



How can the financial services sector support the world's climate ambitions?

EY Financial Services team helps create long-term value for businesses on their ESG journey

■ ■ ■
The better the question. The better the answer.
The better the world works.



EY 安永
Building a better
working world



“

We create long-term value for clients by helping them capture opportunities, improve business resilience, build trust and thrive in this fast-changing world.

Jack Chan
Chairman, China
Regional Managing Partner, Greater China
EY

Note: EY refers to as EY organization throughout

Foreword

The concept of sustainability is said to be rooted in the 17th century. Fast tracking to today's business world, the definition of sustainability has very much evolved; it is not only taken as a development goal but also a critical assessment for investment decisions in the capital market. As such, businesses with a strategic and long-term development vision, including players in the financial services sector, are ready to invest in their Environmental, Social and Governance (ESG) performance.

On the other hand, Hong Kong, an international financial center where many ESG-conscious enterprises are located, is naturally well positioned to capture new business opportunities alongside the global "green" climate and answers to the call for sustainable business practices, including sustainable finance and ESG investment, to deliver long-term value.

EY has been offering professional services to companies and financial institutes in Hong Kong for over half a century. Our experienced teams have

proven track records on offering clients various ESG-related services that will help fulfil their business vision and strategic needs. From formulating ESG governance structure and investment strategy, to conducting ESG performance analysis or related training, EY has a wealth of insight, experience and service offerings to support your business needs. Creating extra value for our clients is the global EY network of professionals in the Greater China region and around the world, where our professionals are always ready to support no matter when and where our clients are making the next move.

We are committed to providing you with the leading class services to overcome tough business challenges. This ESG service guide outlines the experiences, case studies and services that EY offers. With our professionals, integrity and enthusiasm, our professional teams are here to help your business boost resilience and agility on sustainable development, as you navigate toward reshaping the future.



Overview of ESG

What is ESG

ESG refers to environmental, social and governance issues that investors may consider when making an investment.

Following are brief examples of ESG issues:

Environmental

Environmental risks created by business activities that have actual or potential negative impacts on air, land, water, ecosystems and human health.

Examples:

- ▶ The use of resources;
- ▶ Emissions and climate impact;
- ▶ Pollutions;
- ▶ Energy efficiency

Social

Social risks refer to the impacts that companies potentially have on society.

Examples:

- ▶ Health and safety;
- ▶ Product and services;
- ▶ Anti-corruption;
- ▶ Supply-chain management

Governance

Governance risks that directly relate to core business operations, structure and regulatory compliance.

Examples:

- ▶ Board diversity and accountability;
- ▶ The rights of minority shareholders;
- ▶ Remuneration and incentives



ESG has become a new global megatrend impacting the capital markets of Hong Kong

Banking & Capital Markets (BCM)

A three-phased approach has been announced by the Hong Kong Monetary Authority (HKMA) in May 2019 to promote green and sustainable banking. First round of self-assessments by authorized institutions (AIs) will be conducted in mid-2021 during the Phase II of consulting supervisory expectations or requirements. Subsequently, the final phase, in accordance with the HKMA's regulatory roadmaps, commences in 2022 and entails the implementation, monitoring and evaluation of the banks' progress.

In June 2020, the HKMA has further issued a White Paper on Green and Sustainable Banking, outlining initial thinking on the HKMA's supervisory approach to address climate-related issues and laying out nine guiding principles for building a more climate-resilient banking system. These guiding principles are designed to help AIs develop a **governance** framework and **strategy** for managing the risk and opportunities brought upon by climate change, and to provide guidance for embedding climate considerations into the **risk management** framework and information **disclosure**.

In December 2020, the HKMA invited banks to conduct a pilot Climate Risk Stress Test (CRST) in 2021 to assess the climate resilience of the banking sector and to facilitate building up the capabilities of participating banks in measuring climate risks. While regulators are noticing the importance of addressing ESG issues and are now prioritizing risks arising from climate change, more strengthened measures are anticipated for the banking sector in the near future. Banks should consider putting more focus and resources to embed ESG considerations into their business planning and integrating ESG factors into existing risk management frameworks. This not only prepares banks for future regulatory requirements, but also helps them mitigate ESG risks and enhance climate resilience.

