



Asia Pacific CFO Vision 2019
Sustainability and Climate Change

26 April 2019

From Sustainability to ESG

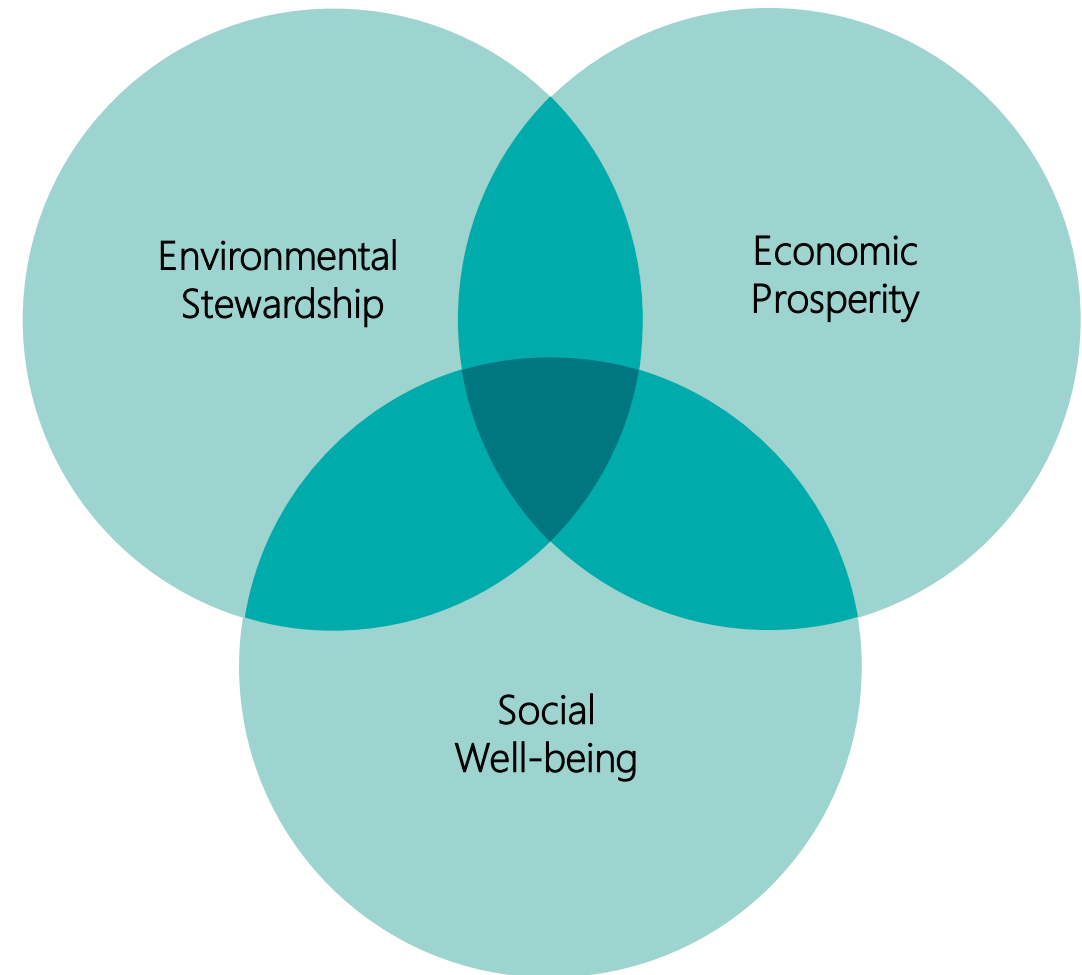
From sustainability....

