Press release

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Subject	BDO Survey: Fourth-year ESG reporting performance survey shows the evolvement in overall ESG involvement of majority listed companies but which remain inadequate to meet the requirements of the Revised Guide	

BDO Survey: Fourth-year ESG reporting performance survey shows the evolvement in overall ESG involvement of majority listed companies but which remain inadequate to meet the requirements of the Revised Guide

Listed companies should increase their awareness and take significant steps to enhance their ESG reporting framework to meet the new disclosure requirements and achieve long-term sustainability

Hong Kong – During the fourth year of environmental, social and governance (ESG) reporting survey, improvements have emerged in ESG disclosure in some areas and these are reflected in the fact that the boards of listed companies are increasingly aware of the importance of ESG management. However, the survey results are still far from satisfactory in terms of compliance and quality. In particular, the results of certain areas, such as ESG risk management and materiality assessment, are reduced. In this survey, 7 key findings and 12 recommendations are made which can serve as reference for listed companies to intensify efforts in ESG reporting and practices, as well as achieve long-term sustainability.

Nowadays, ESG continue to gain traction in corporate reporting regimes and in the financial institutions sector from the standpoints of long-term sustainability and responsible investment. Users and investors are demanding an increasingly high quality of ESG information disclosures from listed companies so as to facilitate decisions on investment, interests and values alignment, business partnerships, and joint efforts to overcome global challenges. In particular, with the continuing adverse effects of COVID-19 and the revised HKEx ESG Reporting Guide (the Revised Guide) which came into effect on 1 July 2020, priorities have changed and reinforced public commitment to ESG. The ESG reporting regime has been evolving in fulfilling users' increasing expectations and it is more important to improve ESG disclosure and become aware of the importance of ESG management, which will enable listed companies to prepare better to address ESG issues and risks and meet the disclosure requirements of the Revised Guide. As the world's fifth largest accountancy network, BDO has always spared no efforts to conduct comprehensive ESG studies to provide useful findings for use by listed companies.

This year, BDO's Survey entitled "**The ESG Reporting Performance of Hong Kong Listed Companies**" (the Survey) randomly sampled 400 of the most-recent ESG reports published by both Main Board and GEM-listed companies on or before 31 July 2020. Most of the surveyed companies come from the Consumer Discretionary sector (20%), followed by Industrials (17%), Financials (15%), Properties and Construction (11%), Materials (8%), Information Technology (8%), Consumer Staples (5%), Healthcare (5%), Energy (4%), Utilities (3%), Telecommunications (2%), Conglomerates (1%) and Others (1%).

Of the 400 companies surveyed:

- 60% were small size, 23% were medium size and large companies comprised 17%
- The boards of listed companies were increasingly aware of the importance of ESG management, with 54% (2019: 34%) of the surveyed companies disclosing information about the board's oversight over ESG issues and 74% of the Board's review of companies' ESG performance against ESG goals and targets

Below is a summary of the key findings of the 2020 Survey compared to the 2019 Survey results:

Survey Area	**Key Data Points**	**2019 Survey**	**2020 Survey**	**Increase ↑ / Decrease ↓ / Maintained →**
ESG governance	Top level commitment and management	34%	54%	↑
	ESG Committee or personnel	24%	32%	↑
	ESG risk management	28%	26%	↓
	ESG strategy	36%	48%	↑
Stakeholder engagement		72%	76%	↑
Materiality assessment		66%	60%	↓
Report assurance by independent third party		3%	5%	↑
Goals on ESG management		15%	13%	↓
Staff career development programme		61%	60%	→
Occupational health and safety training		69%	64%	↓
Customer support and services		67%	63%	↓
Whistle-blowing system		67%	65%	↓
Independent committee on anti-corruption management		23%	16%	↓
Adoption of reporting standards/guidelines other than HKEx ESG Reporting Guide		9%	10%	→
Anti-corruption training		37%	17%	↓

Table 1: Summary of Key Findings of the Survey on "The Performance of ESG Reporting of Hong Kong Listed Companies 2020"

Boards are increasingly involved in ESG governance

The Survey results showed that 54% (2019: 34%) of the companies disclosed information about the board's oversight of ESG issues. At the same time, among all the surveyed companies, the boards had gained momentum in disclosing their involvement in monitoring ESG performance and ESG risk management approaches in their preparations to meet the mandatory disclosure requirements of the Revised Guide. Meanwhile, the Survey also found that boards of large companies (76%) tended to put the most effort into overseeing ESG issues. On the disclosure of other ESG governance information in ESG reports, the Survey showed that there was slight improvement in the allocation of dedicated resources to manage ESG issues and formulate ESG strategy, such as disclosing a vision, ESG framework and ESG policy.

Reporting quality does not allow for meaningful comparisons

The Survey found that the information disclosed according to the four reporting principles of the Revised Guide, namely materiality, quantitative, balance and consistency, was inadequate. On disclosure on the quantitative, only 48% of surveyed companies disclosed standards, methodologies, assumptions, calculation tools used, and conversion factors used for reporting data on emissions or energy consumption. Less than 29% of the companies cited any changes made to the calculation methods or key performance indicators (KPIs) that they had used or any other factors that may affect the comparison of information in the report. Furthermore, only 64% of the companies disclosed their reporting boundaries in the report. Among companies that disclosed their reporting boundaries, only 30% explained the method that they used to determine them.

