Best Practice Guideline on How to Adopt Green Finance in Capital Projects

The Hong Kong Polytechnic University

Faculty of Business

School of Accounting and Finance

The Center for Economic Sustainability and Entrepreneurial Finance (CESEF)

THE HONG KONG POLYTECHNIC UNIVERSITY 香港理工大學

PolyU 理大商學院 Business School Innovation-driven Education and Scholarship

School of ACCOUNTING & FINANCE 會計及金融學院

Center for Economic Sustainability and Entrepreneurial Finance 可持續經濟與創業金融中心

Professional Services Advancement Support Scheme

Green Finance was promoted by Carrie Lam, the Former Chief Executive of HKSAR to strengthen Hong Kong as an international financial centre for the capital needs of the Mainland and Asia. The Mainland is one of the largest counterparts in the external market for Hong Kong's accounting professionals. In 2021, China ranked as the second largest Green bond issuing country in the world.

In 2019, The Hong Kong government announced a green bond issuance programme of up to HKD 100 billion to fund green public works projects. This green initiative echoes well with the Mainland government's Belt and Road initiative as all Belt and Road capital projects should consider using Green Financing and environmentally sound operations. As the designated international capital market for the Mainland, it is important for Hong Kong accounting professionals to upgrade their knowledge of using Green Finance.

The Hong Kong Polytechnic University has received government funding from the Professional services advancement support scheme (PASS) of the Commerce and Economic Development Bureau (project reference: PS182005, Educating Accounting Professionals on How to Adopt Green Finance in Capital Projects). The project aims to bring together accounting and finance professionals in different sectors interested in green finance and ESG practices.

We create a platform for communication and discussion through conferences and seminars to educate accounting/ finance professionals to handle green financing and related issues in Hong Kong. Two conferences and 12 seminars were successfully held with positive feedback. We collected invaluable views and suggestions from speakers and attendees. This booklet would summarise the key insights and findings gained from the seminar and conference series, and give an updated view on how to adopt ESG/ Green finance matters with recommendations to the general public and accounting professionals.

We would like to express our sincere gratitude to the Commerce and Economic Development Bureau of HKSAR, collaborating organisations, supporting organisations and all speakers for their generous support and contributions.

Acknowledgement:

This material/event is funded by the Professional Services Advancement Support Scheme of the Government of the Hong Kong Special Administrative Region.

Center for Economic Sustainability and Entrepreneurial Finance (CESEF)

In May 2015, the Center for Economic Sustainability and Entrepreneurial Finance (CESEF) was established under the School of Accounting and Finance (AF), The Hong Kong Polytechnic University.

CESEF aspires to be a leading force in knowledge transfer and scholarship of novel solutions to ESG and sustainability issues through finance and technology. It is a platform for pooling the School's inter-disciplinary research strengths, as well as its strong partnership with the industry, to generate impact in the Greater China region.

Management Team

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Professor of Practice
School of Accounting and Finance,
The Hong Kong Polytechnic University

PASS Seminar 1

Date: 1 April 2019

Theme: Understanding Green Finance and ESG: Theory and Practice

- Mr Jonathan Drew (HSBC): Green Finance and Green Bond: An Investment Banker's Perspective
- Ms Hannah Routh (Deloitte China): Green Finance and Climate Change – Risks and Opportunities
- Ms Gloria Lu (S&P Global): Evaluating ESG Performance of Companies
- Ms Kit Law (CLP): Case Study: CLP Group

Mr Jonathan Drew
Managing Director, Infrastructure and Real Estate Group, Global Banking and Markets, HSBC

Ms Hannah Routh
Partner, Risk Advisory, Deloitte China

Ms Gloria Lu
Senior Director & Sector Lead Infrastructure Ratings – Greater China, S&P Global

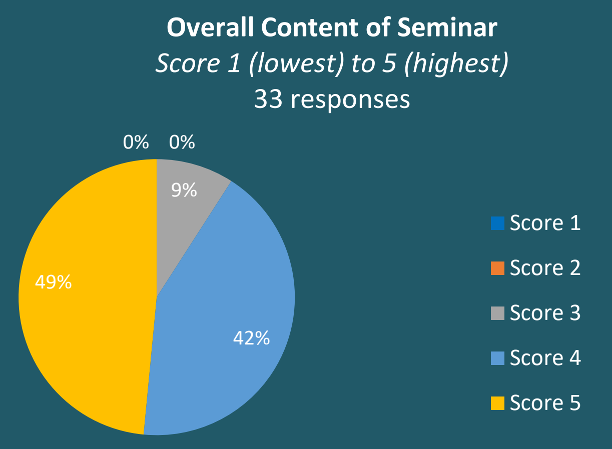
Ms Kit Law
Manager, Group Sustainability, CLP Group

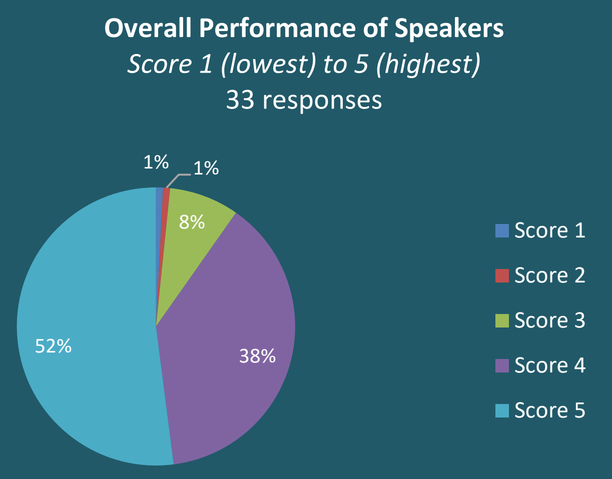
Academic Key Messages

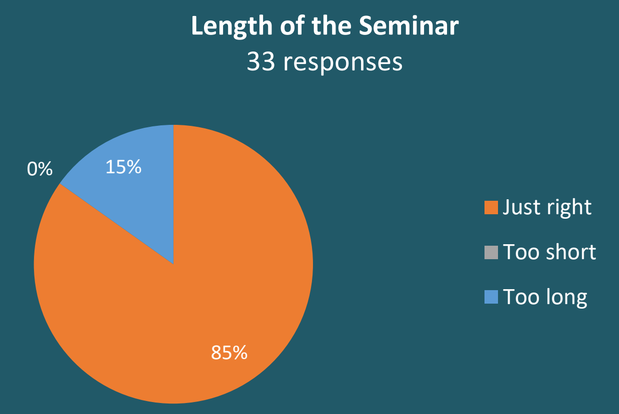
- ESG investing leads to lower cost of capital and higher returns. For example, green bond issuers outperform non-green bond issuers.
- The financial impacts of climate change risk include revenues, expenditures, assets and liabilities, capital and financing.
- Investor preference drives the growth of ESG data, but lack of comparability of ESG data across firms or years limits the use of ESG information in investors' investment decisions. Some sustainability reports are used more as a communication tool than a reporting tool.

PASS Seminar 1

Number of Participants : **91**







Industry Key Messages

- Databases with reliable and standardized ESG data should facilitate cross-sector and individual company comparison by institutional and retail investors and as such foster trust, resulting in much-needed capital being funneled to the projects that matter most for investors from an E, S, and G perspective.

- ESG factors should be incorporated into credit ratings by credit rating agencies such as S&P Global if they materially impact creditworthiness through cashflows, debt levels and enterprise profitability.

- Financial Stability Board's Task Force on Climate-related Financial Disclosures ("TCFD") developed a set of recommendations around **1) governance, 2) strategy, 3) risk management, 4) metrics and targets** on climate-related financial disclosures that are applicable to organizations across sectors and jurisdictions. The recommendations could promote more informed investment, credit, and insurance underwriting decisions.

- Given investor's increasing interest in ESG, companies have to be prepared to respond to questions such as the impact of ESG on the current and future industry drivers, the individual company's ESG risks but also revenue-generating opportunities, and quality of a company's ESG report and disclosures to help investors make informed decisions.

PASS Seminar 2

Date: 30 July 2019

Theme: Green Finance and ESG Integration: An Investment Perspective

- Mr Stephen Wong (Our Hong Kong Foundation): Green Finance and ESG Integration: A Hong Kong Policy Perspective
- Ms Victoria Mio (Robeco HK Ltd): ESG Integration for Investment Portfolio
- Ms Liz Peng (Morningstar): Methodological Approach for ESG Analysis
- Mr Ricky Szeto (Hung Fook Tong): Case Study: Hung Fook Tong Group Holdings Ltd

Mr Stephen Wong
Deputy Executive Director &
Head of Public Policy Institute
Our Hong Kong Foundation

Ms Victoria Mio
CIO China, co-Head Asia
Pacific Equities and
Fund Manager Chinese
Equities Robeco HK Ltd

Ms Liz Peng
BD Director, Institutional
Software, Morningstar

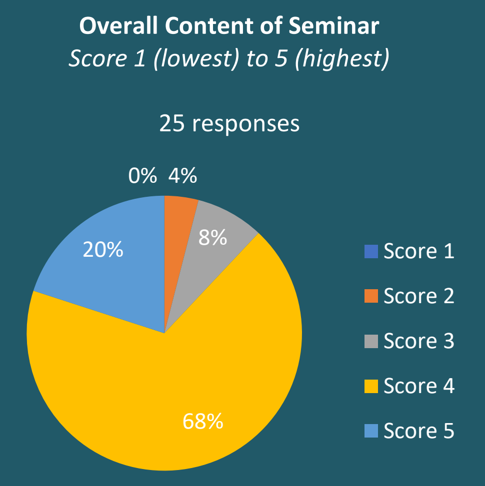
Mr Ricky Szeto
General Manager and
Executive Director
Hung Fook Tong Group
Holdings Ltd