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

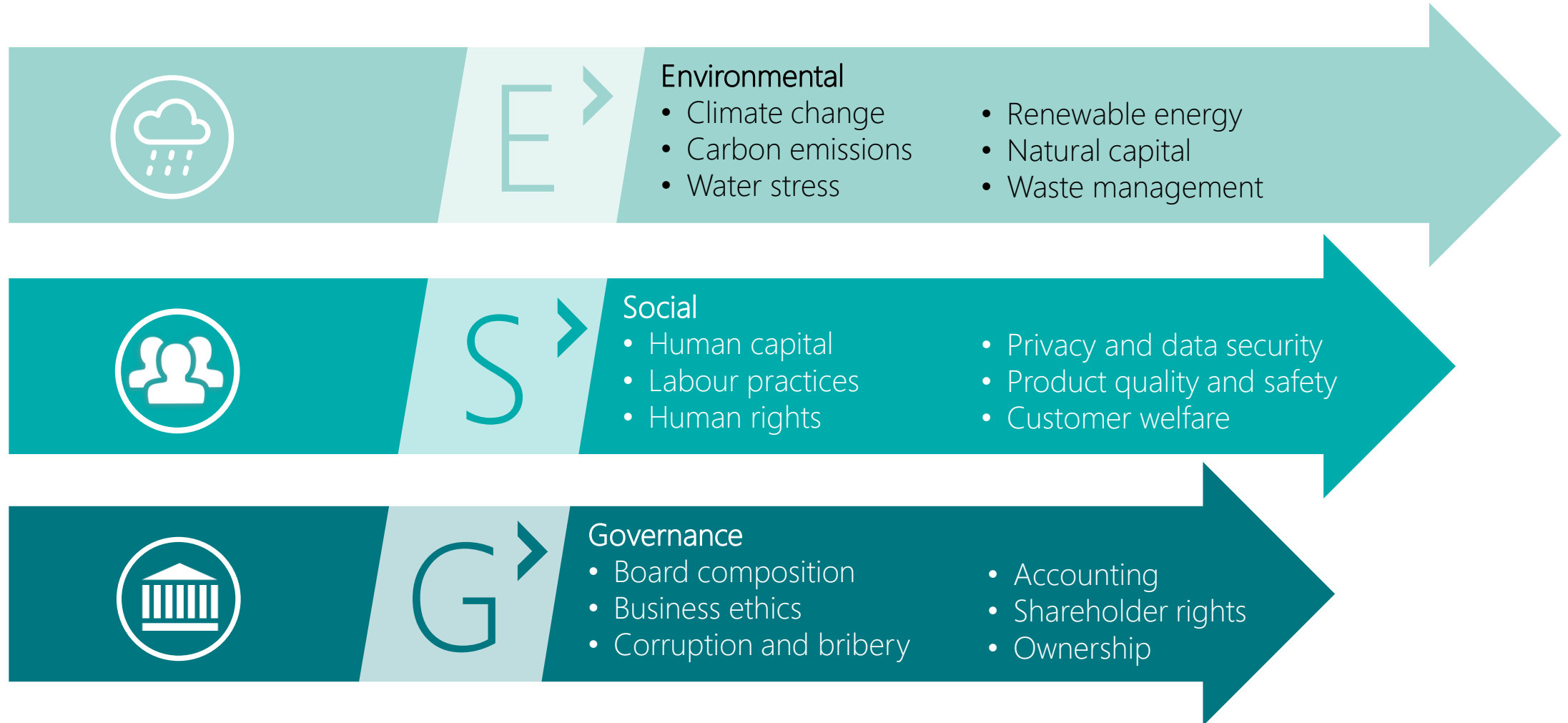
Brundtland Report, 1987

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...



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



Source: UNSDG, 2019, <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

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*



Manage risks



Improve
efficiency



Fulfill
expectations



Enable
business
growth



Strengthen
investors'
confidence

2012 Harvard & London Business School Study, [The Impact of Corporate Sustainability on Organisational Processes and Performance](#)

2015 University of Oxford & Arabesque Partners Meta-study, [How sustainability can drive financial performance](#)

2015 University of Hamburg & Deutsche Asset & Wealth Management Investment Meta-study, [ESG and financial performance: aggregated evidence from more than 2000 empirical studies](#)

2015 Institute for Sustainable Investing, Morgan Stanley, [Sustainable Reality: Understanding the Performance of Sustainable Investment Strategies](#)

2015 HKUST and Robeco, [Sustainable The role of governance relative to environmental and social factors in equity returns. \(Benz et al\)](#)

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



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.