Quality of materiality assessment disclosure is reduced

The Survey results showed that 60% (2019: 66%) of the companies disclosed that they had conducted a materiality assessment, while the rest or the remaining 40% did not provide any information about materiality in their ESG reports. Of the 40%, small listed companies were the most likely not to have mentioned a materiality assessment. Among companies that conducted a materiality assessment, disclosed information was often inadequate. Only just over 50% of those companies provided comprehensive descriptions on how the ESG issues had been prioritised and they presented the results through visual aids, such as a materiality map. It is observed that when companies do not disclose adequate information about their materiality assessments, investors may find it difficult to ascertain whether the data being reported are relevant to their investment decisions.

Disclosure of issues related to climate change is limited

Climate change is a new addition to the Revised Guide. Listed companies are now required to disclose their policies on identifying and mitigating any significant climate-related issues that have impacted, or may impact, and the action taken to manage them. The Survey showed that only 12% of companies cited issues related to climate change. Among these companies, it is noted that over half (54%) disclosed the climate-related risks and opportunities that applied to them; and most (83%) reported on measures that they had adopted to mitigate their climate-related risks. The Survey also found that larger companies were more likely to consider climate risks and ways to mitigate them. Among companies that reported on climate change, only 15% referred to The Task Force on Climate-related Financial Disclosure (TCFD) when disclosing information related to climate change. Most of these were large listed companies from the healthcare, financial and telecommunications industries.

Target-setting for environment KPIs is limited

Only 15% of companies set targets for environmental KPIs, and these targets were mainly set by large listed companies. Among these companies, the most common targets set for environmental KPIs were to reduce waste, energy consumption and greenhouse gases (GHGs). The companies adopted a variety of approaches to setting the targets for their environmental KPIs while the most common ones were to align KPI targets either with the company's visions and goals (33%) or with national or regional laws and regulations (40%).

Recognition of UN SDGs on climate action is stronger

According to the survey results, there is a growing trend of listed companies recognising the United Nations' Sustainable Development Goals (UN SDGs). This year, more of the listed companies (2020: 8% vs 2019: 6%) identified SDGs that were relevant to their business operations and strategic goals.

Independent assurance on ESG reporting remains steady

The Revised Guide recommends that listed companies may seek independent assurance on their ESG reports. However, the Survey pointed out that independent assurance was obtained for only 5% of the ESG reports published by the companies. There were no significant changes in these results when compared with the results in the previous two years. Among the companies that sought independent assurance for their ESG reports, 56% obtained assurance for the whole report.

BDO recommendations:

Integrate ESG into the enterprise risk-management framework

In the context of risk management, ESG risks should not be dealt with separately but must be integrated into a company's enterprise risk management (ERM) framework by referring to widely recognised best practice. The ERM framework should include robust mechanisms to identify and assess the impact of ESG risks that may influence the company's strategy and objectives. At the same time, by considering the challenges and response, the company may identify new opportunities from predicted trends.

Build capacity on climate change

Given that climate change may affect a company through physical and transition risks, companies may need to understand the implications of these risks on financial performance. Climate change is associated with specialist knowledge and complex technical terms. Therefore, the company's board or management may need to rely on the insights, knowledge or external expertise of sustainability professionals in order to assess the impact of climate risks during the process of identifying, assessing, prioritising and mitigating climate risks and other issues. Companies may set up a dedicated committee or working group to steer climate-change management. A climate change committee aims to secure board-level oversight of strategic climate-related risk and opportunity management. A climate change working group can build the company's capability relating to climate risk and accelerate the integration of climate considerations into the ERM framework.

Enhance reporting quality

To increase the reliability and accuracy of the content, any changes should be explicitly explained in the ESG report. In addition to the Revised Guide, companies may refer to the Global Reporting Initiative standards for the relevant reporting principles to enhance the quality of their reporting. It is also important for companies to have a consistent and well-defined approach to considering the scope and including appropriate material operations or entities in the ESG report. Companies with a more complex structure may apply their own judgment criteria to define the reporting boundaries.

Consider industry factors

Disclosing factors that are related to a particular industry could show investors that these industry-specific ESG concerns have been adequately considered and addressed by the company. Listed companies may refer to some global reporting frameworks such as Global Reporting Initiative Standards (GRI) and Sustainability Accounting Standards Board Standards (SASB). These frameworks provide industry-specific guidelines on reporting a full range of economic and ESG impacts of operation within a particular industry.

Linking stakeholder engagement feedback with materiality assessment

It is recommended that companies' response should be disclosed alongside stakeholder engagement results so readers may know whether the concerns raised by stakeholders are material to the company and whether strategies or measures have been formulated to address them.