Wealth & Asset Management (WAM)

Regulators and asset owners are more prone to questioning whether asset managers have considered ESG risks and whether such risks have been adequately addressed. Not only is the financial performance of funds being questioned but also the non-financial factors of the investments made by the funds. As shown in a survey conducted by the Securities and Futures Commission (SFC) of Hong Kong in 2019, 83% of sampled asset management firms considered at least one ESG factor in order to understand a company's investment potential and to facilitate better investment decisions and risk management. 68% of which acknowledged that ESG factors could be a source of financial risks and 63% of which practiced responsible ownership.

Furthermore, the SFC launched a consultation on proposed requirements regarding the management and disclosure of climate-related risks in October 2020. The SFC proposes to amend the Fund Manager Code of Conduct (FMCC) and sets out baseline requirements as well as enhanced standards for fund managers to incorporate climate-related risks in their investment and risk management processes. The consultation also makes appropriate disclosures to meet investors' growing demands for climate risk information while combating greenwashing. The proposed SFC consultation requires fund managers to take the following into account:

- Governance and management across the organization through Board oversight, appropriate management structure, financial and human resource, internal controls, and etc;
- Investment management process for funds by identifying and assessing relevant and material physical and transition climate-related risks, and factoring the material climate-related risks into the investment management process;

- ▶ Risk management procedures by adopting appropriate steps, tools and metrics to identify, assess (and quantify), manage and monitor the relevant and material climate-related risks for each investment strategy and fund; and
- ▶ Disclosure with regard to the Board's and management's roles and responsibilities, investment management process and risk management approach.

Enhanced standards are further proposed to Large Fund Managers*. These include adopting scenario analysis in evaluating the resilience of investment strategies to climate-related risks, identifying and disclosing weighted average carbon intensity of greenhouse gas (GHG) emissions associated with the funds' underlying investments, and disclosing relevant engagement policy, among others.

Insurance

For the insurance industry, climate change is recognized as one of the most high-profile and topical risks. For example, physical risks evolved from environmental factors are seen to have a major and immediate impact on property & casualty (P&C) insurance claims. Over the long term, it also affects the health of the population and therefore has an impact on the cost of health and sickness benefits and, ultimately, the value and cost of annuity policies. Back in 2012, the UNEP's Finance Initiative developed a framework for the insurance industry, named the

Principles for Sustainable Insurance, which was dedicated to help the insurance industry manage sustainability risks while erecting opportunities in moving towards a more climate-resilient economy. In 2019, the first guide to manage sustainability risks in insurance underwriting was launched to further facilitate the ESG due diligence process for clients and transactions. Insurance firms' senior management and boards are expected to understand, address and oversee all the risks that can arise from long-term ESG perspectives. There is an urgent need to improve stress testing and scenario analysis so as to develop sustainable resilience and a fuller appreciation of ESG risk drivers to financial performance.

Regulatory context of major economies

Regulations for ESG disclosures and ESG investments are highly intertwined and mutually enhancing. The recognition of the positive impact of ESG activities and the increasing demand for more information on how corporates manage their ESG risks has resulted in a rapidly changing global regulatory landscape in ESG matters. Meanwhile, it is encouraging to witness that integrating ESG factors into governance, investment and risk management processes is gaining momentum.