157 child slaves in Benin and Nigeria rescued by Interpol

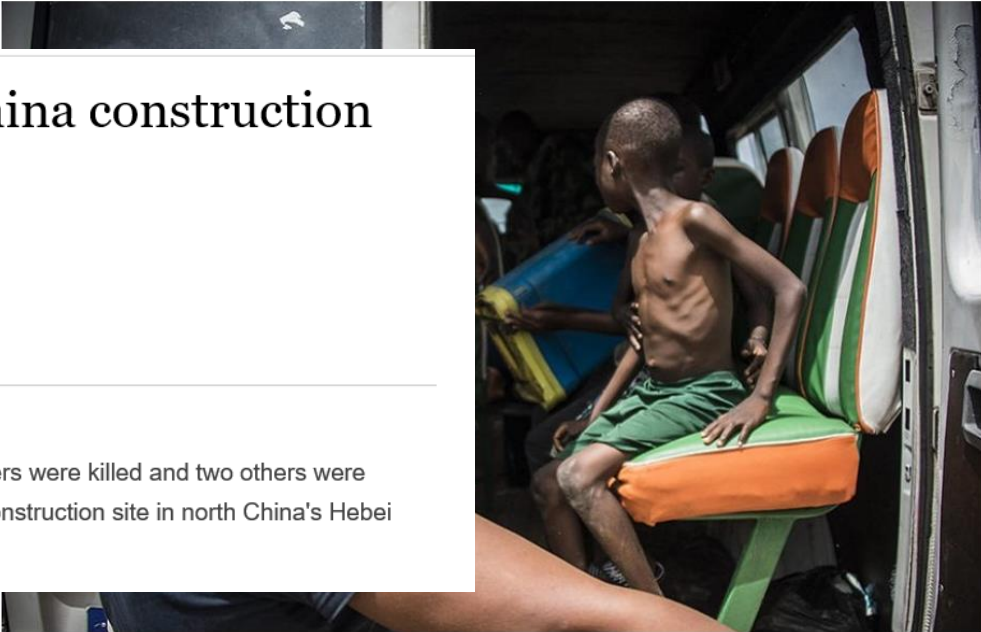


MILDRED EUROPA TAYLOR | Staff Writer

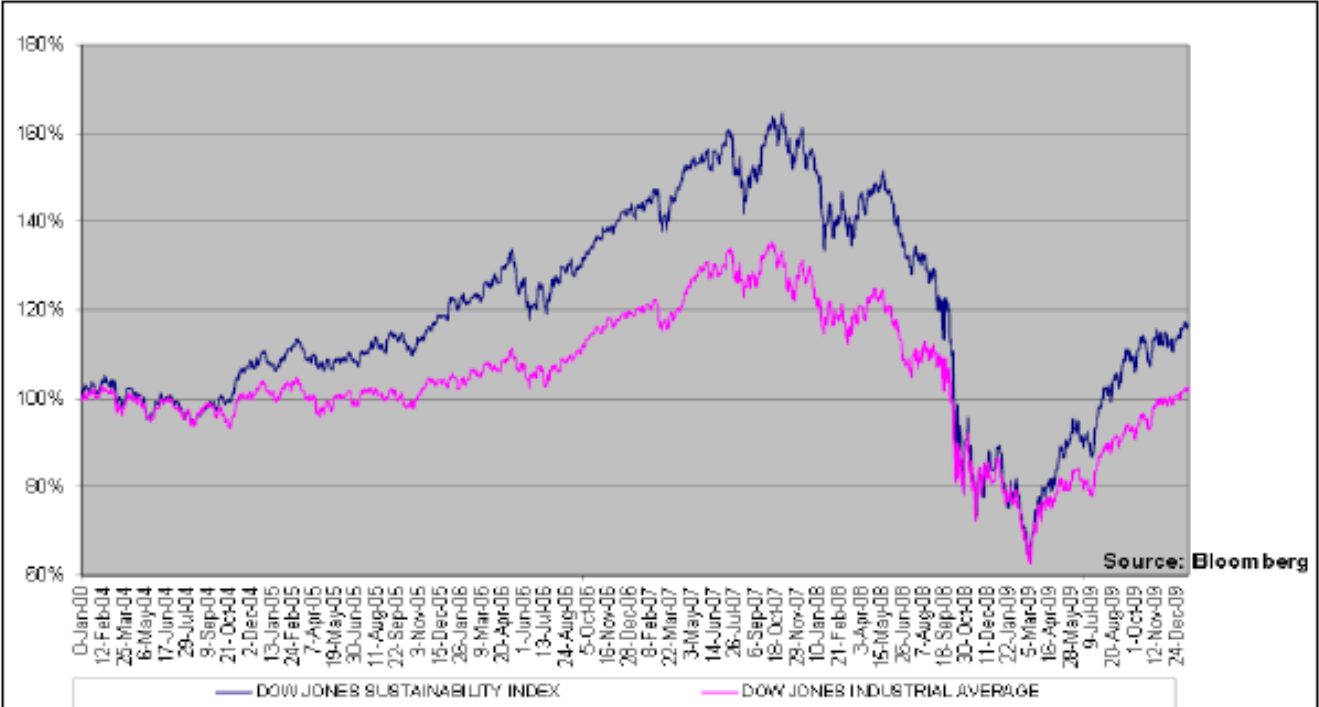
FULL BIO    

April 24, 2019 at 12:00 pm | NEWS

Support Pan-African Journalism [SUBSCRIBE](#)