Elaborate the impact of climate change on the business model

Companies are recommended to provide specific details on how climate change may affect various business model components from a strategic point of view, in order to enhance their development of a governance structure to manage climate change risks and to make changes to their business model as well as their strategic goals and objectives with a view to achieve long-term sustainability.

Specify the nature of climate risks that may impact the business

Listed companies should disclose, for example, the kinds of extreme climate events that would be highly likely to impact the business and what critical business processes or assets would be affected by these events. Listed companies should also disclose whether stakeholders that they rely heavily on, such as customers or suppliers, would also be affected by certain climate risks.

Alignment with the goals of the Paris Agreement

While the presence of environmental targets enables companies to gauge their environmental performance and reduce their impact on operations at an expected level, companies are recommended to align their strategic goals with the goals of the Paris Agreement so they can achieve net-zero carbon emission. Companies may refer to some international methodologies when setting targets for their environmental KPIs such as Science Based Targets.

Enhancing the quality of environmental impact disclosure

To give investors a comprehensive overview of the company's environmental footprint, companies should disclose more background information about the environmental KPIs in their ESG report and how KPIs are related to their business operations. Companies may consider disclosing information, such as the sources of each environmental KPI, environmental policies and a roadmap to reduce the impact and long-term and short-term reduction initiatives and action plans to achieve the targets.

Expanding disclosure to include Scope 3 emissions

The Revised Guide requires listed companies to disclose direct and energy-indirect GHGs, for the purpose of transparency and completeness in presenting the carbon footprint for investors' understanding. It is recommended that listed companies may also consider disclosing Scope 3 emissions. There are up to 15 types of Scope 3 emissions listed in the Greenhouse Gas Protocol.

Listed companies may disclose information about the types of emissions that are relevant to their individual situation.

Integrating UN SDGs to create more positive outcomes

There is a view that companies may benefit from integrating UN SDGs into their business strategy and operations. Thus, when undertaking SDG reporting, companies may consider strategies such as identifying and understanding the impact of all the SDGs and targets on the business portfolio, aligning SDGs with the strategic targets that may have a critical impact on business operations and may require significant changes to be made and prioritising the SDGs and targets.

Ensuring Report Credibility by External Assurance

To ensure the credibility and transparency of disclosed ESG data, listed companies should start by obtaining independent assurance on certain key ESG information, such as their environmental or social KPIs, instead of the content of the whole ESG report. Companies may choose to have the whole ESG report assured when comfortable and accumulating adequate experience in ESG reporting.

Clement Chan, Managing Director of Assurance of BDO, said, "An ESG report is a useful tool to communicate to its stakeholders on organisation's ESG performance and progress in addressing operating challenges including climate change. Also, since the COVID-19 pandemic has caused unprecedented disruption to economies and financial systems, we believe that green finance is the key to rebuild the economy on a more equitable foundation as recovery is urgently needed. In this report, we see that companies have made noticeable improvements in involving ESG strategy. But still, our Survey has found that there were limited information disclosed to the public which discourage investors and users with concerns of late over companies' sustainability development. Listed companies should now intensify efforts to enhance the disclosure of ESG information to meet stakeholders' information and investment needs, as well as to meet the requirements of the Revised Guide by HKEx".

Johnson Kong, Managing Director of Non Assurance of BDO, remarked, "There is no doubt that green finance is getting more prominent amid the increasing awareness in the investment community, and ESG are rising on the rise across the world, especially in the healthcare and information technology realms since the outbreak of Covid-19. Thus, the transparency and accuracy of ESG report are increasingly important to Investors and capital markets institutions while they factor ESG performance into investment decisions as they often consider ESG-related information to determine whether a company is adequately managing risks, not only to derive reputational benefits. However, our Survey has showed that only a limited number of companies has reported climate-related issues with restricted information disclosed. For effective management of ESG issues, we are eager to see a higher engagement from companies on ESG reporting by elaborating the topics on the business model".

Ricky Cheng, Director and Head of Risk Advisory of BDO, said, "We are pleased to see that there was improvement in ESG reporting for most listed companies. However, the results are still not satisfactory. Since the HKEx launched the Revised Guide and effect on 1 July 2020, listed companies are required to meet higher standards of ESG reporting to fulfil the integrated ESG component. Users of ESG reports are focusing on relevant and material ESG issues affecting the business operations of an organisation. They would also like to see the board of an organisation play a vital role in driving its ESG strategy and in ensuring the integration of ESG issues into the enterprise risk management framework, as well as the functions across an organisation. We hope our suggestions can provide more specific guidelines and directions for companies to improve their ESG reporting, with the ultimate aim to boost their investment value and inspire investor confidence".

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Note to editors	About BDO BDO's global organisation extends across 167 countries and territories, with more than 91,000 professionals working out of over 1,600 offices – and they're towards one goal: to provide our clients with exceptional service. BDO was established in Hong Kong in 1981 and is committed to facilitating the growth of businesses by advising the people behind them. BDO in Hong Kong provides an extensive range of professional services including assurance services, business services and outsourcing, risk advisory services, specialist advisory services and tax services. For more details, visit www.bdo.com.hk.	
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