



Press Release

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Subject	BDO Survey: The fifth-year ESG reporting performance survey shows Hong Kong listed companies showing tepid reactions to environmental disclosure from the Revised Guide, while governance and assurance remain the key	

BDO Survey: The fifth-year ESG reporting performance survey shows Hong Kong listed companies showing tepid reactions to environmental disclosure from the Revised Guide, while governance and assurance remain the key

Hong Kong - The world's fifth largest accountancy network BDO's latest 2022 ESG reporting performance survey entitled 'Accelerating Climate Disclosure' (the Survey) - found that with the 640 Hong Kong listed companies studied, most lag behind on ESG disclosure standard, while those that accelerate integration of ESG factors across their businesses and address sustainability and climate change will remain ahead of the pack. For most, there is a distinct gap in the current level of environmental reporting against those required under the TCFD Recommendations in preparing their ESG reports. The disclosure of the climate-related information, in general, are lacking under climate governance, strategy, risk management and metrics and targets. According to BDO, as understanding grows about the risk and value creation opportunities that ESG presents, good governance, disclosure and assurance stay as the key factors to meet the growing needs for high quality ESG performance information.

Ricky Cheng, Director and Head of Risk Advisory of BDO commented, "This year's exercise was apparent that the Revised Guide has continued to pose challenges to listed companies. In particular, companies' reactions have been tepid in disclosing relevant, transparent, and high-quality climate-related information and the resulting financial impacts. To enable these disclosures, they must employ ESG reporting discipline in formulating a climate strategy with the support of responsible climate governance oversight, full integration of climate risks and opportunities into risk management framework, and independent assurance over ESG disclosures."

No doubt the focus on ESG has grown. Notably, 60 per cent of the boards now have direct oversight over sustainability, up from 54 per cent last year. More listed companies also have established some sort of ESG-related committee or task force to oversee their environmental and social/community-related activities. This may be due to greater regulatory scrutiny and increased investor pressure. ESG competent board is the key to the oversight of ESG risks and

opportunities. The challenge is to increase climate expertise in board recruitment from the low 3 per cent, to help companies comply with the breadth of disclosure requirement linked to ESG and quantifying climate related risks so businesses can set ambitious targets that are effective yet realistic and measurable. Meanwhile, making ESG a board priority should see a more increase of climate change issues as a regular board agenda item from the current 11 per cent.

Climate change has certainly become more urgent over the last few years. From 15 to a commendable 48 per cent, surveyed companies are making progress in setting measurable environmental and emission targets. With the increasing awareness of the importance of GHG emission usage as a key element to climate change risks, GHG Scope 3 emission disclosure has long been a core element in international climate disclosure standard initiatives by the TCFD recommendations, CDP and ISSB etc, albeit a voluntary reporting in the ESG Reporting Guide. Hong Kong companies are strongly recommended to provide some level of disclosure in Scope 3 emission categorisation and breakdown in accordance with the Greenhouse Gas Protocol.

Independent assurance over ESG disclosures provides multiple benefits to both companies and their key stakeholders. These include avoiding reputational damage, obtaining higher ESG rating/ranking, and not to mention the enhanced credibility of the report can shed insights into the organisation's internal processes and controls effectiveness. Our survey shows only a small increment of 5 per cent with only 10 per cent of the companies conducted an independent assurance on ESG disclosures. We urge Hong Kong listed companies to seek independent assurance to verify the credibility of the disclosed ESG information describing the scope, level, and processes taken for the assurance in the ESG report.

Hong Kong listed companies have been generally slow to react to changes in the Revised Guide, and have taken several iterations of ESG reports to properly reflect the changes being adopted. This behaviour was observed most recently with the changes ushered over the past two years and will undoubtedly be noticeable again as companies look to adopt the latest changes. As Hong Kong moves inexorably toward the alignment of sustainability reporting with international climate disclosure standards, companies will need to ensure they provide comprehensive quality ESG disclosures to address the evolving reporting requirements - both from regulators and broader stakeholders. Given the increasing role ESG plays in being successful in the marketplace, companies should use these waves of change as opportunities to evaluate their ESG framework and accelerate upon ESG disclosure.

“Transitioning to quality sustainability reporting is fraught with challenges. Progress is slower than we would like, but it is happening. An ESG competent board must play a role in ESG governance and oversight ensuring expectations and requirements of investors, stakeholders and regulators can be met. Independent assurance from professional assistance for ESG reporting is crucial to enhance the trust and credibility of ESG information disclosure and to support the transition to quality ESG reporting.” Ricky Cheng concluded.

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Note to editors**About BDO ESG Survey 2022**

The BDO ESG Reporting performance survey 2022 is a desktop survey conducted by BDO of the ESG and sustainability practices of a total of 640 ESG reports published by both Main Board and GEM-listed companies with the year ended between 30 June 2021 and 30 June 2022. Its focus is to measure the quality of the disclosures made by the Hong Kong listed companies.

About BDO Limited

BDO's global organisation extends across 164 countries and territories, with more than 111,300 professionals working out of 1,803 offices - and they're all working 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 & outsourcing, risk advisory services, specialist advisory services and tax services. For more details, visit www.bdo.com.hk.

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