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

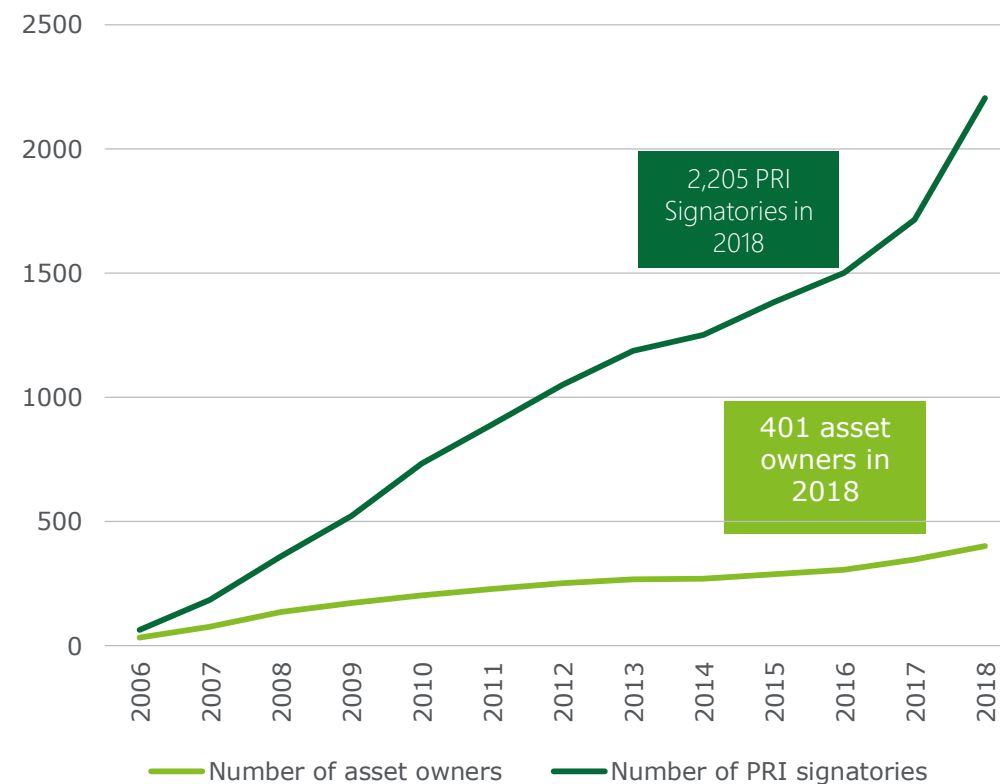
Investors increasingly connecting financial performance with ESG performance

- 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

GSIA, 2019, http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

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](#)

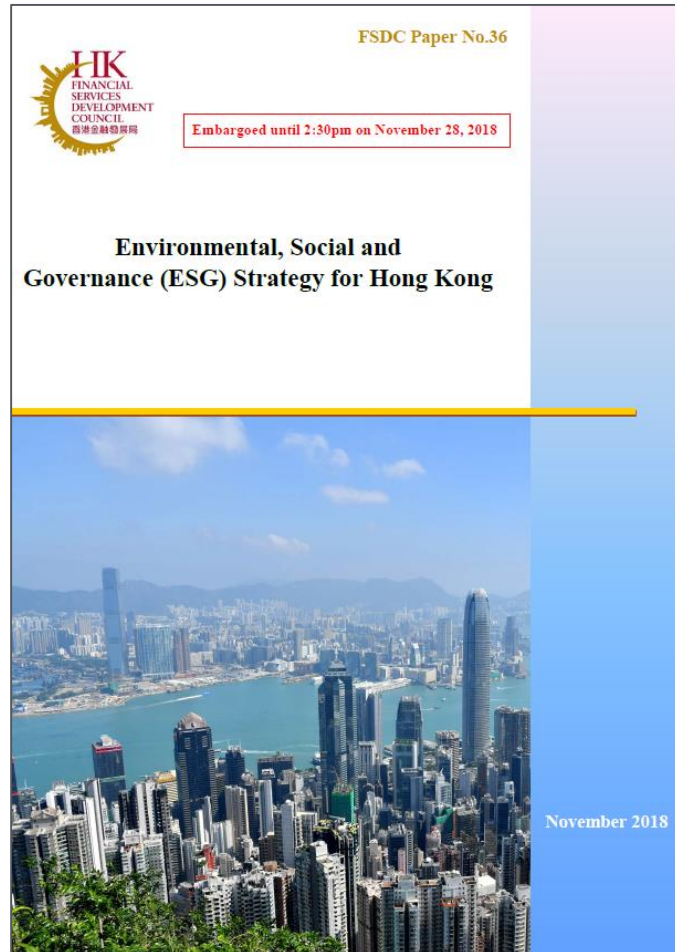
Hong Kong Green Finance Association (HKGFA) launched in September 2018



香港綠色金融協會
Hong Kong Green Finance Association

Financial Services Development Council (FSDC) publication

ESG Strategy for Hong Kong



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

Date	Issuer	Details of issuance
06/2015	Xinjiang Goldwind Science and Technology	<ul style="list-style-type: none"> 3-year USD 300 million bonds with coupon rate of 2.5%
07/2016	The Link REIT	<ul style="list-style-type: none"> 10-year USD 500 million bonds with coupon rate of 2.875%
11/2016	MTR Corporation	<ul style="list-style-type: none"> 10-year USD 600 million bonds with coupon rate of 2.5% Further issuance in 2017 through private placement
07/2017	Castle Peak Power Company Limited	<ul style="list-style-type: none"> 10-year USD 500 million bonds with coupon rate of 3.25%
11/2017	China Development Bank	<ul style="list-style-type: none"> 5-year USD 500 million bonds with coupon rate of 2.75% 4-year EUR 1 billion bonds with coupon rate of 0.375%
11/2017	Hong Kong and China Gas Company Limited	<ul style="list-style-type: none"> 10-year USD 600 million bonds 10-year JPY 2 billion bonds
01/2018	Swire Properties	<ul style="list-style-type: none"> 10-year USD 500 million bonds with coupon rate of 3.5%