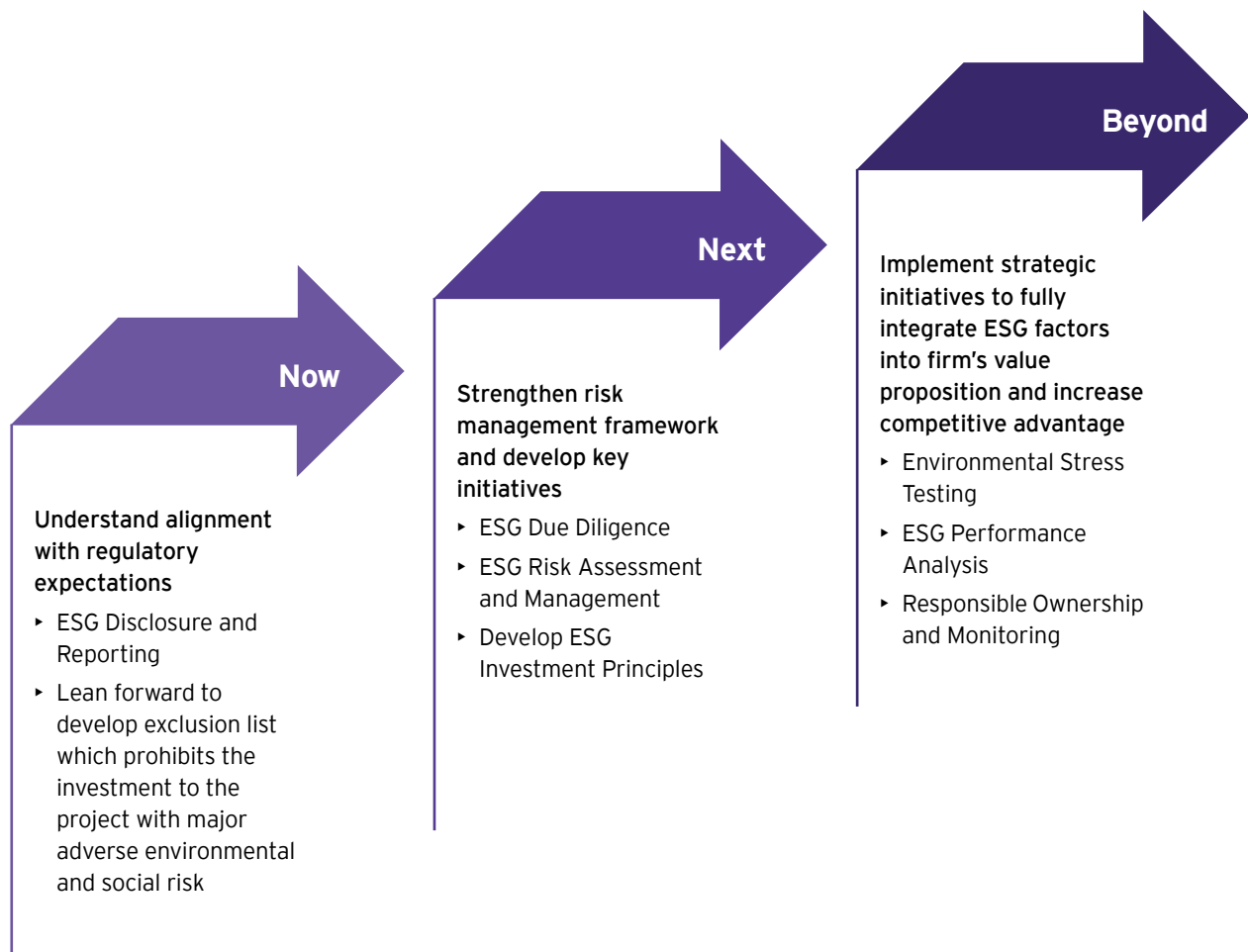
*Fund managers with assets under management (AUM) of HK\$4 billion or above.



