progress report stating the TCFD could be a solution for a global standardized framework on climate reporting.

**Alignment of Reporting Frameworks**
- Corporate Reporting Dialogue Better Alignment Project (CDP, CDSB, GRI, SASB)
- PRI announces mandatory reporting on Governance and Strategy
- Updated reporting guides from Bursa Malaysia and Hong Kong Exchange to align with the TCFD

**Implementation Initiatives**
- A4S CFO Workshops
- WEF Alliance of CEO Climate Leaders workshops – focus on legal counsel engagement
- Institute of Chartered Accountants in England and Wales workshops for accountants
- WBCSD Utilities and Chemicals Preparer Forums
- Institute of International Finance TCFD working group

**Initiatives Related to Scenario Analysis**
- PRI and California Insurance Commission’s scenario analysis tool “Paris Agreement Capital Transition Assessment”
- Electric Power Research Institute published study to develop public technical resource on scenario analysis
- Institutional Investors Group on Climate Change published scenario analysis guidance for institutional investors
- IPIECA, Oil and Gas Industry Association for Environmental and Social Issues is assisting members on TCFD and conducted survey showing increased use of scenario analysis

**Hong Kong**
- SFC is a supporter of TCFD
- HKEx updated reporting guidelines to aligns with TCFD
TCFD – Focus on Financial Impacts

Task Force for Climate-related Financial Disclosure (TCFD) - Taxonomy
Financial Impact by Industry

To assist organizations in understanding how climate-related risks may impact them financially, the Task Force prepared a high-level overview of the types of financial impact of climate-related risks that have been identified for specific industries and groups.

The financial impacts from climate-related risks are grouped into the following general categories:

• Revenues
• Expenditures
• Assets and Liabilities
• Capital and Financing
Structure of TCFD recommendations

The Task Force developed four widely-adoptable recommendations on climate-related financial disclosures that are applicable to organizations across sectors and jurisdictions. The recommendations are structured around four thematic areas that represent core elements of how organisations operate:

- **Governance**
  The organization’s governance around climate-related risks and opportunities

- **Strategy**
  The actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning

- **Risk Management**
  The processes used by the organization to identify, assess, and manage climate-related risks

- **Metrics and Targets**
  The metrics and targets used to assess and manage relevant climate-related risks and opportunities
TCFD - Latest

**TCFD BY THE NUMBERS**

601 Supporters as of March 2019

With a market capitalisation of over 8.7 trillion USD.

Including 326 financial firms, responsible for assets of over 107 trillion USD.

**2018 STATUS REPORT**

- The majority disclose some climate-related information.
- Information on strategy resilience under climate-related scenarios is limited.
- Disclosures are often made in multiple reports.
- Financial implications are often not disclosed.
- Disclosures vary across industries and regions.

For example a higher percentage of non-financial companies reported information on their climate related metrics and targets compared to financial companies, but a higher percentage of financial companies indicated their enterprise risk management process included climate-related risk.
Thinking through scenario analysis - Airline Case Study

Future society under 2°C scenario

Although the possibility of the airfare temporarily rising due to an increase in carbon prices, alternative fuels, and airframe renewal expenses, promotion of multimodal transport will improve logistics optimization and mobility convenience.

- No departing & arriving for jet with high GHG emissions
- Fuel, Carbon tax saving
- Introduction of carbon tax!
- Development of alternative fuel!
- CORSIA is not enough...
- During biofuel production, land use is also a challenge...
- Supplied Bio fuel
- Review the route for refueling
- Aggressive R&D investment in next-generation aircraft
- Shifting to railway
- Promotion of Multimodal Transport
- Low carbonization & Cost reduction

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Future society under 4°C scenario
Demand for transportation of people and goods and air transportation increase due to population growth and economic development. On the other hand, low carbonization will not be accelerated and physical risk may arise.

Thinking through scenario analysis – Airline Case Study

Government
Top priority for developing countries is economic development

CORSIA is not enough ...

Soaring crude oil prices
Lack of R&D on next-generation aircraft and alternative fuels

Fuel economy efficiency

Strong wind

Flight Cancellation

Delay

High wave
Storm surge

Physical damage
“Attracting and retaining the best talent increasingly requires a clear expression of purpose... In a recent survey by Deloitte, millennial workers were asked what the primary purpose of businesses should be – 63 percent more of them said ‘improving society’ than said ‘generating profit.’” – Blackrock Chairman and CEO, Larry Fink, 2019 Letter to CEOs
Appendix
About Deloitte Sustainability

Deloitte Sustainability is a key service line of our Risk Advisory practice that focuses on assisting clients with managing challenges and complexities relating to Sustainability across their organizations.

- **Globally, 900 Deloitte partners and professionals deliver sustainability-related services to clients in more than 50 countries.** We have specialists with experience in a wide variety of Sustainability-related disciplines, including carbon, water, energy efficiency, green buildings, green information technology ("IT"), sustainability reporting and stakeholder engagement.

- Deloitte also maintains active involvement in the public discourse on sustainability issues through collaboration with leading global institutions that are dedicated to finding and promoting solutions to sustainability challenges:

<table>
<thead>
<tr>
<th>World Business Council for Sustainable Development</th>
<th>Carbon Disclosure Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ Deloitte was a founding member in 1995, DTTL’s Chairman is a Council Member and Social Cluster Board Member</td>
<td>➢ Deloitte is a past global and U.S. sponsor of CDP Water Disclosure, and DTTL has developed reports to Investor and Supplier questionnaires on CDP Climate Change.</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>ACCA (the Association of Chartered Certified Accountants) Global Forum for Sustainability</th>
<th>Global Reporting Initiative &amp; Global Sustainability Standards Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ Deloitte has a representative on the Global Forum</td>
<td>➢ Deloitte has been an organizational stakeholder since 2004, and two Deloitte partners are members of the governance structure.</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Sustainability Accounting Standards Board</th>
<th>United Nations Global Compact</th>
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<tbody>
<tr>
<td>➢ Deloitte has provided funding and a secondment, participated in industry working groups, and has a seat on the Assurance Task Force.</td>
<td>➢ Deloitte was a founding signatory in 2000 with several high-impact pro-bono projects and secondments.</td>
</tr>
</tbody>
</table>

Deloitte ranked #1 in brand preference, for both Sustainability Assurance and Consulting, based on a global survey conducted by Verdantix
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