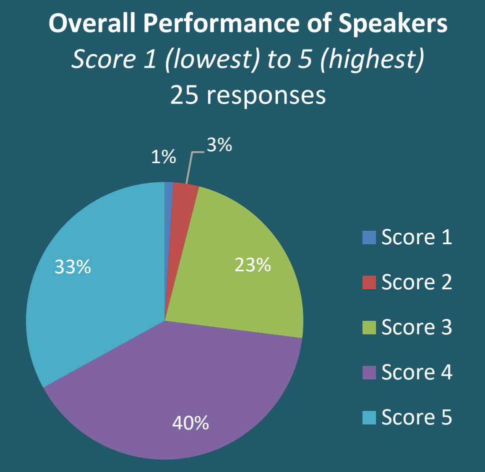
Academic Key Messages

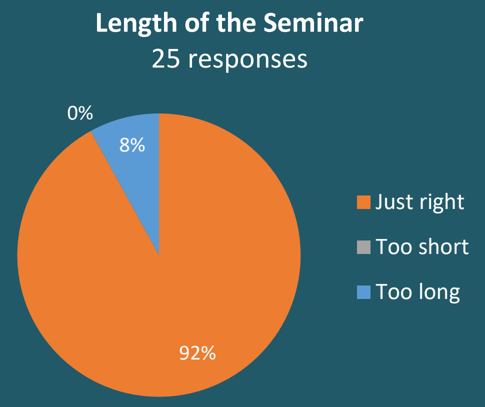
- Empirical studies show a positive relation between ESG and firms' operational and financial performance.
- There is inconclusive evidence of the effect of ESG on risk and return.
- Firm's ESG score has predictive power of financial return and investment in financially material issues are better able to differentiate top and bottom portfolios.

PASS Seminar 2

Number of Participants : **113**







Industry Key Messages

- ESG risks should be proactively managed because they can have a material impact on a company's value through the impact of environmental (carbon emissions, air/ water pollution), social (labour standards, data protection and privacy), and governance (board composition, executive compensation) issues on a company's intangible assets (which according to one study can make up more than 80% of the value of the S&P 500).

- ESG risks and risk themes with HK-listed companies include:
  - Poor capital management (low return on capital);
  - Reporting improvement related to environmental and social issues;
  - Risks of related-party transactions.

- ESG reporting should not be treated as a mere box-ticking exercise, where industry sector-specific ESG reporting guidelines and requirements may benefit stakeholders to understand the sector-specific ESG risks and opportunities.

- ESG factors can be quantified through a three-step approach: 1) Identify and focus on the most material ESG issues (like supply chain management, human capital management, and corporate governance), including potential red and green flags, 2) Analyze the impact of material ESG factors on a company's business model, 3) Quantify the impact to adjust value driver assumptions in the valuation analysis and model.

- (Active) ESG engagement of portfolio companies by investors can help achieve concrete change, for example:
  - Engage with palm oil companies to address inherent controversies and require mitigation and remediation to stakeholders.
  - Engage companies that use single-use plastic packaging, with the aim to stimulate the transition to recyclable, reusable and/or compostable packaging

PASS Seminar 3

Date: 24 September 2019

Theme: ESG Reporting: Challenges in Collecting Non-financial Data

- Mr Derek Yuen (KPMG): ESG Reporting
- Mr Robert Milners (PricewaterhouseCoopers): Challenges in Collecting Non-financial Data
- Ms Odile Lange-Broussy (Lombard Odier Singapore Ltd): Analyzing ESG Data: An Investment Perspective
- Mr Guy Look (Sa Sa): Case study: Sa Sa International Holdings Ltd

Mr Derek Yuen
Partner, Business Reporting and Sustainability, KPMG China

Mr Robert Milners
Senior Manager, PricewaterhouseCoopers

Ms Odile Lange-Broussy
Portfolio Manager for Asia High Conviction fund and co-portfolio manager for Emerging High Conviction
Lombard Odier (Singapore) Ltd

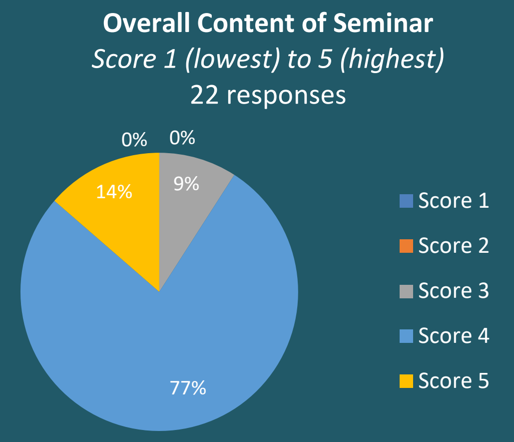
Mr Guy Look
Chief Financial Officer & Executive Director
Sa Sa International Holdings Limited

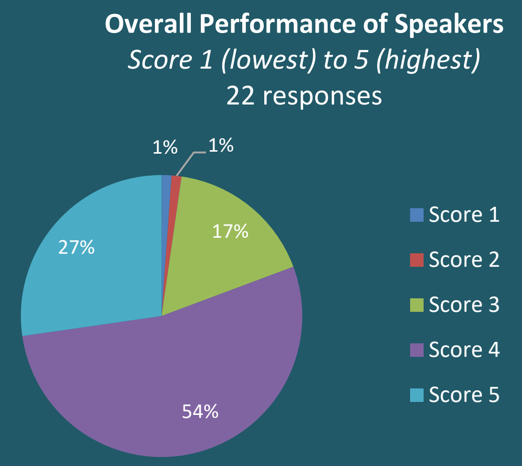
Academic Key Messages

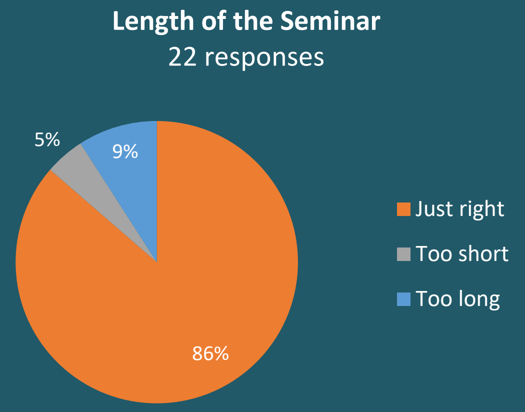
- Demand for transparent and quality ESG information increases.
- Capital market is one of the key forces driving the sustainability agenda around the world.
- ESG reporting can help firms improve competitive advantages, including opportunities for new funding, reputation, employee or customer loyalty, operating efficiency, investor or regulatory relationships, innovation and growth.

PASS Seminar 3

Number of Participants : **59**







Industry Key Messages

- ESG reports should be increasingly transparent as Investors demand companies to be transparent in disclosing their financial, environmental and social risks and opportunities, where reporting principles either relate to
  - Report content (stakeholder inclusiveness, sustainability context, materiality, and completeness) and
  - Report quality (accuracy, balance, clarity, comparability, reliability, timeliness).
- They apply to all the key sections of an ESG report such as the statement from senior decision-makers, ESG highlights of the year, the ESG strategy, about the company, ESG governance, stakeholder engagement, and materiality assessment.
- ESG reporting typical challenges include: No fixed standards that must be complied with, embedding ESG in the corporate strategy, reliability of the data, longer-term return, lack of resources and commitments, and it may simply not be a focus of the company.
- ESG non-financial data to collect and disclose can be prioritized by asking three questions:
  - Why the disclosure of a specific non-financial data element helps a company to achieve its objectives?
  - What sustainability topics matter most to our external (e.g., investors) and internal stakeholders (e.g., employees)?
  - How can we effectively and efficiently collect non-financial data? What time and cost are required?
- ESG-focused companies can be classified into **talkers, doers, and achievers**, which can be identified through adding the **CAR dimensions (consciousness, action, results)** to the ESG dimensions. E.g. Two companies with a similar ESG score may have one company that scores high on consciousness and action but low on results (“Good communicator”), whereas the other company may score low on consciousness but high on results (“Silent achiever”).

PASS Seminar 4

Date: 18 June 2020

Theme: ESG Integration in Investment: A Performance Diagnosis Under COVID-19

- Mr Zoltán Nagy (MSCI): Impact of COVID-19: Exploring Factors and ESG Equity and Fixed Income Resilience
- Ms Priscilla Luk (S&P Dow Jones Indices): How Global Institutional Investors are Incorporating ESG in Their Portfolio Management
- Ms Victoria Mio (Robeco HK Ltd): ESG Integration under COVID-19: The Case of China
- Mr Zhikai Chen (Lombard Odier HK Ltd): ESG Integration under COVID-19: Theory and Practice

Mr Zoltán Nagy
Executive Director of Equity Core Research MSCI

Ms Priscilla Luk
Managing Director, Head of Asia Pacific, Global Research & Design, S&P Dow Jones Indices

Ms Victoria Mio
CIO China, co-Head Asia Pacific Equities and Fund Manager Chinese Equities Robeco Hong Kong Limited

Mr Zhikai Chen
Head of Asia ex-Japan Equities Lombard Odier (Hong Kong) Limited

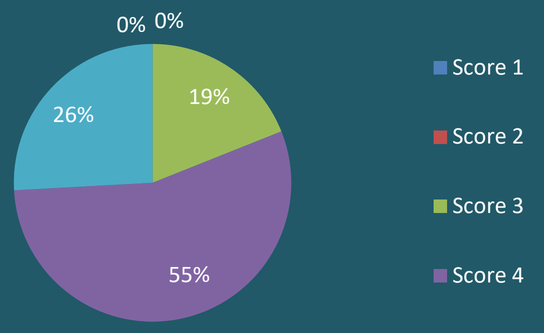
Academic Key Messages

- Despite China being in the early stage of ESG investing and many investors are unsophisticated retail investors, there are preferences for high ESG firms, especially during the crisis.
- During Covid-19, green stocks outperformed other stocks.
- Three fundamental channels that ESG affects financial value: higher profitability (cash-flow channel), lower tail risk (stock-specific risk channel), and lower systematic risk (valuation channel).