	ESG information disclosure	ESG investment
China Mainland	In 2020, Guidelines for Environmental, Social and Governance Information Disclosure of Listed Companies in Shanghai Stock Exchange was in consultation phase.	In 2018, GFC partnered with City of London to launch the <i>Green Investment Principles for the Belt and Road</i> . During the same year, IAMAC issued the <i>Green Investment Initiative for China Insurance Asset Management Industry</i> . In 2019, following the 2018 <i>Green Investment Guidelines</i> , AMAC issued notice for fund managers to submit the <i>Self-assessment Evaluation Report regarding the Green Investment Guidelines</i> .
Hong Kong	In 2019, HKEX released the conclusion on Consultation Paper which further tightened the rules on ESG information disclosures for listed entities.	In 2019, HK SFC issued the <i>Circular to Management Companies of SFC-Authorized Unit Trusts and Mutual Funds-Green or ESG Funds</i> . In May 2020, authorities including the HKMA and HKEX has jointly set up <i>Green and Sustainable Finance Cross-agency Steering Group</i> to accelerate the growth of green and sustainable finance. In July 2020, amendments on Hong Kong Stock Exchange's ESG Reporting Guide and related Listed Rules came into effect. In October 2020, the SFC launched a consultation on proposed requirements for fund managers to address climate-related risks of investing in funds.
Singapore	In 2016, SGX published the Sustainability Reporting Guide, which mandates annual sustainability reporting by all listed companies on a comply-or-explain basis.	In 2019, the Monetary Authority of Singapore (MAS) announced a US\$2 billion <i>Green Investment Program (GIP)</i> , which will place funds with assets managers who are committed to drive regional green efforts out of Singapore and to environmental risks. In December 2020, MAS finalized the Guidelines on Environmental Risk Management for Asset Managers, Banks and Insurers. This goal is to set out sound practices in relation to these financial institutions' governance, risk management and disclosure of environmental risk. The Guidelines also serve as a call to action for financial institutions to support the transition to an environmentally sustainable economy, by enhancing the integration of environmental risk considerations in the financial institutions' financing and investment decisions and promoting new opportunities for green financing.
UK	In 2017, LSE issued the ESG reporting guide to encourage listed companies to publish ESG reports. In 2019, the UK government published the <i>Green Finance Strategy Report</i> which highlighted the expectations on large asset owners and all listed companies to disclose in line with the TCFD Recommendations by 2022.	In 2020, the UK Financial Reporting Council revised the <i>UK Stewardship Code</i> to reflect and integrate ESG elements to guide responsible allocation, management and oversight of investment capital.
EU	In April 2020, the European Council adopted the "EU Taxonomy", which served as an EU-wide classification system for environmentally sustainable economic activities. Under the proposed Taxonomy regulation, institutional investors and asset managers marketing investment products as environmentally sustainable would need to explain whether, and how they have used the EU Taxonomy criteria.	In March 2018, the European Commission released an Action Plan for Financing Sustainable Growth. The goal was to reorient capital flows to ESG investments and to promote mainstream sustainability into risk management by clarifying the duties regarding sustainability to institutional investors and asset managers.

EY service offerings

EY teams are already working with the BCM, WAM and insurance sectors to support their ESG journey. We offer a broad range of services at all levels and help clients create an ESG roadmap ranging from complying with regulatory requirements to striving for leading class practices.





Five steps ESG ladder

1. ESG strategy advisory

ESG governance

- ▶ EY teams assist listed companies in building an ESG governance structure, diagnosing, integrating and systemizing the company's ESG indicators, meanwhile developing and improving the mechanisms and methods by which the board participates in ESG work. Ultimately, the goal is to clarify ESG decision-making across executive levels. Other services include department and staff settings, job responsibilities and processes, etc., all of which serve to achieve a long-term continuous operation of ESG work in company management.
- ▶ EY teams also assist listed companies in formulating ESG plans, developing implementation plans from top to bottom on four levels - governance, strategy, risk management and performance indicators - and fully integrating domestic and international ESG trends, industry characteristics, company development stages and other factors to achieve listing. The company's ESG work is well-founded, with goals to guide, ways to land, and indicators to trace.

ESG investment strategy

- ▶ In order to fully integrate ESG considerations into business activities and investment processes, EY teams will provide clients with a detailed and full-process ESG investment advisory service to help them address emerging ESG opportunities, help manage risks, reduce compliance costs and improve operational and performance effectiveness.

2. ESG performance and impact advisory

ESG performance analysis

- ▶ The EY ESG performance analysis model covers 19 major industries and more than 4,000 listed companies, including a three-level indicator system. After screening characteristics of indicators in different industries and assessing the importance and impact of various indicators across industries, the indicator system is divided into general indicators and industry-specific indicators. Each ESG evaluation index will be given different weights according to different industries. Combined with the negative company ESG information, the ESG performance of the listed company is fully evaluated. EY teams will help investors build ESG analysis models, conduct quantitative portfolio analysis of ESG investments, equity research, screening or risk warnings, assess the environmental and social impacts of investment projects, and promote ESG investment practices

3. ESG risk management

Environmental and climate-related stress testing and scenario analysis

- ▶ Risk arising from ESG, especially environmental and climate-related risk, can pose adverse impacts to clients' businesses in both breadth and magnitude. To facilitate clients' planning of responses to ESG risk, EY teams tailor methodologies and tools for scenario analysis to assess how ESG risks may impact clients' businesses in terms of both magnitude and likelihood of impact over time. We also conduct environmental and climate risk stress test to help clients measure the risks within an ordinary business planning horizon.

