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HK's green vision

Hong Kong-listed companies are at the forefront in pushing the SAR's 'green economy' goals, with experts urging the government to provide more effective tools and incentives to realize them. Liu Yifan reports from Hong Kong.



Hong Kong is exceeding expectations in attaching the green label to its global financial hub status amid a worldwide drive for climate change.

Financial Secretary Paul Chan Mo-po unleashed a string of initiatives in his 2024-25 Budget to foster a low-carbon economy. One key priority is to formulate sustainability disclosure standards and roll out a "roadmap" and a "vision statement" to help businesses and financial institutions in sustainability reporting and the analysis of relevant data.

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九龍荔枝角瓊林街93號龍翔工業大廈4樓A室 Unit A, 4/F, Dragon Industrial Building, No. 93 King Lam Street, Lai Chi Kok, Kowloon
T: (852) 2541 3388 F: (852) 2544 8668 www.baguio.com.hk

“Accurate information is essential in stimulating sustainable financing. The onus for this is on international organizations and government agencies in the next few years,” Chan said in the budget speech. “To deepen Hong Kong’s green and sustainable finance development, enterprises must align their practices in sustainability disclosure with international standards.”

Sustainability disclosure standards normally refer to the environmental, social, and governance — a set of practices and metrics used to gauge businesses beyond their financial performance. ESG, which came under the spotlight in the 21st century, often comes along with corporate social responsibility and a low-carbon economy.

Significant progress

The Hong Kong Special Administrative Region’s bid to achieve its goal of driving sustainability disclosure standards calls for concerted efforts, although there have been major improvements in the past few years. According to a report by the Hong Kong Institute of Certified Public Accountants in November last year, 141 out of 1,882 Hong Kong-listed companies surveyed during the fiscal year ended Dec 31, 2022, had adopted ESG external assurance — accounting for 7.5 percent of the total number and representing an almost 70-percent increase from that of the previous year.

The proportion of large-market-capitalization companies practicing ESG external assurance was significantly higher, with 57 among 137 having done so, and the proportion rising to more than 41 percent from 20 percent in 2021, the survey found.

Unlike financial reporting, which has well-established accounting standards and frameworks, sustainability reporting lacks standardized metrics, methodologies, and disclosure requirements. “ESG issues are often complex and multifaceted, making it difficult to define clear and universally applicable indicators to gauge performance,” says Adele Yim, head of risk advisory services at audit and consultancy firm, Mazars in Hong Kong. “ESG disclosures also often involve qualitative and forward-looking information that can be subjective and challenging to objectively verify.”

Implementing ESG external assurance can also be financially burdensome, particularly for small businesses operating with limited resources. The additional expenses associated with

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engaging assurance providers and undergoing the process may deter companies, especially those that don't perceive significant benefits or a strong business case for external assurance, explains Yim.

But, there's a general consensus that ESG is particularly relevant and necessary for a financial hub like Hong Kong, as the sustainability philosophy is becoming an increasingly integral part of the city's low-carbon ambitions.

Peter Lam, a researcher at think tank, Our Hong Kong Foundation, says the main areas where the value of ESG is reflected include risk management, financial performance, and reputation. "ESG issues can also have a material impact on a company's operations, supply chain, and customer base, and can affect its access to capital, as well as the cost of financing."

While investors used to base their selections mostly on a company's track record, they're now more concerned with the future, says Lam, adding that ESG reporting indicates management strength and gives investors confidence in a company's long-term prospects.

Asset management firms and institutional investors play a pivotal role in driving the integration of ESG principles in the financial industry. Major US corporations like BlackRock, Vanguard and State Street have integrated ESG factors with their investment strategies, engagement approaches and voting practices. Their influence spans worldwide markets, motivating companies to enhance their ESG performance and disclosure methodologies.

Patrick Chan, chief financial officer at Hong Kong-based environment services firm, Baguio Green Group, says embracing ESG can benefit the SAR by strengthening its competitiveness, fostering sustainable economic growth, and positioning the city as a leader in responsible finance. "Furthermore, considering Hong Kong's vulnerability to climate change and its role as a gateway for capital flows, addressing environmental and social issues has become crucial for long-term resilience and stability."

It's hoped that the comparability, reliability and transparency of sustainability information in different jurisdictions and industries can be improved following the publication of "the International Financial Reporting Standards (IFRS) — Sustainability Disclosure Standards" by the International Sustainability Standards Board last year.