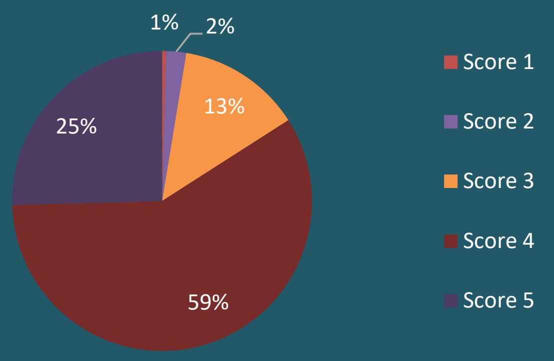
PASS Seminar 4

Number of Participants : **102**

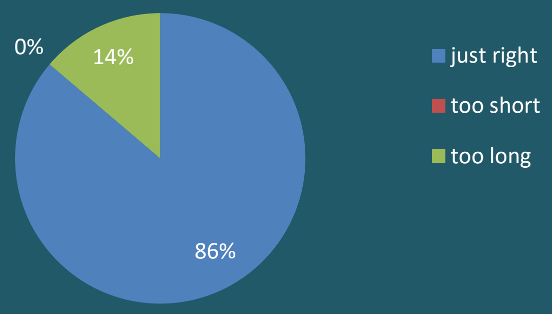
Overall Content of Seminar
Score 1 (lowest) to 5 (highest)
58 responses



Overall Performnce of Speakers
Score 1 (lowest) to 5 (highest)
58 responses



Length of the Seminar
58 responses



Industry Key Messages

- ESG scores can be applied in a number of ways:
  - **Portfolio Exclusions:** Investors can screen stocks by ESG scores to 1) Reduce exposures to reputational risks, 2) Performance concerns of the lowest ranking ESG companies, 3) Ethical concerns, 4) Client demand.
  - **Integrating ESG scores into analysis** as a result of 1) Concerns around the risks associated with low-ranking ESG companies, 2) A view that highly-ranked ESG stocks will outperform, 3) Quantifying intangible values.
  - **Portfolio Tilts:** Portfolio-level ESG improvement without excluding companies and losing diversification. Tilts can also be applied alongside other strategies within an index.
  - **Identifying Industry Laggards:** It is impossible to engage with every company in the way they would desire. ESG scores can be used to target laggards within industries.

- Investors assess **corporate sustainability**, which is a company's capacity to prosper in a hyper-competitive and changing global business environment by anticipating and managing current and future economic, environmental and social opportunities and risks and focusing on quality, innovation and productivity to create competitive advantage and long-term value.

PASS Seminar 5

Date: 30 August 2021

Theme: Best Practices in ESG, Green Finance, and Green Bonds

- Dr Lisa Sun (PolyU): Academic Perspective on how climate change and environmental issues affect financial markets; and how to finance projects that mitigate environmental risks with a focus of green bond
- Ms Melissa Fung (Deloitte): Task Force on Climate Change Financial Disclosures (TCFD) in the Real Estate Industry
- Mr Alex Cheung (DBS Bank HK Ltd): The Road of Banks to Drive the Sustainability Agenda

Dr Lisa Sun
Assistant Professor,
School of Accounting and Finance, PolyU

Ms Melissa Fung
Partner, Risk Advisory,
Deloitte China

Mr Alex Cheung
Managing Director and Head of
Institutional Banking Group,
DBS Bank

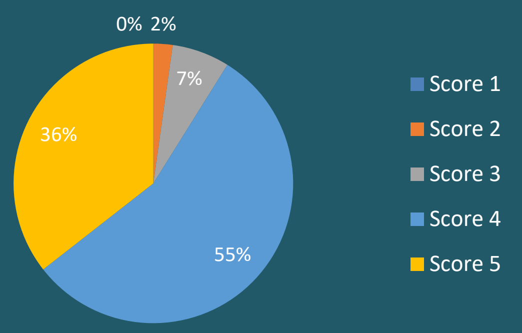
Academic Key Messages

- The growing acceptance of the materiality of climate change at all levels of the economy and the strong commitment by national, international frameworks and the major stock exchanges worldwide are major drivers of green finance.
- Climate change and environmental issues affect financial markets through physical risk and transition risk.
- There is a puzzle in green bond premium. While Flammer (2020) find that investors respond positively to the issuance of corporate green bond, Lancker and Watts (2020) find investors identically price green and non-green bonds issued by same issuer on same day.

PASS Seminar 5

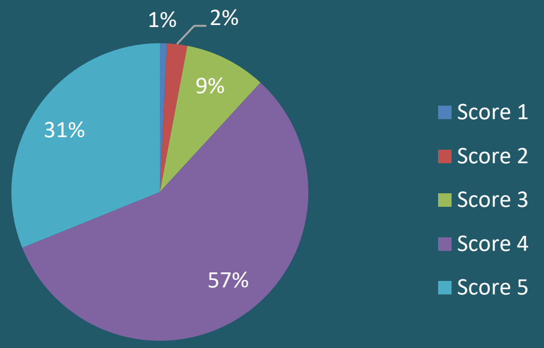
Number of Participants : **115**

Overall Content of Seminar
Score 1 (lowest) to 5 (highest)
45 responses

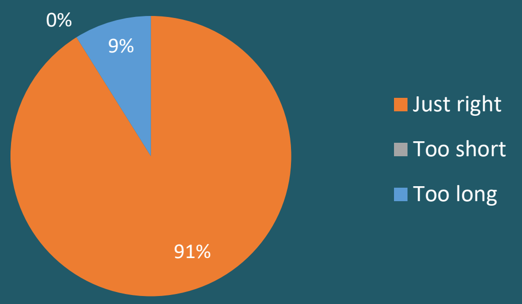


Overall Performnce of Speakers
Score 1 (lowest) to 5 (highest)

45 responses



Length of the Seminar
45 responses



Industry Key Messages

- A strong ESG proposition drives value creation in five essential ways
  1) Top-line growth
     - Attract B2B and B2C customers with more sustainable products
     - Achieve better access to resources through stronger community and government relations
  2) Cost reductions (Lower energy consumption, Reduce water intake)
  3) Regulatory and legal interventions (Achieve greater strategic freedom through deregulation, earn subsidies and government support)
  4) Productivity uplift (Best employee motivation, attract talent through greater social credibility)
  5) Investment and asset optimisation (Enhance investment returns by better allocating capital for the long-term, avoid investments that may not pay off because of longer-term environmental issues)

- TCFD has grouped financial impacts from climate-related risks into the following general categories :
  - Revenues
  - Expenditures
  - Assets and Liabilities
  - Capital and Financing

- For the property sector, transition risks may arise from all four major categories – larger shifts in asset values, higher costs of operation, violation of ESG-related laws and regulations and resulting fines, etc., when moving towards a less polluting, greener economy. It requires property corporates to develop a robust strategy that is integrated into the overall business strategy. While the strategy must retain a level of flexibility, it must also be actionable and measurable.

PASS Seminar 6

Date: 28 October 2021

Theme: Green Bond Issuer Considerations

- Dr Colin Zeng (PolyU): Academic Perspective on Upstream CSR Reputation and Supplier Information Disclosure
- Dr Roy Fan (Ernst & Young): ESG Reporting – Challenges and Opportunities or Listed Companies
- Mr Rocky Tung (FSDC): Hong Kong's Readiness for the Rise of ESG

Dr Colin Zeng
Assistant Professor, School of Accounting and Finance, PolyU

Dr Rocky Tung
Director, Head of Policy Research, FSDC

Mr Roy Fan
Director, Climate Change and Sustainability Services, Financial Services, Ernst & Young

Academic Key Messages

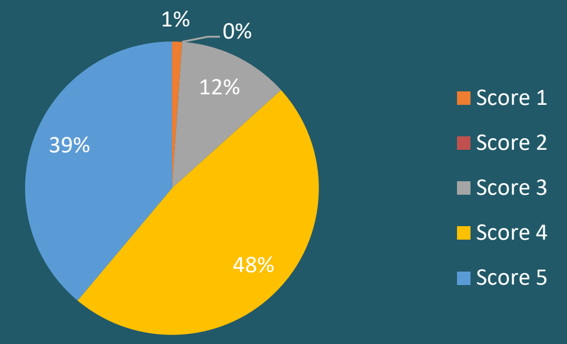
- Materiality assessment is a crucial part of ESG reporting. It identifies ESG issues that are significant to both business and stakeholders.
- The vast amounts of data and coverage required for ESG disclosure could present challenge for companies without a structured data framework.
- Both retail and institutional investors are demanding for ESG.