Source: Media and company websites, BOCHK Research

Beginning ESG journey – questions to consider

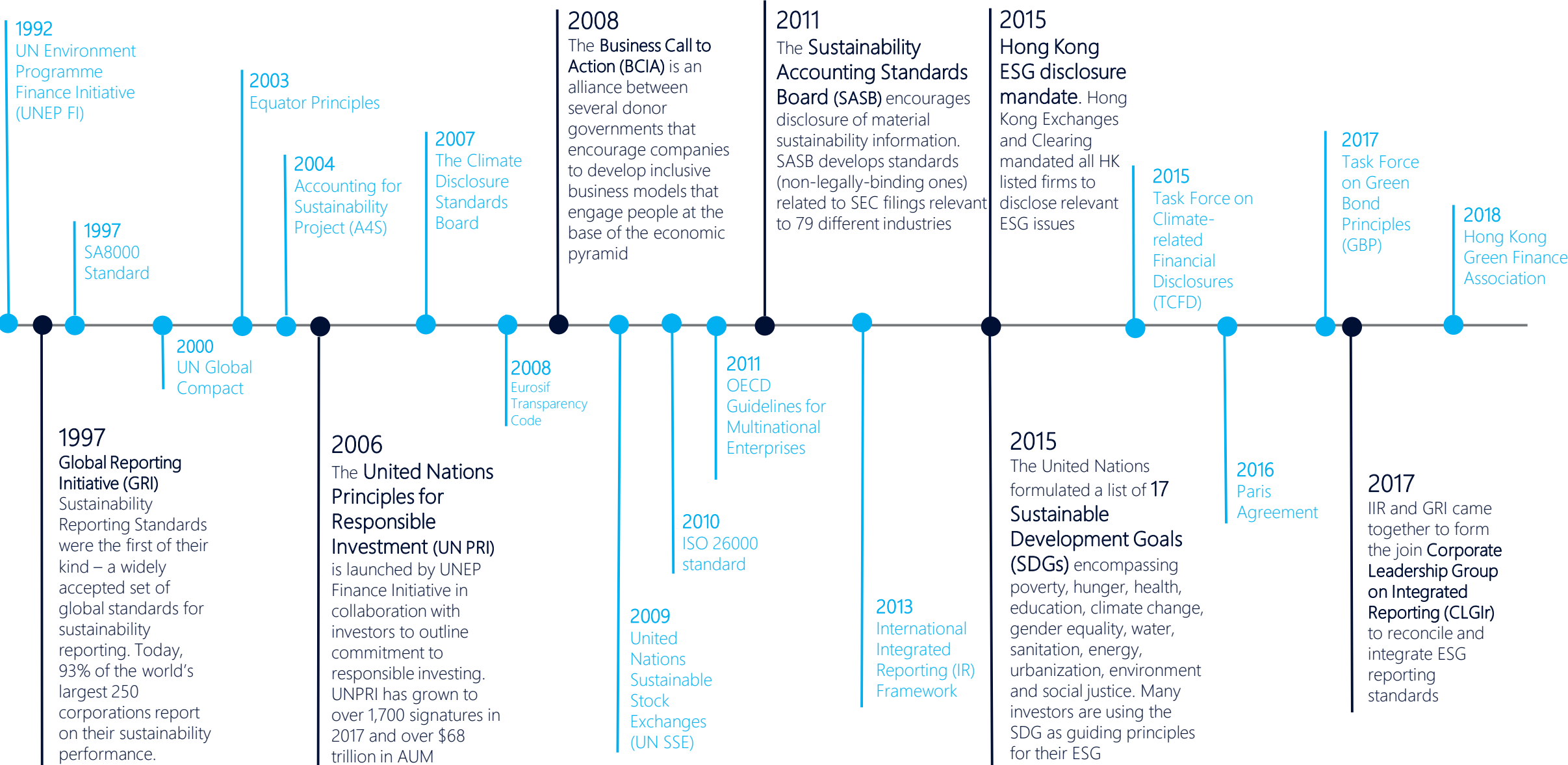
- **Governance structure**
 - Who is the “owner”?
 - Who needs to be involved?
- **Strategy**
 - What are the key risks and opportunities on ESG to the company?
 - What are the objectives?
- **Positioning**
 - How are the industry and competitors doing?
 - How ambitious the company wants to be?
- **Implementation 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

	Financial data	ESG data
Reporting objective	Report business performance	Showcase the impact made – both positive and negative
Reporting methodology	International / local accounting standards	Mainly high-level principles, standards still developing
Reporting basis	Mainly based on actual transaction records and 3 rd party evidences	Mainly based on estimations and judgements, and internal evidences
Knowledge required	Accounting	Environmental, HR, safety, engineering + Accounting
Independent assurance	Required	Voluntary, but important

More regulations are coming....



Trending – Task Force for Climate-related Financial Disclosure

Climate change is the leading risk of the global economy

One illustration: the World Economic Forum 2019 Global Risks Report

The Global Risks Landscape 2019

What is the impact and likelihood of global risks?