ESG risk management system

- ▶ EY teams will assist clients in incorporating ESG factors into their risk management system with the integrated leading consulting metric. A risk classification framework based on the degree of ESG risks and a risk model incorporating a forward-looking ESG indicator system are recommended for better identifying, assessing, managing and monitoring ESG risks. EY has provided ESG risk advisory services and developed evaluation systems for clients operating in diversified financial fields, such as banks, secondary market investors, private equity, insurance funds, etc. With the development of artificial intelligence and big data, EY further recommends that investors should put more effort on embedding ESG risk management modules into their core system to achieve dynamic and proactive ESG risk management, so as to plan ahead to mitigate ESG risk across all business levels.

4. ESG disclosure

ESG reporting

- ▶ With more regulators and investors paying attention to effective and accurate disclosure on non-financial matters, companies should focus on improving data quality and creating long-term value reporting. Enhancing information transparency on ESG investment can also support investors in making better decisions on their investments based on adequate and accurate information. By opening up an effective communication channel to limited partners/stakeholders through disclosure, it can also enhance a firm's brand position and reputation. EY teams have helped various financial institutions to establish a systematic sustainability/ ESG information management and reporting system to facilitate ESG disclosures in complying with regulatory requirements and also conforming to international frameworks.



ESG assurance


- ▶ The Hong Kong Stock Exchange requires H-share listed companies to publish ESG reports each year. EY provides ESG reporting assurance services to H-share listed companies as a third party. By providing information verification and certification reports on annual ESG reports, we help enhance the recognition of data quality and credibility in terms of non-financial disclosure.

5. ESG capacity building

ESG trainings

- ▶ EY offers a range of capacity building services and training covering basic presentations, sustainability and broader environmental, social and governance applications. Featured services include board level participation, in-house training, on-site consulting and more.





EY strengths

EY credentials

EY teams provide pragmatic and flexible business approach to support companies evoking their ESG journey.

ESG investment strategy and PRI enrollment

We support clients in developing their overarching and robust ESG investment strategies by providing a comprehensive ESG Advisory Package, ranging from ESG Investment Strategy Advisory at corporate level all the way to the ESG Portfolio Management and ESG Impact Interment Advisory in post-investment phase. Also, at client's requests, we provide advisory service for UNPRI signatory enrollment and assistance towards further compliance requirements.

Portfolio highlight:

- ▶ We offered our package to the very first private equity fund in a dual-currency structure of "domestic RMB funds + overseas USD funds" in China with a total management scale of RMB 30 billion (RMB equivalent).

EY services include:

- ▶ ESG Strategy Framework Advisory
- ▶ ESG Performance Analysis
- ▶ ESG Due Diligence
- ▶ PRI Signatory Application

Green finance strategy advisory

We support a policy bank in establishing green finance action plan to incorporate the environmental and social risk management framework into its existing risk management procedures and ordinary loan practice, with a particular focus on green and social projects in the regions and countries covered by the Belt & Road Initiative.

Portfolio highlight:

- ▶ We completed a detailed Manual Guide of Green Loan for a commercial bank to conduct environmental and social risk evaluation and management across 10 selected industries.

EY services include:

- ▶ Green Finance Strategy Framework Advisory
- ▶ Measures for Green Loan Management and Environmental and Risk Management



Environmental and Social Management System (ESMS)

We build and customize ESMS for financial institutions to incorporate the environmental and social risk management into existing risk management procedures and business operations.

Portfolio highlight:

By applying the findings of a comprehensive ESG Performance Analysis examining 100 stocks in the market, we helped a client develop a new ESG module to integrate with the existing risk management approach and enhance the overall ESG information disclosure.