PASS Seminar 6

Number of Participants : **196**

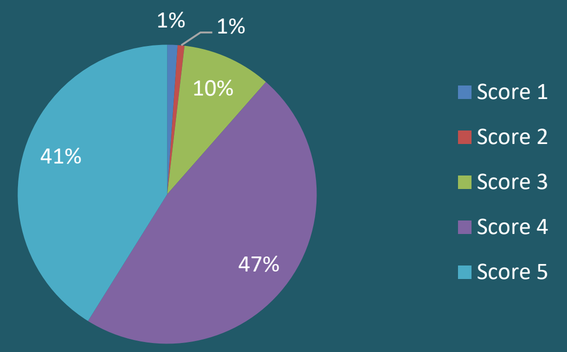
Overall Content of Seminar
Score 1 (lowest) to 5 (highest)

90 responses

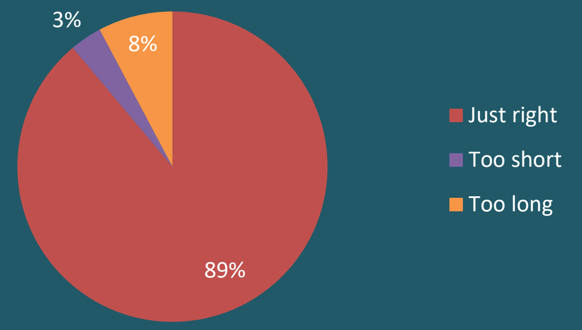


Overall Performnce of Speakers
Score 1 (lowest) to 5 (highest)

90 responses



Length of the Seminar
90 responses



Industry Key Messages

- Common challenges across jurisdictions to promote/ maintain green and sustainability development:
  - Absence of a globally-consistent corporate reporting standard; lack of comparable data.
  - ESG/ Green and sustainable finance is a broad-ranging and more stringent regulatory approach alongside the rapid development and rise of new products which takes time for corporations to adapt.
  - Lack of understanding and incentives for the private sector to incorporate ESG factors into the business model, especially the smaller corporations.
  - Notable shortage of skills and understanding in the area – talent & resources.

- ESG stakeholders in Hong Kong include:
  - Asset owners in public and private sectors, including pension funds and sovereign wealth funds, are increasingly integrating ESG strategies in their investment portfolios.
  - Asset and wealth managers and product owners (e.g. banks) uncover opportunities, identify risks and generate appealing returns for asset owners and other clients through incorporating ESG factors into their investment strategies and ongoing engagement with investee companies.
  - Investee companies: Enhanced ESG disclosure/ reporting is becoming commonplace among companies of different sizes, partly due to new regulatory requirements but also enhanced risk-adjusted returns, lower funding costs, and new sources of capital.
  - Government and financial regulators: A combination of ‘carrots and sticks’ (i.e., incentives and regulations) has been a common approach adopted by governments and regulators in different markets, and HK is no exception.
  - Universities, non-governmental organizations and professional bodies collaborate to enhance ESG capacity-building. A cluster of stakeholders, including services providers such as index compilers, is critical in ensuring ESG standards and needed support is in place.

PASS Seminar 7

Date: 6 December 2021

Theme: Green Bonds: An Auditor Perspective

- Dr Xiang Yi (PolyU): Interplay between ESG and Consumer
- Ms Cindy Ngan (PwC): Role of Financial Services on ESG: ESG Ecosystem and What Are We Seeing in the Market
- Ms Jill Wong (Howse Williams): HKMA and HKEX Sustainability Related Regulatory Expectations from a Legal Practitioner Perspective

Dr Xiang Yi
Research Assisant Professor, School of Accounting and Finance, PolyU

Ms Cindy Ngan
Partner, Climate and Sustainability Leader, PwC

Ms Jill Wong
Partner, Regulatory & Compliance, Howse Williams

Academic Key Messages

- Consumers care about firms' CSR for the following reasons:

  1) Consumers tend to satisfy their personal values, such as prestige, status, self-esteem, and social acceptance from their consumption decisions.

  2) When consumers consider a company to be ethical and socially responsible, they are also more likely to believe that such ethicality will reflect on the quality of its goods/services.

- Consumers tend to decrease their consumption in firms which experience negative CSR events.

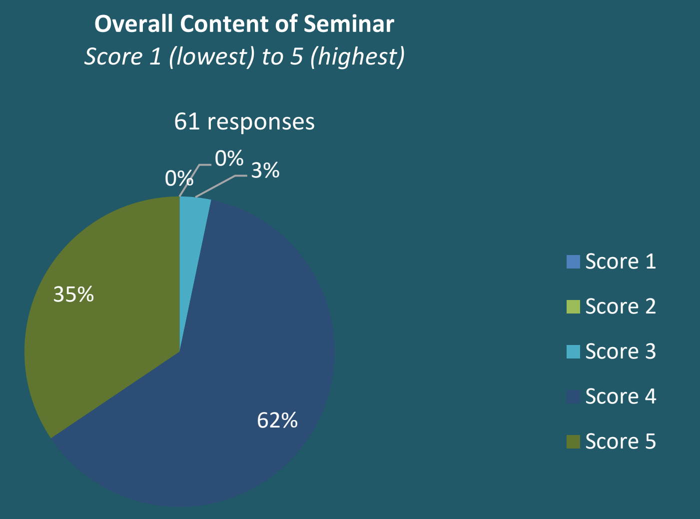
- After receiving consumer complaints, firms in the U.S. tend to:

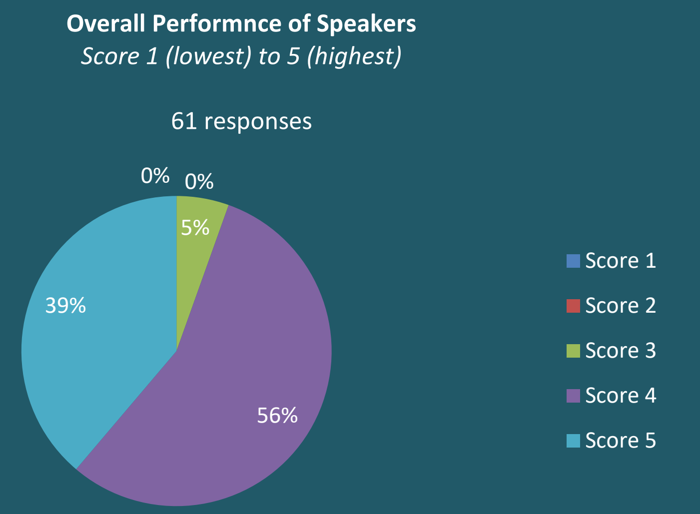
  1) improve their CSR performance;

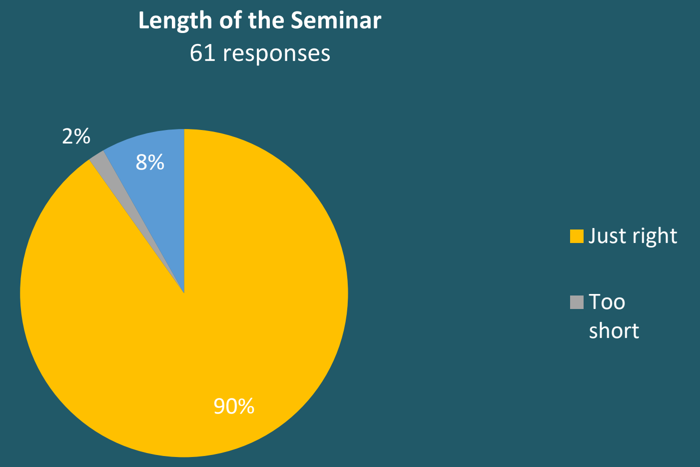
  2) reduce CSR concerns rather than increase CSR strengths.

PASS Seminar 7

Number of Participants : **169**







Industry Key Messages

- ESG challenges for auditors and companies to perform meaningful analysis to support decision-making:
  1) **Data:** Asset owners in public and private sectors, including pension funds and sovereign wealth funds, are increasingly integrating ESG strategies in their investment portfolios; ESG-related data lacks consistency which makes it very hard to interpret and compare between companies, sectors and territories. This is driven by the lack of consistent reporting and disclosure standards and frameworks. Asset managers who have focused on China found that data coverage for China is not sufficient. Lack of correlation between ESG ratings provided by different rating agencies.
  2) **ESG reporting:** Based on a 2021 Global Investor Survey, only about 1/3 of investors, on average, think the quality of the reporting they're seeing is good enough. Simply put, investors cannot easily differentiate between companies on ESG-related performance. Investors question whether much of today's ESG reporting gives them the relevant, reliable, timely, complete, and comparable information they need for effective decision-making. Anyone volunteers the "bad news" in the disclosure?
  3) **ESG regulations:** Regulations are evolving at a very fast pace. With a complex supply chain, the knock-on impacts can be very far-reaching. Financial institutions not only need to understand the implications of the regulations that impact themselves, but they also need to understand the regulations that are impacting their investments and the companies that they are financing. Shortage of talent requires significant investments in upskilling.
  4) **Greenwashing**: Is it really green? How green is it? Lack of common definition of "green". Green assets/projects may not equate to "safe" assets. There are still risks involved. Still need to evaluate the company's overall business strategy, quality of governance and management, viability of business model, and performance.
  5) **Time horizon:** Some of the ESG elements, particularly, climate risk have a 20 –30 years time horizon. Significant uncertainty is involved in any financial projections. However, transition risks should not be ignored. Balancing short-term profitability and long-term business viability is key.
  6) **Transformation to the real economy:** The real economy is struggling to strike a balance between recovery from the impacts of COVID-19, complying with climate-related regulations and demonstrating the economic value of green sustainable projects. There is also a lack of awareness and willingness among small-and-medium size enterprises to transform. Some sectors are not moving as fast as where the capital flows are re-directing to; increasing the risk of greenwashing. Laggers may lose competitiveness and relevance in the industry.