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

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.**”



Industry Led and Geographically Diverse Task Force

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.



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

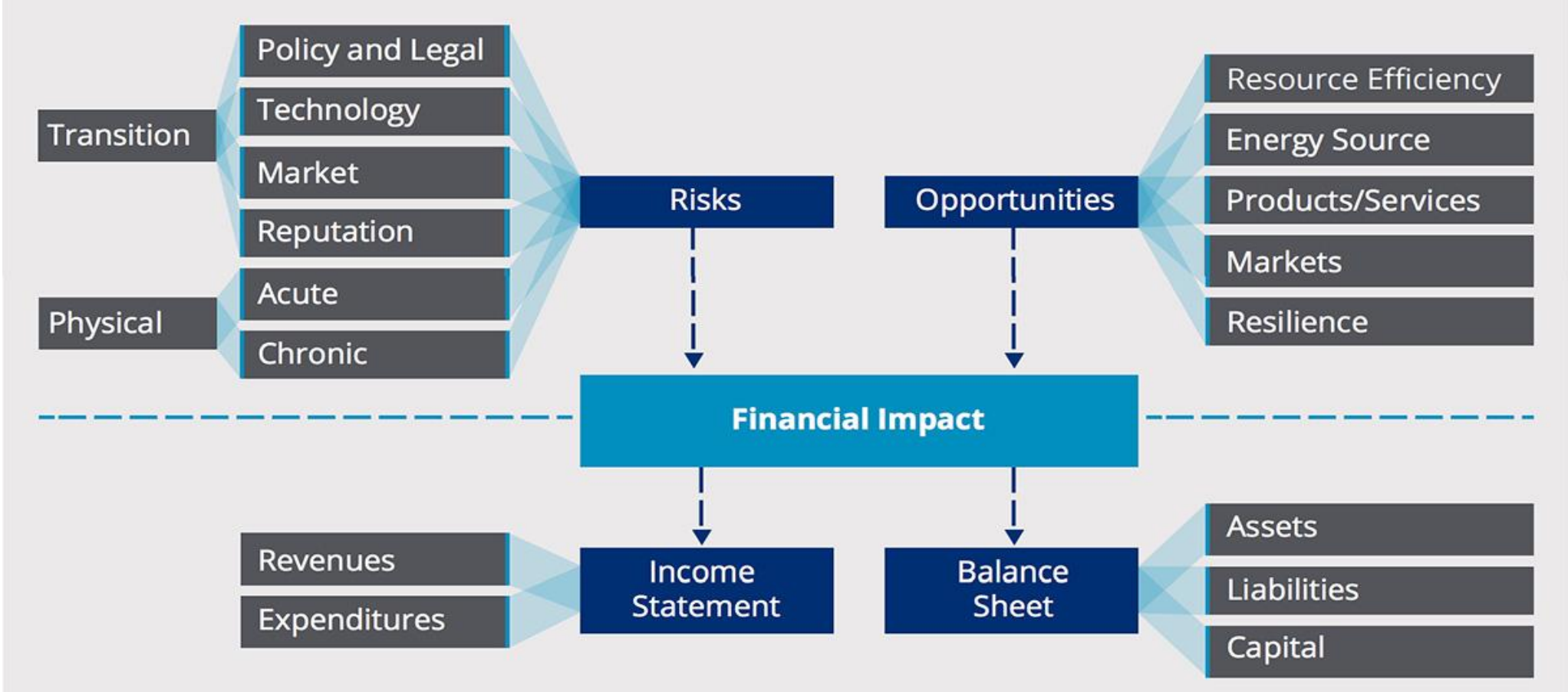
- **PRI** and **California Insurance Commission's** scenario analysis tool "Paris Agreement Capital Transition Assessment"
- **Electric Power Research Institute** published study to develop public technical resource on scenario analysis
- **Institutional Investors Group on Climate Change** published 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
- **TCFD Knowledge Hub** now has 140 resources on 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

Evidence of Financial Impact		Revenues	Expenditures	Assets and Liabilities	Capital and Financing
Financial	Banks	■		■	
	Insurers	■	■	■	
	Asset Owners	■		■	
	Asset Managers	■		■	
Energy	Oil and Gas	■	■	■	■
	Coal		■	■	■
	Electric Utilities	■	■		■
Transportation	Air Freight		■		■
	Passenger Air Transportation		■		■
	Maritime Transportation		■		■
	Rail Transportation		■		■
	Trucking Services		■		■
	Automobiles and Components	■	■		■
Materials and Buildings	Metals and Mining		■		■
	Chemicals	■	■		■
	Construction Materials	■	■		■
	Capital Goods	■	■		
	Real Estate Management and Development	■	■	■	■
Ag. Food, and Forest	Beverages		■		■
	Agriculture	■	■	■	■
	Packaged Foods and Meats		■	■	■
	Paper and Forest Products	■	■	■	■

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 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.