EY services include:

- ▶ ESG Strategy Framework Advisory
- ▶ ESG Performance Analysis and its Application
- ▶ ESG Reporting Service

Environmental/climate-related stress testing

EY teams offer comprehensive environmental/climate-related stress testing services to help financial institutions test out the capabilities and resilience of businesses towards underlying environmental or climate-related risks. We also provide constructive and strategic advices based on the findings to safeguard your business against future risks.

Portfolio highlight:

- ▶ We worked closely with the risk management team of a commercial bank client to build an environmental stress transition data model and fully carry out the stress test.

EY services include:

- ▶ Industry Analysis
- ▶ Scenario Modelling and Analysis
- ▶ Stress Testing and Reporting
- ▶ Business Strategy Advisory

Due diligence on environmental and social risks

We supervise and perform due diligence to identify, assess, and control the potential risks of investment projects arising from environmental and social aspects.

Portfolio highlight:

- ▶ We performed due diligence on environmental and social risk for a Hong Kong leading insurance group on the investment projects in mainland China.

EY services include:

- ▶ ESG Strategy Framework Advisory
- ▶ ESG Risk Management Framework
- ▶ ESG Reporting Service

ESG/CSR reporting

We provide ESG/CSR reporting and advisory services for 300+ H-share listed companies and 200+ A-share listed companies to align with local and international ESG/CSR reporting frameworks and standards.

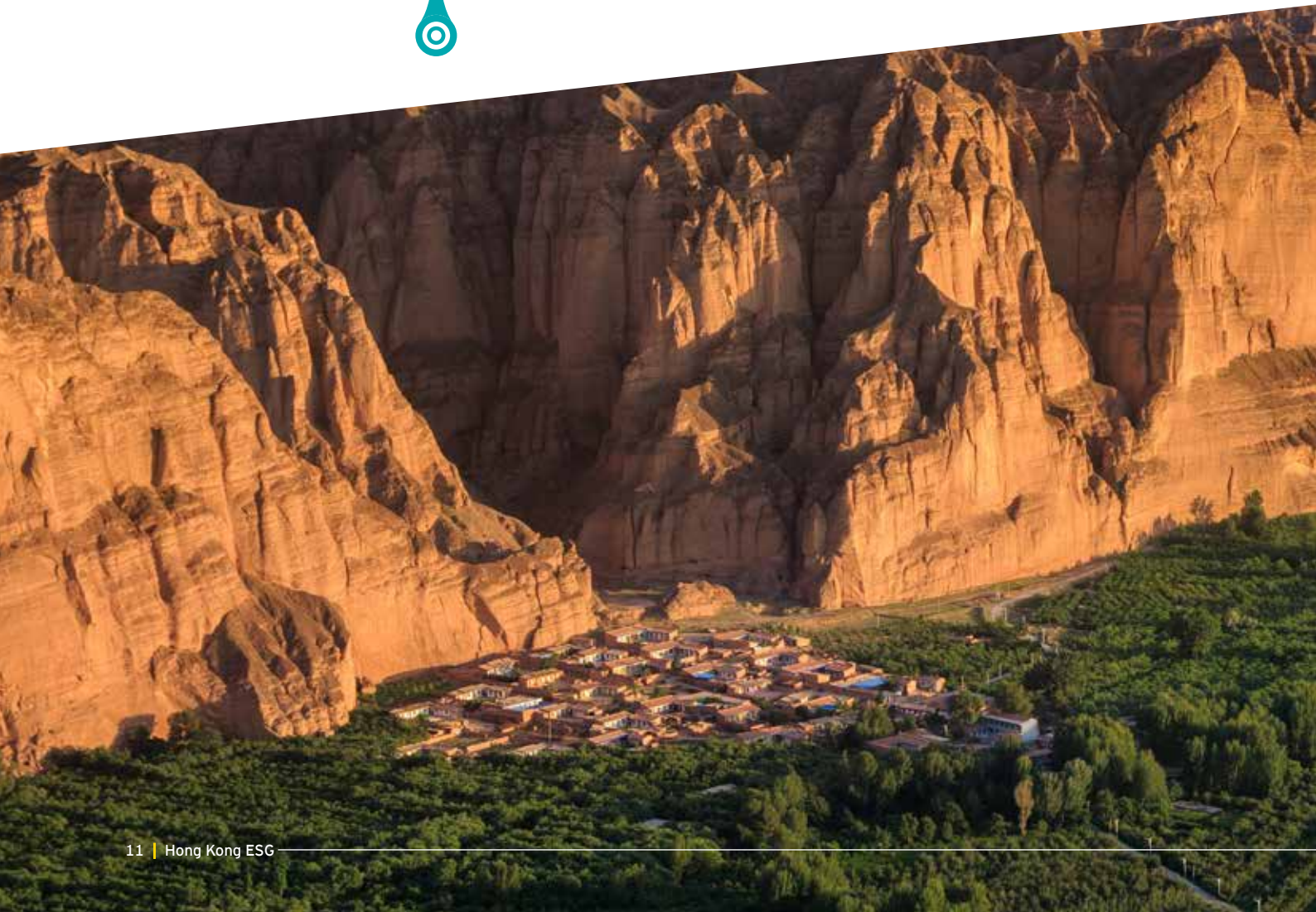
EY services include:

- ▶ ESG Data Collection
- ▶ Materiality Assessment
- ▶ Stakeholder Engagement
- ▶ ESG Reporting

ESG/CSR report assurance

We offer third party independent assurance over non-financial information disclosures based on international standards including ISAE3000 and AA1000.

Awards



**Global
Green Finance
Innovation Award**
*International Finance
Forum (IFF)*

2020

One of the
highest-level
selections
of global green
finance practice
programs and
innovative solutions

ESG insights

EY looks ahead to both ESG-related challenges and opportunities facing businesses. We are not only an ESG services provider to walk with organizations along their ESG journey, but also an inspirational leader who is keen to share our far-reaching insights on ESG and seeks to create impact. Scan the QR codes and explore our leading-edge thinking and insights:

EY LinkedIn



EY Wechat



EY teams

We bring together professionals with knowledge, experience and passion to help businesses respond to environmental, societal and governance challenges.



Judy Li
Sustainability Leader, Financial Services, Asia-Pacific
Partner, Climate Change and Sustainability Services
Financial Services, Greater China
Ernst & Young
+852 6889 8956
judy-lj.li@cn.ey.com



Peter Picton-Phillipps
Hong Kong Market Leader, Financial Services
Ernst & Young
+852 2846 9687
peter.picton-phillipps@hk.ey.com



Keith Pogson
Senior Partner, Financial Services
Ernst & Young
+852 2849 9227
keith.pogson@hk.ey.com



Jasmine Lee
Partner, Chinese Inbound Business Leader
Ernst & Young
+852 2629 3006
jasmine-sy.lee@hk.ey.com



Christine Lin
Hong Kong Wealth & Asset Management Leader
Hong Kong Assurance Leader, Financial Services
Ernst & Young
+852 2846 9663
christine.lin@hk.ey.com



Charlotte Hui
Partner, Wealth & Asset Management
Financial Services
Ernst & Young
+852 2849 9349
charlotte.hui@hk.ey.com



Sameer Rege
Partner, Business Consulting, Financial Services
Ernst & Young Advisory Services Limited
+852 2849 9458
sameer.rege@hk.ey.com



Sky So
Partner, Business Consulting, Financial Services
Ernst & Young Advisory Services Limited
+852 2849 9217
sky.so@hk.ey.com



Eugène Goyne
Associate Partner, Financial Services
Ernst & Young Advisory Services Limited
+852 2849 9470
eugene.goyne@hk.ey.com



Virginia Noronha
Associate Partner, Asia-Pacific Regulatory Services
Ernst & Young Group Limited
+852 2849 9378
virginia.noronha@hk.ey.com

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

Follow us on WeChat

Scan the QR code and stay up-to-date with the latest EY news.



EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients, nor does it own or control any member firm or act as the headquarters of any member firm. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

© 2021 Ernst & Young, China.
All Rights Reserved.

APAC no. 03011871
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com/china