PASS Seminar 8

Date: 21 January 2022

Theme: Trends and Opportunities for Green and Sustainability-linked Loan: A Banking Perspective

- Dr Chong Wang (PolyU): Bank Lending in the Warming Globe: Carbon Emission and Loan Contracting
- Ms Angela Wong (DBS Bank Ltd): Climate Risk Management: What is it about and How to Manage this?
- Mr Frank Heung (Hang Seng Bank Ltd): Unlocking Green Products: Future Opportunities for Green and Sustainable Financing

Dr Chong Wang
Assistant Professor, School of Accounting and Finance, PolyU

Ms Angela Wong
Executive Director, Department Head, Group Portfolio Analytics, DBS Bank HK Ltd

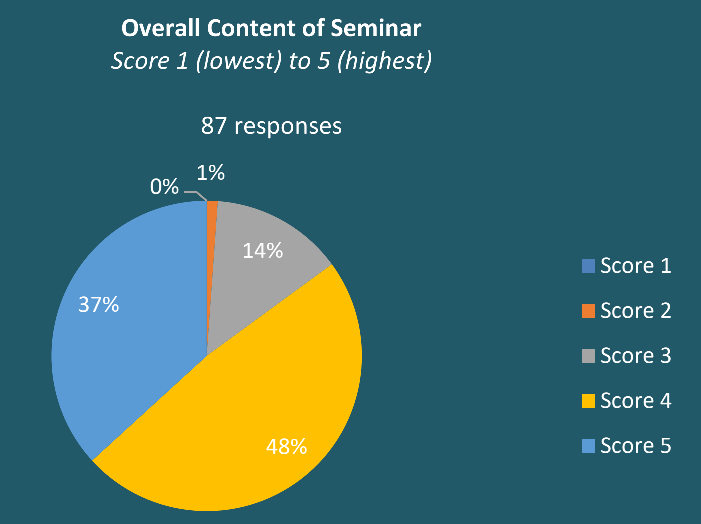
Mr Frank Heung
Head of Structured Finance, CRE & Corporate Advisory, Hang Seng Bank Ltd

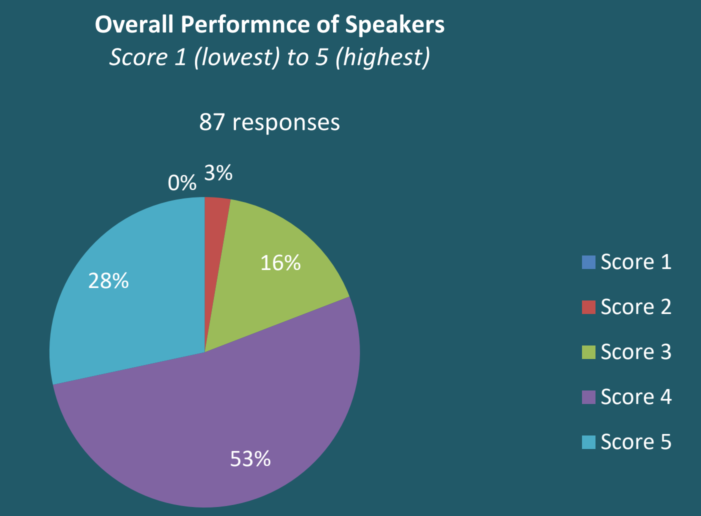
Academic Key Messages

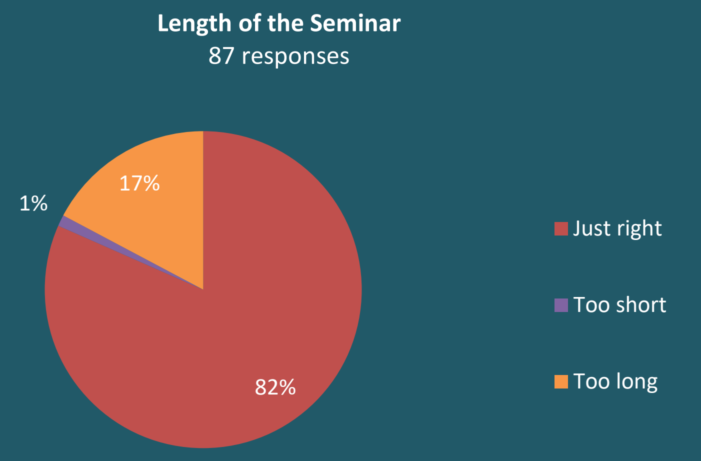
- Higher carbon emission leads to more unfavourable bank loan contracting because borrowers with higher carbon emission are more likely to receive additional and unpredicted regulations, with resultant compliance costs, potential litigation costs and pollution mediation expenses, leading to higher operational costs and lower profitability. Lenders can be legally liable for environmental damages caused by the projects they finance.
- Borrowing firms have existing mitigation plans for carbon emissions, and banks tend to lower the stringency of loan terms by making the loans cheaper and imposing fewer restrictive covenants.
- Changing climate will affect banks' portfolios, while banks' lending also affects the climate.

PASS Seminar 8

Number of Participants : **216**







Industry Key Messages

- Climate risk manifests itself in mainstream risk types:
  - **Physical and transition risk:** Strategic risk and credit risk
  - **Valuation and volatility of asset market prices:** Market risk and reputational risk
  - **Disruptions to business operations and own properties:** Liquidity risk and operational risk

- Financial institutions require models to assess the impact of physical and transition risks:
  - **Chronic climate impact** (e.g., sea level rises, changes in surface temperature): Earth system models and climate impact models. This can have an impact on a company's productivity, change in consumer preference, and collateral market value.
  - **Acute climate impact** (e.g., flooding, strong typhoons): Natural catastrophe models. This can have an impact on properties' collateral value due to damage, business disruptions affecting revenue
  - **Transition pathways** (e.g., policy changes, change in consumer preferences, technological advancements): Integrated assessment models. This can have an impact on the financial strength of companies, e.g., revenue, cost of operations, capital expenditure and debt burden to transition to low carbon.

- Green loans are any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible Green Projects. Green loan principles are:
  - **Use of proceeds:** The utilization of the loan proceeds must be for green projects.
  - **Process for project evaluation and selection:** The borrower should communicate to the lender what their environmental sustainability objectives are and how they have assessed the project as being green/ sustainable.
  - **Management of proceeds:** The borrower should appropriately track the loan proceeds to ensure transparency and integrity in the use of the proceeds.
  - **Reporting:** The borrower should report on the use of proceeds and the progress of the project to the lender on an annual basis, or until the funds are fully drawn
- Sustainability-linked loans are any type of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) which incentivize the borrower's achievement of ambitious, predetermined sustainability performance objectives.

PASS Seminar 9

Date: 16 March 2022

Theme: ESG Ratings Optimization

- Dr Munhee Han (PolyU): Academic Perspective on ESG Investing – ESG Ratings and Data
- Mr Gabriel Wilson-Otto (Fidelity International): Leveraging ESG Data and Ratings in the Investment Process and Product Development – An Investment Manager's Perspective
- Mr Mervyn Tang (Schroders): Demystifying Divergence of ESG Ratings and How They are Used to Achieve Different Sustainability Objectives

Dr Munhee Han
Research Assistant Professor, School of Accounting and Finance, PolyU

Mr Gabriel Wilson-Otto
Director, Sustainable Investing, Fidelity International

Mr Mervyn Tang
Head of Sustainability Strategy, APAC, Schroders

Academic Key Messages

- Recently, there has been a rapidly increasing appetite for environmental, social, and governance (ESG) investing. Along with the growing interest from investors and institutional investors has come growing scrutiny.

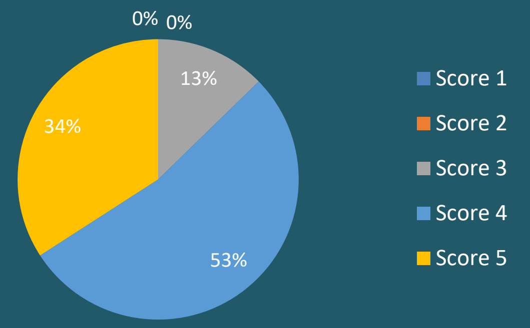
- With the increasing use of ESG assessment in investment decisions, there has been a growing influence of ESG data and ratings. Meanwhile, different agencies may provide different ESG ratings for the same firm. For example, Berg et al. (2022) document the rating divergence of environmental, social, and governance (ESG), based on six key ESG rating agencies: KLD, Sustainalytics, Moody's ESG, S&P Global, Refinitiv (Asset4), and MSCI.

- Like the credit rating industry, there can be potential conflicts of interest among different ESG rating agencies.

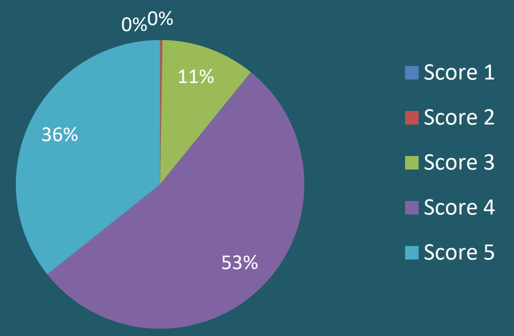
PASS Seminar 9

Number of Participants : **240**

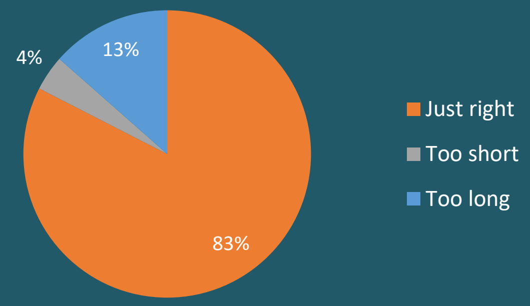
Overall Content of Seminar
Score 1 (lowest) to 5 (highest)
126 responses



Overall Performance of Speakers
Score 1 (lowest) to 5 (highest)
126 responses



Length of the Seminar
126 responses



Industry Key Messages

- Sustainable investing uses a broad set of material factors to:
  - Gain better insight and achieve superior risk-adjusted returns
  - Target-specific non-financial investment outcomes

- Asset managers invest sustainably through:
  - **ESG integration:** Consideration & analysis of ESG factors as part of investment decision-making.
  - **Negative screening:** Industry sectors or companies excluded/ divested from to avoid risk or better align with values.
  - **Positive or best-in-class screening:** Investments that target companies or industries with better ESG performance.
  - **Thematic sustainability themed:** Investment that specifically targets sustainability themes e.g., clean energy, green property.