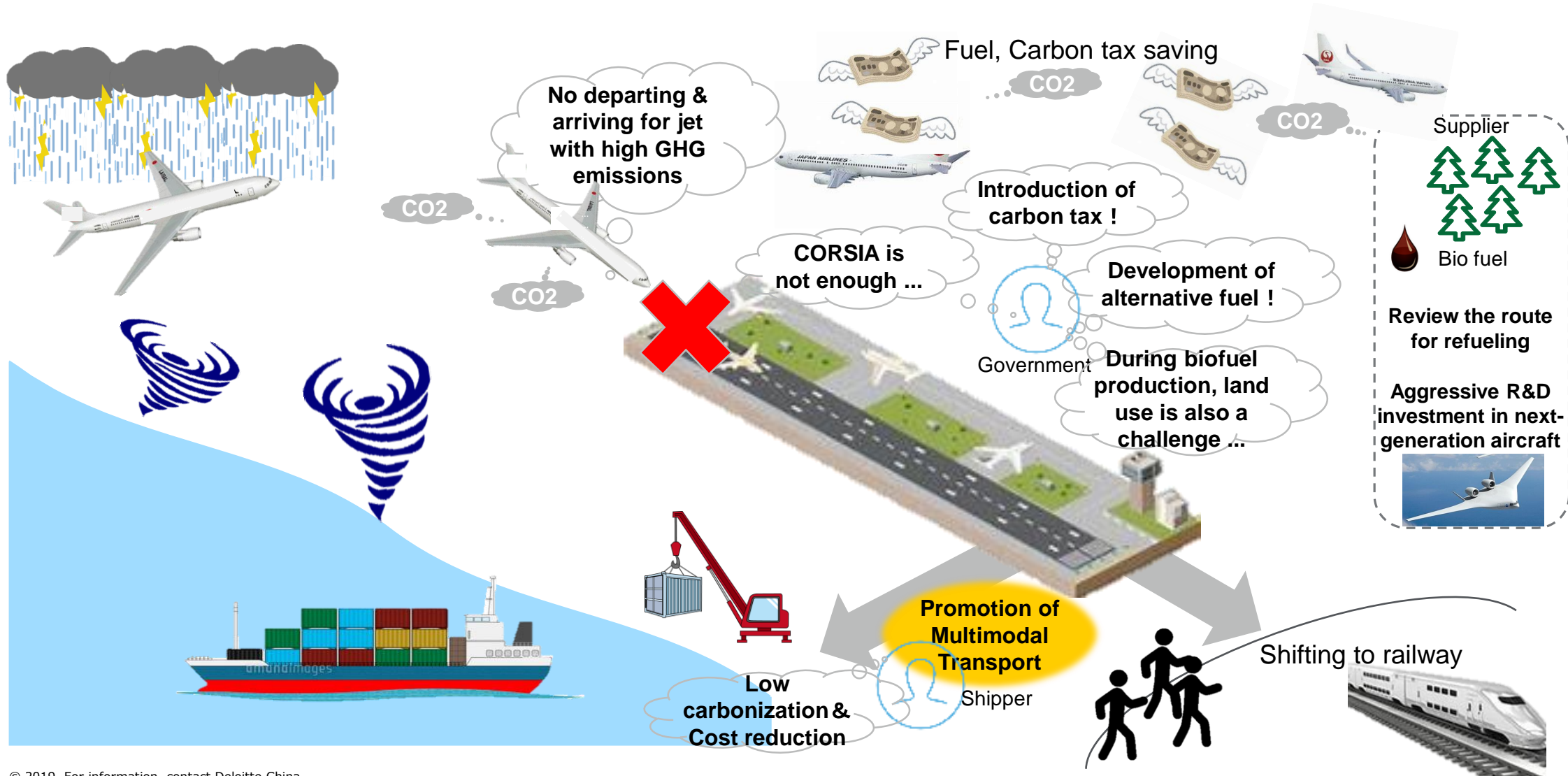
For example a higher percentage of non-financial companies reported information on their climate related metrics and targets compared to financial companies, but a higher percentage of financial companies indicated their enterprise risk management process included climate-related risk.

Thinking through scenario analysis - Airline Case Study

2°C scenario

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.