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The IFRS SDS, which is based on four pillars of the Task Force on Climate-Related Financial Disclosures framework — governance, strategy, risk management, and metrics and targets — aims to establish a universal foundation for disclosing sustainability-related information, having gained extensive international support from various stakeholders.

Economies like the Chinese mainland, the United Kingdom, Japan, Singapore, Australia and Canada have said they're willing to enforce ESG international standards.

Break dilemma

In Hong Kong, mandatory climate-related disclosure in ESG reports for listed companies, following international standards, guidelines, and frameworks will start next year. The effective date has been postponed for one year to allow more time for public firms to prepare for the new requirements.

Danny Ho Wing-fi, a fellow of the Institute of Chartered Accountants in England and Wales, says Hong Kong's adoption of internationally recognized sustainability disclosure standards would enhance investor confidence in local companies.

As domestic and international businesses become more eager to integrate ESG considerations into their investment decisions, having standardized and reliable ESG information would help investors assess the long-term sustainability and risk profile of Hong Kong companies, potentially attracting more capital and improving access to funding, he says.

However, more than 80 percent of Hong Kong-listed companies could find it hard to meet the mandatory climate-related disclosure requirements next year, according to a research report by

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Baguio Green Group chief financial officer

Patrick Chan says embracing ESG will help Hong Kong maintain its position as a responsible finance leader. (PROVIDED TO CHINA DAILY)

Bloomberg Intelligence. “We believe there’s a 30-percent possibility of the mandatory disclosure requirements being put off further,” says the report published in February.

According to a survey of 400 listed companies by Hong Kong Exchanges and Clearing — the city’s bourse operator — only 20 percent of those polled are adopting at least one disclosure recommendation from the TCFD in their climate-related disclosure reporting — a far cry from the global average level of 90 percent.

Hong Kong could implement new climate disclosure rules step by step by initially requiring large companies in specific sectors to comply with the rules before expanding the scope to all companies, Bloomberg Intelligence suggests.

A question mark remains over how Hong Kong can pave the road to a sustainable future. To drive the city’s ESG development and align its efforts with the international ecosystem, experts would like to see specific measures taken.

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According to Koh Ping-sheng, professor of accounting at ESSEC Business School, Asia-Pacific, one of the risks in enforcing reporting standards is that companies might have a checkbox mentality, rather than considering sustainability as a strategic priority by integrating them into their core operations. “To help achieve the latter, the Hong Kong SAR government can consider investing in initiatives to promote ESG education and awareness among businesses, investors, policymakers, and the general public,” he suggests.

Training programs, workshops, seminars and outreach activities can help stakeholders understand the importance of ESG factors, build capacity for ESG integration, and foster a culture of sustainability and responsible investing. Steps can also be introduced to mitigate such hurdles, as the startup costs for ESG reporting can be prohibitively high for smaller companies.

For instance, the SAR government can support the development of ESG reporting infrastructure, such as with tools, guidelines and platforms, to facilitate ESG data collection, analysis and disclosure. “This can be achieved by collaborating with industry bodies, technology providers, and regulatory agencies to develop standardized reporting templates, digital reporting solutions, and data verification mechanisms to enhance the quality and reliability of ESG disclosures,” says Koh.

Platforms for knowledge sharing can further reduce the costs of implementation and increase the quality of ESG engagement and reporting, and such efforts can be part of the capacity building for ESG integration.

Ho, who’s also executive director and chief financial officer of beauty products retail group, Sa Sa International Holdings, suggests offering a rewards and incentive program, such as tax breaks or grants, to encourage companies to adopt sustainable practices and disclose ESG information. This could incentivize them to prioritize ESG factors and build up their reputation as responsible corporate citizens.

Hong Kong should also consider developing green and sustainable finance by encouraging the issuance of green bonds, promoting sustainable investment products, and supporting the growth of sustainable banking and insurance, he says.

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The total amount of green and sustainable bonds issued in the SAR in 2022 had exceeded \$80 billion, with the scale accounting for one-third of those issued in the entire Asian region, according to official figures.

Chan of Baguio Green Group stresses it's important for the government to support innovation and technology in encouraging sustainability reporting and monitoring capabilities. He says various steps could be taken, such as providing funding or incentives to companies and startups that work on sustainable solutions, promoting collaboration between technology providers and businesses, and leveraging emerging technologies like blockchain, artificial intelligence, and data analytics.

Yim agrees that collaboration among government departments, industry associations and market participants is paramount in propelling Hong Kong's ESG development.

Creating platforms for dialogue, knowledge sharing, and best practice exchanges can further strengthen cooperation and collective action in attaining common ESG goals.

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