- (some) Asset managers opt for a proprietary approach as there appears to be low correlation of company ESG scores across ESG rating agencies. “Relying on third parties would be like trying to wear someone else’s glasses – we wouldn’t see a clear picture.”

PASS Seminar 10

Date: 20 May 2022

Theme: ESG Integrity in Sustainable Finance

- Dr Shuo Wang (University of Edinburgh): Does Greenwashing Pay Off? An Investigation to the Relationship between Greenwashing and Cost of Debt
- Mr Jonathan Ho (AllianzGI): Ensuring ESG Integrity in Sustainable Investing Through Practice and Influence
- Ms Juliette Macresy (Moody's ESG Solutions): The Role of ESG External Reviewers in Safeguarding ESG Integrity in Sustainable Finance

Dr Shuo Wang
Assistant Professor,
University of Edinburgh

Mr Jonathan Ho
Sustainability Specialist, Allianz
Global Investors

Ms Juliette Macresy
Senior Director, Head of APAC
Business Development,
Moody's ESG

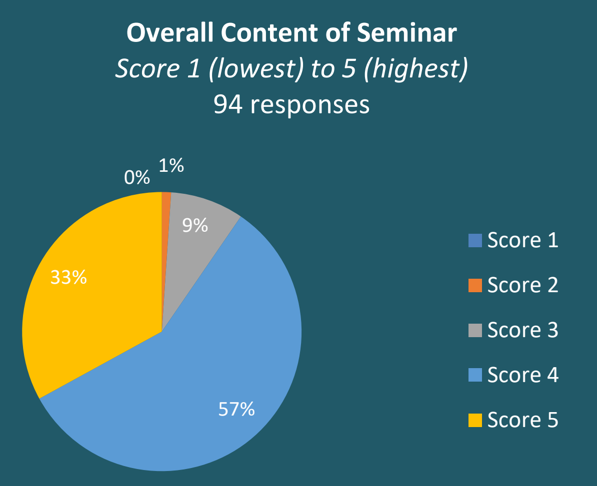
Academic Key Messages

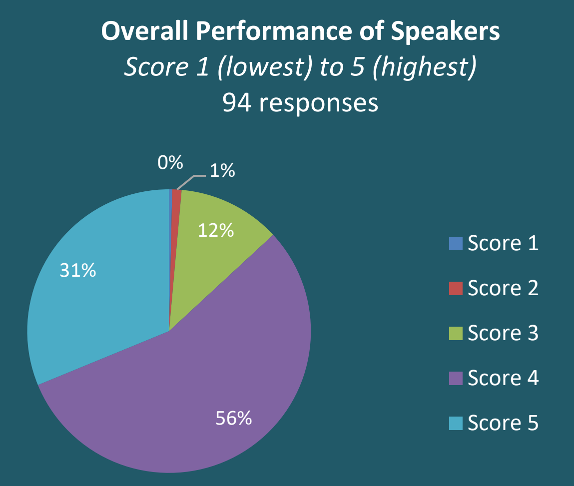
- To pursue sustainable development in the long run, firms require financial support from debtholders to execute the green transformation. To mislead investors for short-term benefits, firms may greenwash their ESG performance by disclosing excessive symbolic relative to substantial environmental actions in their ESG reports.

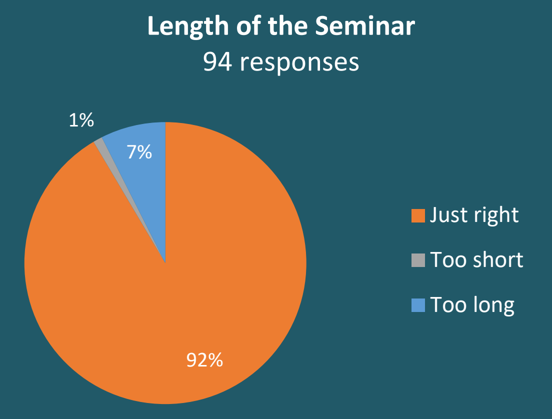
- Sophisticated investors in the public bond market and CRAs can decipher greenwashing.

PASS Seminar 10

Number of Participants : **213**







Industry Key Messages

- Leading asset managers embed sustainability into the investment platform, which fosters integrity and transparency. e.g.,
  - **Sustainable investment office:** Develop sustainable investing policies, sustainable product strategy and coordination, internal and external training on sustainability, sustainability industry and market trends.
  - **Sustainable methodologies and analytics:** ESG and proprietary scoring, development and review of sustainable investment methodologies, regulatory analytics methodologies (taxonomy, sustainable share, etc.), construct custom sustainable investing solutions for client needs.
  - **Sustainable research:** Thematic research, sector and company research, collaboration to bolster thematic and impact investing process.
  - **Stewardship:** Active stewardship approach, thematic and risk-based engagements, proxy voting monitoring of portfolio companies.
  - **Impact investing private markets:** Development of Private Equity & Private Debt impact offerings, developing a market-leading impact framework.

PASS Seminar 11

Date: 5 July 2022

Theme: The State of Sustainable Finance and Sustainable M&A in APAC and China

- Prof. Xintong Zhan (Fudan University): Academic Perspective
- Ms Sammy Koo (EY-Partenon): ESG Considerations in M&A Due Diligence and Developments and Trends in ESG-driven M&A Transactions in Asia
- Mr Andrew Chew (ING): How Banks, Through Sustainable Finance Instruments, Do Their Part to Fight Climate Change and Implications for Borrowers

Prof. Xintong Zhan
Professor, Fudan University

Ms Sammy Koo
Partner, EY-Partenon

Mr Andrew Chew
Director, Sustainable Finance, ING

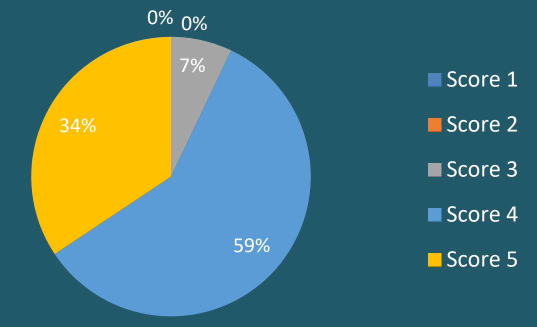
Academic Key Messages

- ESG integration happens in various stages of an M&A deal, including due diligence, target selection, valuation and post-merger integration.
- In M&A deals, ESG due diligence is an important tool to build resilience and mitigate risks as the degree of ESG management is significant in determining a company's potential for long-term performance, operation stability and value.
- A comprehensive approach to ESG due diligence provides both buyers and targets with a multitude of benefits beyond compliance with ESG standards and guidelines.

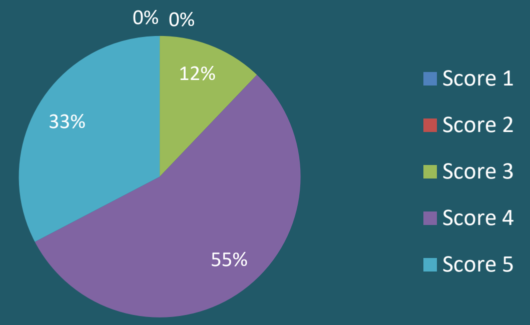
PASS Seminar 11

Number of Participants : **256**

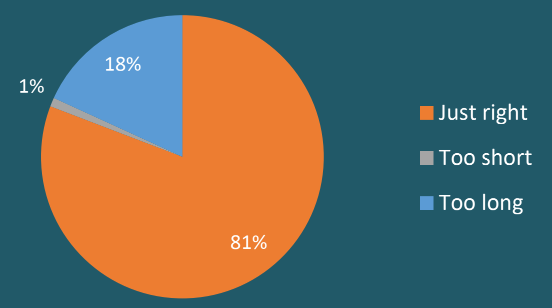
Overall Content of Seminar
Score 1 (lowest) to 5 (highest)
99 responses



Overall Performance of Speakers
Score 1 (lowest) to 5 (highest)
99 responses



Length of the Seminar
99 responses



Industry Key Messages

- Banks/ asset managers/ corporates can use their influence to make a positive impact with a focus on more renewables, more sustainable finance transactions, and no more new oil and gas fields. Financing and continued financing are contingent on the client's improvements in sustainability.

- Challenges and opportunities in the ESG deployment in M&A deals relate to:

    - ESG performance and risk quantification and financial metrics translation
    - No one size fits all framework and strategy
    - Limited accessibility of ESG data for benchmarking
    - Risk of greenwashing accusations due to poor due diligence
    - Establish an ESG data system to identify the underlying impact on business performance
    - Identify material ESG issues and allocate resources efficiently to enhance management
    - Participate in ESG assessments to monitor competitiveness and increase exposure
    - Formulate ESG framework to manage and lower relevant operational risks

- The degree of ESG management is significant in determining a company's potential for long-term performance, operational stability and value.