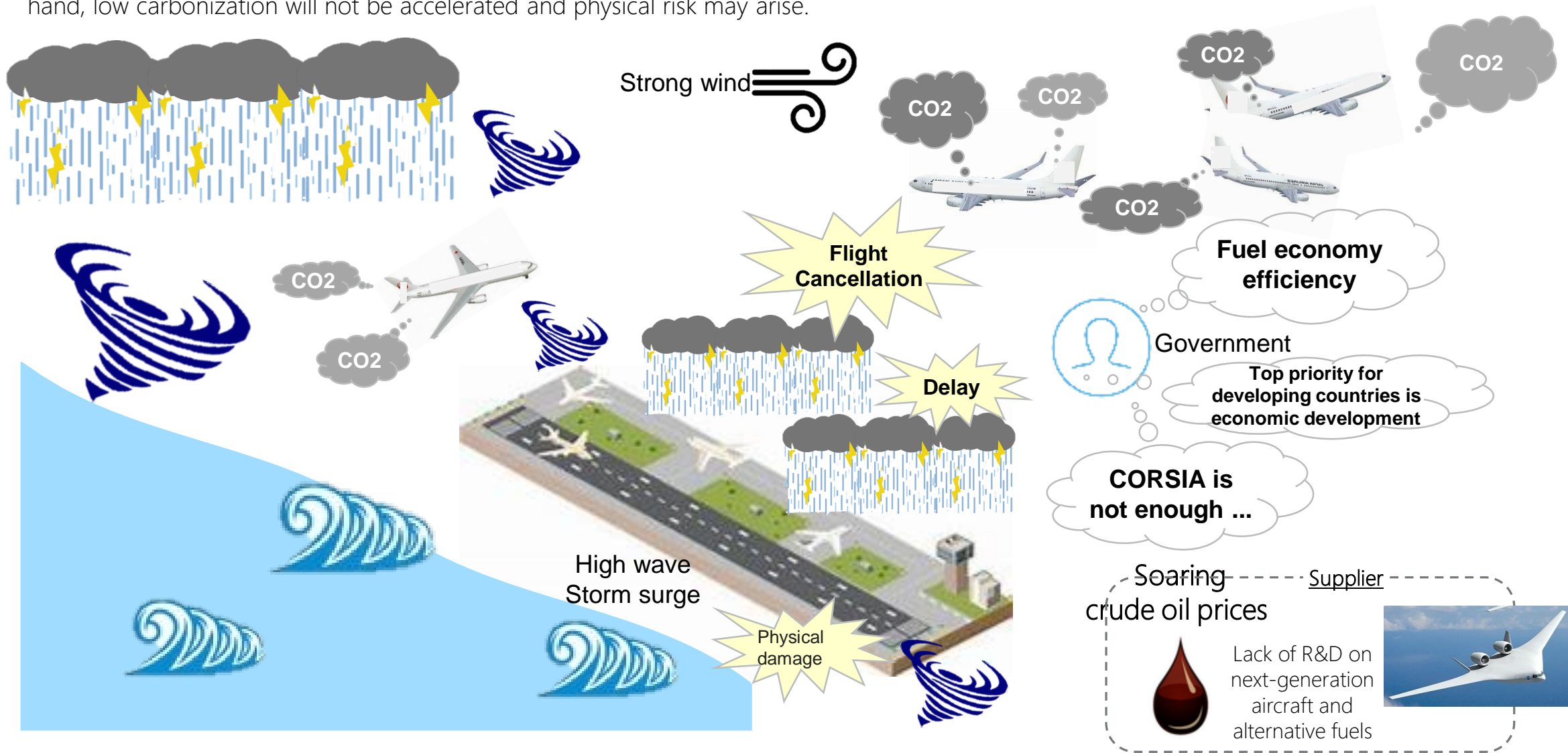


Thinking through scenario analysis – Airline Case Study

4°C scenario

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.



Closing remarks



"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:

World Business Council for Sustainable Development <ul style="list-style-type: none">➤ Deloitte was a founding member in 1995, DTTL’s Chairman is a Council Member and Social Cluster Board Member	Carbon Disclosure Project <ul style="list-style-type: none">➤ 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.
ACCA (the Association of Chartered Certified Accountants) Global Forum for Sustainability <ul style="list-style-type: none">➤ Deloitte has a representative on the Global Forum	Global Reporting Initiative & Global Sustainability Standards Board <ul style="list-style-type: none">➤ Deloitte has been an organizational stakeholder since 2004, and two Deloitte partners are members of the governance structure.
Sustainability Accounting Standards Board <ul style="list-style-type: none">➤ Deloitte has provided funding and a secondment, participated in industry working groups, and has a seat on the Assurance Task Force.	United Nations Global Compact <ul style="list-style-type: none">➤ Deloitte was a founding signatory in 2000 with several high-impact pro-bono projects and secondments.



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

About Deloitte Global

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

Deloitte provides audit & assurance, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves nearly 80 percent of the Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients’ most complex business challenges. To learn more about how Deloitte’s approximately 263,900 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

About Deloitte China

The Deloitte brand first came to China in 1917 when a Deloitte office was opened in Shanghai. Now the Deloitte China network of firms, backed by the global Deloitte network, deliver a full range of audit & assurance, consulting, financial advisory, risk advisory and tax services to local, multinational and growth enterprise clients in China. We have considerable experience in China and have been a significant contributor to the development of China’s accounting standards, taxation system and local professional accountants. To learn more about how Deloitte makes an impact that matters in the China marketplace, please connect with our Deloitte China social media platforms via www2.deloitte.com/cn/en/social-media.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the “Deloitte Network”) is by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.