PASS Seminar 12

Date: 1 September 2022

Theme: Achieving 2060 China Net Zero with Ratings, Sustainable Finance, Carbon Trading

- Dr Ying Chen (Research Institute for Eco-civilization): Green Development Transition: From Peak of Carbon Emissions to Neutrality
- Ms Nneka Chike-Obi: State of China’s Roadmap to Achieve Net Zero in 2060 - Challenges and Opportunities
- Ms Jingwei Jia (Sustainable Fitch): China ESG Development – September 2022
- Mr Jeff Huang (AEX Holdings Ltd): Steps Toward Efficient Carbon Pricing

Dr Ying Chen
Senior Research Fellow at Research Institute for Eco-civilization

Ms Nneka Chike-Obi
Head of APAC ESG Research, Sustainable Fitch

Ms Jingwei Jia
Associate Director, ESG Research, Sustainable Fitch

Mr Jeff Huang
CEO, AEX Holdings Ltd

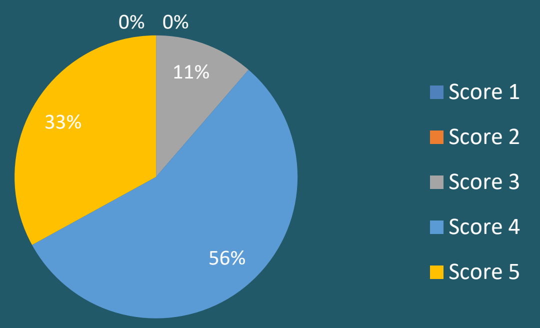
Academic Key Messages

- Green bond momentum continues in 2022 in China. Policy mandates and banks play an important role in the social and sustainability bonds market.
- There are two main problems that need to be solved for efficient carbon pricing:
  - How to improve the clarity of carbon market data?
  - How to improve the efficiency of carbon market pricing?

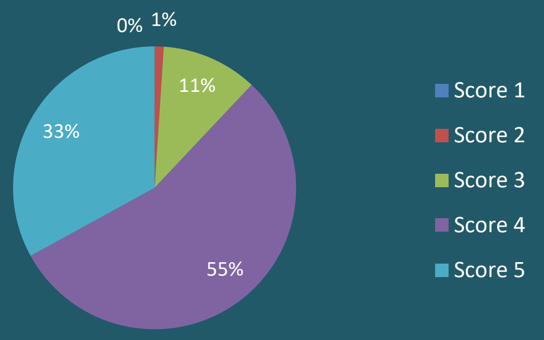
PASS Seminar 12

Number of Participants : **244**

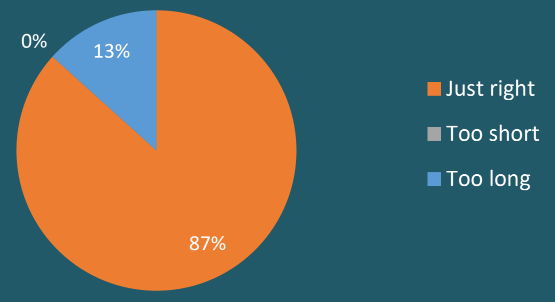
Overall Content of Seminar
Score 1 (lowest) to 5 (highest)
97 responses



Overall Performance of Speakers
Score 1 (lowest) to 5 (highest)
97 responses



Length of the Seminar
97 responses



Industry Key Messages

- Chinese banks play a dominant role on both sides of the green loan market, being the issuer and investors of onshore green bonds against the background of green loans reaching CNY 19.55 trillion by H1 2022, and a supportive monetary policy to promote decarbonization projects.

- ESG standards are taking shape, where the risk of "Greenwashing" exists, and differences with international standards will likely continue to persist near term.

- Positive developments include:
  - Development in Taxonomy and Standards: A taxonomy to include climate adaptation activities EU-China Common Ground Taxonomy China's new Green Bond Principles.
  - Disclosures heading mandatory in environmental aspect New China "Corporate ESG Disclosure Rules" to be effective on 1 June 2022.
  - Potentially adopt the ISSB framework in China.

- China's national Emissions Trading System (ETS) was officially launched in 2021. The power industry is the first to be included. In the first compliance period, 4.5 billion tons of carbon allowance were issued to 2,200 compliance companies.

- In the future, seven major industries including petrochemicals, chemicals, building materials, steel, non-ferrous, paper making, and aviation will be included in the national ETS. By then, the total carbon allowance will be expanded from the current 4.5 billion tons to 7 billion tons, covering about 60% of China's total CO_2 emissions.

PASS Conference 1

Date: 26 November 2019

Theme: Green Finance and ESG Practice: The Way Forward

Keynote Speeches:

Dr Guo Peiyuan (SynTao): Green Finance and ESG Development in China
Dr David Broadstock (PolyU): Understanding ESG Data: Data for ESG Investment – HK + Connect in Focus

Panel Discussion: ESG Integration

Mr Stephen Andrews (BlackRock): ESG Investing at BlackRock
Mr Jean-Louis Nakamura (Lombard Odier Group): Sustainability at the Heart of Investing
Mr Chris Tse (MSCI): ESG Investing: for Asset Owners who Seek to Integrate ESG

Afternoon Session

Opening Remarks:
Prof. Louis Cheng (PolyU): Areas of Concerns and Misunderstanding in ESG Reporting: The Case of Hong Kong Listed Firms

Panel 1: Sustainability and Reporting

Mr Brian Ho (Ernst & Young): How to Move Beyond Compliance in Sustainability Reporting?
Ms Suki Wong (Anta Sports Products Ltd): Anta ESG Integration
Hugh Pye (HSBC Holdings plc): Sustainability and Reporting – the View from Europe

Panel 2: Green Building: Challenges and Opportunities

Ms Ellie Tang (New World Development): Green Building: Approach, Challenges and Opportunities
Mr Kevin Ng (Henderson Land Development): Green Building: Challenges and Opportunities
Mr Raymond Yau (Swire Properties): Green Building: Challenges and Opportunities

Keynote Speaker:

Dr Guo Peiyuan
Chairman, SynTao Green Finance

Keynote Speaker:

Dr David Broadstock
The Hong Kong Polytechnic University

Opening Remark:

Prof. Louis Cheng
The Hong Kong Polytechnic University

Panelist:

Mr Stephen Andrews
Managing Director, Global Emerging Markets Equities, BlackRock

Panelist:

Mr Jean-Louis Nakamura
CIO, Asia Pacific and CEO Hong Kong, Lombard Odier Group

Panelist:

Mr Chris Tse
Executive Director of Client Coverage, MSCI Hong Kong Limited

Panelist:

Mr Brian Ho
Partner, Climate Change and Sustainability Services, Ernst & Young

Panelist:

Ms Suki Wong
Investor Relations Director, Anta Sports Products Limited

Panelist:

Ms Ellie Tang
Head of Sustainability, New World Development

Panelist:

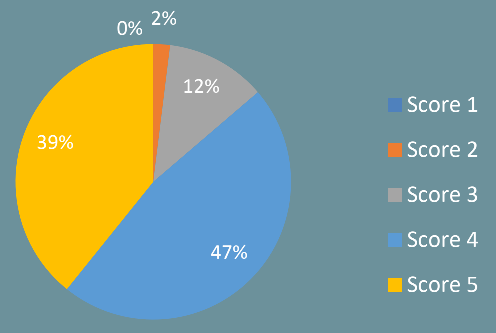
Mr Kevin Ng
Senior Deputy General Manager, Henderson Land Development

Panelist:

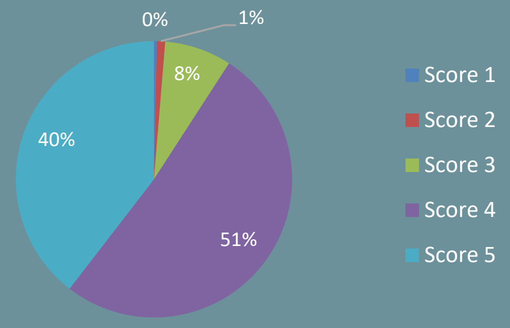
Mr Raymond Yau
General Manager, Technical Services & Sustainable Development, Swire Properties Limited

Number of Participants : **149**

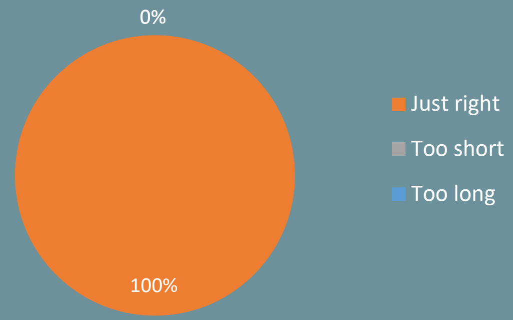
Overall Content of Seminar
Score 1 (lowest) to 5 (highest)
51 responses



Overall Performance of Speakers
Score 1 (lowest) to 5 (highest)
51 responses



Length of the Seminar
51 responses



Academic Key Messages

- There are inconsistency in ESG scores from different reporting agency.

- Investors’ rating criteria on ESG metrics disclosure includes disclosure on relevant metrics, consistency of how data is being presented, and any information on how such metrics is representative (i.e. is it complete?)

- There are numerous approaches for integrating ESG into portfolio construction—whether active or passive strategies—in equities or fixed income.

Industry Key Messages

Investors' rating criteria on ESG governance structure, include

- **Is it clear that the Board resumes responsibility for ESG management?**
  - Responsible for the evaluation of ESG risk
  - Ensuring the establishment of an appropriate and effective ESG internal monitoring system
- **Are the roles of Directors clear on the management of different ESG aspects?**
  - Executing ESG risk management and internal monitoring
  - Guiding the work of the ESG working groups
- **Does the company have an ESG task force?**
  - Promoting the implementation of ESG policies
  - Reporting to the Executive Committee on implementing ESG projects

Integrating ESG across your entire investment process involves:

- Define objectives & policy (Define investment and ESG objectives, Set targets and strategies to enhance ESG profile, Develop investment policy, Select benchmarks)
- Integrate into investment process (ESG in portfolio construction, Active and index-linked ESG products, Scalable risk management reporting, Stress testing)
- Engage stakeholders & report (Engage companies and external stakeholders, Provide transparency through client reporting).

Sustainability is not all about challenges and risk. There are opportunities to transform sustainable challenges into opportunities

- **Sustainable food:** USD 250bn opportunity from Precision Farming: fertilizer, compaction reduction, irrigation, seeds USD 700bn opportunity in supply chain optimization: expiration date, water usage, frozen/local food, food distribution Nearly 2/3 of consumers globally are willing to pay more for sustainable goods — and that is on the rise.
- **Sustainable urban systems:** USD 8.4tn opportunity in new generating capacity in wind and solar over 2018-2050 USD 480-750bn opportunity in public mass transportation by 2050 USD 130bn pa market in energy efficiency for buildings.
- **Sustainable supply chains:** USD 380-630bn annual net material cost savings opportunity for manufacturing sectors in Europe USD 90bn value unlocked by AI for the sustainability of consumer electronics pa by 2030 (automation, robotics) USD 335bn potential revenue for key sharing sectors by 2025 (travel, car sharing, finance, staffing, music, video).
- **Sustainable lifestyle:** Personal car fleet to double by 2020 with electric/hybrid vehicles to rise from 5% to 15%-30% of sales by 2030 GBP 240m yearly opportunity in recycling/reusing textiles destined for landfill in the UK.
- **Sustainable healthcare:** US healthcare spending is projected to grow at an annual rate of 5.5%, reaching $6tn by 2027 AI Healthcare applications can generate savings of $150bn annually by 2026 Robo-assisted surgery is estimated to grow to $40bn industry by 2026 Health and wellness food markets are forecasted to grow to $812bn by 2021.
- **Sustainable financials:** Financial inclusion is a US$ 380bn global opportunity for banks Number of non-cash transactions to double by 2025 Middle-class spending to increase to $56tn by 2030, and $84tn in 2050.

PASS Conference 2

Date: 28 November 2022

Theme: PolyU ESG and Sustainable Finance Capability Building and Talent Summit

Keynote Remark:
Dr Bernard Chan (Under Secretary for Commerce and Economic Development, Commerce and Economic Development Bureau)

Keynote Speaker:
Dr Ying Chen (Senior Research Fellow, Deputy Director, Research Centre for Sustainable Development (RCSD) Chinese Academy of Social Science (CASS)

- **Panel 1: Green Finance**
  Mr Alex Cheung (DBS Bank Hong Kong)Ltd)
  Dr Jochen Biedermann (World Alliance of International Financial Centers)
  Dr King-lun Au, MH (Hong Kong Financial Services Development Council)

- **Panel 2: ESG Best Practices Brought to you from Listed Food & Beverages Companies**
  Mr Simeon Cheng (Vitasoy International Holdings Ltd)
  Ms Qian Li (Budweiser Brewing Company APAC)
  Ms Samantha Woods (Swire Coca-Cola)

- **Panel 3: Carbon Neutrality**
  Ms Jenny Lee (Hong Kong Green Finance Association)
  Prof. Christine Loh (The Hong Kong University of Science and Technology)
  Mr Jeff Huang (AEX Holdings, Ltd)

- **Panel 4: ESG Talent and Capability Building**
  Ms Loretta Fong (Hong Kong Institute of Certified Public Accountants)
  Ms Jasmine Lee (Ernst & Young)
  Dr Veronique J A Lafon-Vinais (The Hong Kong University of Science and Technology)
  Dr Feng (Harry) Wu (Lingnan University)

Keynote Remark:

Dr Bernard Chan
Under Secretary for Commerce and Economic Development, Commerce and Economic Development Bureau HKSAR

Keynote Speaker:

Dr Ying Chen
Senior Research Fellow, Deputy Director, Research Centre for Sustainable Development (RCSD) Chinese Academy of Social Science (CASS)

Panelist:

Mr Alex Cheung
Managing Director and Head of Institutional Banking Group, DBS Bank (Hong Kong) Ltd

Panelist:

Dr Jochen Biedermann
Managing Director, World Alliance of International Financial Centers

Panelist:

Dr King-lun Au, MH
Executive Director, Hong Kong Financial Services Development Council

Panelist:

Mr Simeon Cheng
Group Director – Sustainability, Vitasoy International Holdings Ltd

Panelist:

Ms Qian Li
Senior Director, Corporate Communications, Budweiser Brewing Company APAC

Panelist:

Ms Samantha Woods
Director, Sustainability, Swire Coca-Cola

Panelist:

Ms Jenny Lee
Under Secretary General, Hong Kong Green Finance Association

Panelist:

Prof. Christine Loh
Chief Development Strategist, Institute for the Environment, The Hong Kong University of Science and Technology

Panelist:

Mr Jeff Huang
CEO, AEX Holdings Ltd

Panelist:

Ms Loretta Fong
President, Hong Kong Institute of Certified Public Accountants

Panelist:

Ms Jasmine Lee
Managing Partner, Hong Kong & Macau, Ernst & Young

Panelist:

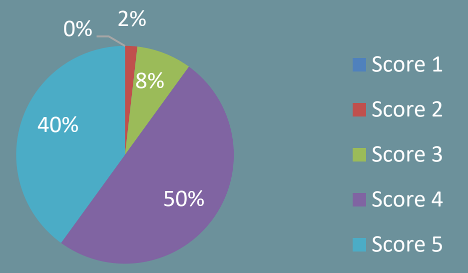
Dr Veronique J A Lafon-Vinais
Associate Professor of Business Education & Program Co-Director of BSc in Sustainable and Green Finance, The Hong Kong University of Science and Technology

Panelist:

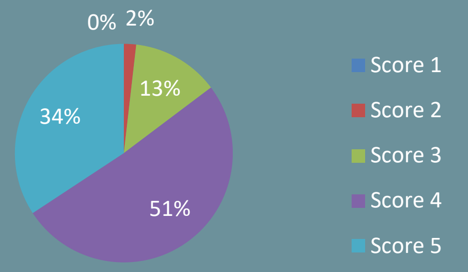
Dr Feng (Harry) Wu
Associate Professor, Department of Accountancy, Lingnan University

Number of Participants : **409**

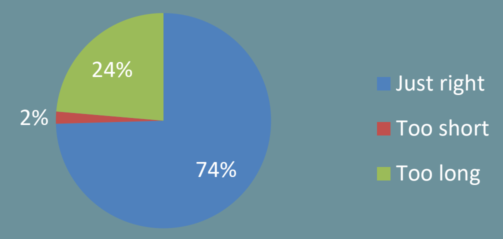
Overall Content of Seminar
Score 1 (lowest) to 5 (highest)
110 responses



Overall Performnce of Speakers
Score 1 (lowest) to 5 (highest)
110 responses



Length of the Seminar
110 responses



Academic Key Messages

- Green bond sector sprout up in China, with a diversified mix of green bond issuers--- State-owned enterprises, other corporates and non-corporates.

- Global issuance of green, social, sustainability, and sustainability-linked (GSSS) bonds shows resilience amid geopolitical headwinds. Along with the popularity of ESG integration into an investment, there are large divergences in ESG rating among different rating agencies.

- As ESG grows exponentially, the market will need a strong and experienced talent pool to support the rapid development of the industry. ESG is a fast-changing industry. New standards, requirements and strategies are expected to emerge and evolve, calling for greater demand for ESG knowledge and professionals.

Industry Key Messages

- Companies embarking on the net zero journeys should consider 1) What is their baseline, i.e. what they are emitting, after which they can conduct an environmental and carbon health check. The most common practice for most companies is to hire a consultant to finish the task since methodologies for measurements are relatively straightforward. 2) And then companies should think about what they are going to decarbonize, and what kind of time frame and targets are they going to set. At the same time, they should take into account the government's timelines and targets. 3) How are they going to decarbonize and innovate on their decarbonization processes to win their competitive edge?

- Different parties, such as financial institutions, financial centres, and regulators, are playing their unique roles in helping promote green finance. Financial institutions (banking sectors) are supposed to help their customers transform into sustainable businesses. E.g. To achieve the Net Zero Goal by 2050, banks should set emission targets for different sectors and provide feasible solutions to their customers to achieve sustainability performance targets. The solutions include financing green projects (e.g., the use of green loans, green bonds, green cross currency swaps, etc.) or helping purchase carbon offset credit for their customers. Financial centres target to become green, smart, innovative, customer-centric, and inclusive in 2030.

- Emerging and developed markets are different and regulators should take into account the challenges emerging markets face to meet international guidelines for sustainable finance, against the background of a fair and just net-zero transition.

- Engagement of various parties such as private and public sectors, government, regulators and academia is key to ensuring green and sustainable finance policies and initiatives are developed and realized.

- Every industry sector has its unique set of sustainability challenges, risks and opportunities. As a result, companies should focus on United Nations Sustainability Development Goals (SDGs) that are most relevant and where they can make the greatest impact. For example, the Food & Beverages sector focuses on: SDG 2 zero hunger, SDG 3 good health, SDG 6 clean water, SDG 7 affordable and clean energy, SDG 12 responsible consumption and production, and SDG 13 climate change.

Appreciations

hkira

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