INVESTORS' ESG EXPECTATIONS

AN ASIAN PERSPECTIVE

June 2021

ASIFMA is an independent, regional trade association with over 150 member firms comprising a diverse range of leading financial institutions from both the buy and sell side including banks, asset managers, accounting and law firms, and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative and competitive Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the U.S. and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

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ASIFMA would like to extend its gratitude to all of the individuals and member firms who contributed to the preparation of this Paper

EXECUTIVE SUMMARY

ASIFMA's Asset Management Group ("**AAMG**") comprises some of the world's largest asset managers and is focused on helping investee companies [1] in Asia to improve their engagement with, and disclosure of, sustainability issues.

The recognition that environmental, social and governance ("**ESG**") issues can have a material impact on investments has driven global asset managers and their clients to the realisation that effective assessment and management of these issues is part of their fiduciary duty. Just as asset managers are undergoing a paradigm shift to better integrate ESG issues into their investment processes, they also expect investee companies to undertake similar organisational changes to better assess and mitigate material ESG issues within their scope of business.

This paper seeks to explain why companies in the Asia region should adopt and disclose sustainable business practices that take ESG issues into account (see Section 1: *Why companies should adopt best practice on ESG issues*).

Importantly, this paper also provides practical guidance on what institutional investors, particularly asset managers, expect of investee companies in approaching ESG issues, including specific implementation and action points. For context, this paper also outlines how this information is used by asset managers and the information that is most helpful to such investors (see Section 2: *The why and what of investor expectations*).

In this paper, AAMG suggests that the findings of the Task Force on Climate-Related Financial Disclosures could prove a useful framework for investor expectations of how investee companies address not just climate issues but also broader material ESG or sustainability concerns.

Asia is a very diverse and nuanced region. AAMG guidance considers region-specific characteristics including the implications for conglomerates, SOEs / government-owned, and family-controlled companies, given their prevalence in Asia.

It is important to stress that management of ESG issues is not just about disclosure. AAMG believes that driving strategic and cultural change on material ESG issues requires commitment and engagement starting from the top of an organisation, which goes hand-in-hand with having the skillset to properly assess ESG issues. Regulators can play an important role in accelerating and encouraging board level commitment and engagement through regulation, codes of conduct and exchange rules. Directors and boards can also be guided by ESG education, training and constructive engagements with investors.

Ultimately, AAMG sees the adoption of sustainable business practices as something that is achievable by all companies even if they are currently just starting out on the journey (see Section 3: *Common pitfalls and best practices: Examples of what investors want (and don't want)*).

[1] This guidance also applies to investment trusts and other entities, although reference is made more generally to investee companies or issuers throughout this paper.

Key Concepts

Asset managers / Institutional investors: The views in this paper are those of AAMG members, being long-term holders of securities asset classes such as equity and fixed income for their investment strategies on behalf of their clients. Such investors typically represent the long-term institutional shareholder and / or bondholder base of most Asian issuers. Many are also signatories to the UN Principles for Responsible Investment (the "**PRI**"), which represents a commitment to responsible stewardship. As investors, AAMG members' expectations may be different from those of other stakeholders including civil society groups.

Materiality: Investors are interested in ESG issues of investee companies, to the extent that such investment value drivers are material. Materiality can differ by industry. For example, workforce safety is a material issue for the mining & heavy industry sectors but not the financial sector, and customer data protection is a material issue for the IT & financial sectors but not the mining sector.

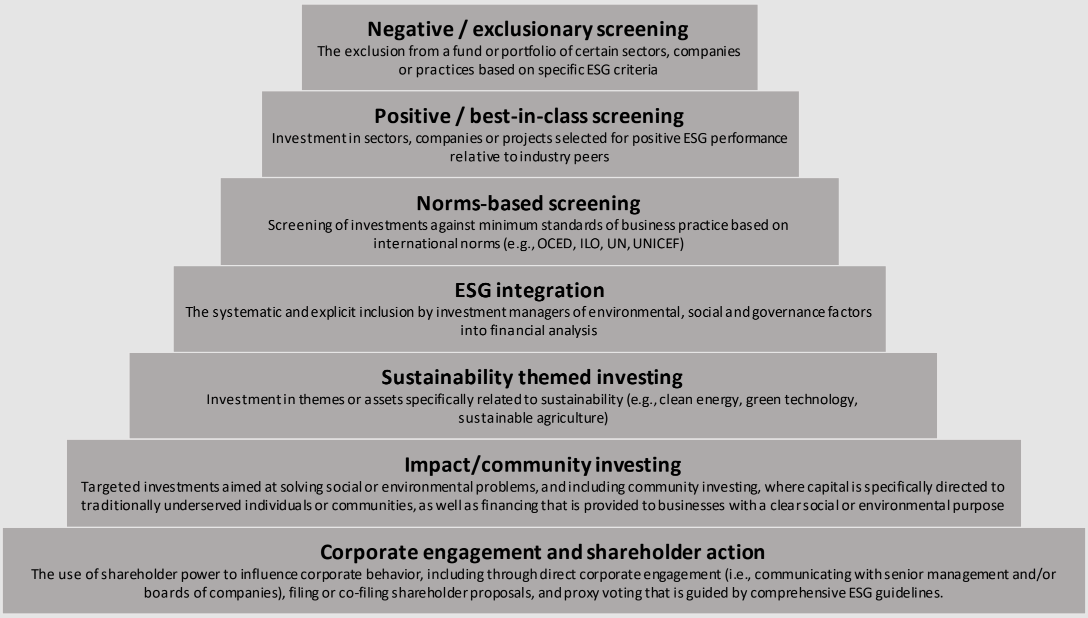
The Sustainability Accounting Standards Board ("**SASB**")[2] and Financial Stability Board's Task Force on Climate-related Financial Disclosures ("**TCFD**") both provide materiality definitions that are widely referenced by investors. There are other emerging materiality or sustainability reporting frameworks such as the Global Reporting Initiative ("**GRI**") and International Financial Reporting Standards ("**IFRS**"). It is important for companies to understand that there is no universal definition on what constitutes a material ESG issue, and that different investors (and other stakeholders) may also employ their own materiality frameworks or matrices.

Types of ESG investing

There is a broad and increasing spectrum of investment assets under management globally that include one or more of the following characteristics (see Figure 1). While negative screening and exclusions have been deployed for ethical reasons for decades (e.g., the exclusion of companies involved in alcohol, tobacco or gambling), it is increasingly becoming standard practice for active managers to integrate ESG considerations into investment processes. The other types of ESG investing are also gaining in popularity.

[2] SASB Materiality Map, 2018. https://materiality.sasb.org/

FIGURE 1: GSIA'S CLASSIFICATION FRAMEWORK FOR ESG PRODUCTS



Source: Global Sustainable Investment Alliance ("**GSIA**"), 2018[3]

ESG Integration: Investors conduct research on environmental, social and governance issues that have material impact on an issuer, and may often engage with them for greater insight, and then factor these material issues into their investment process and decision. It is NOT about widespread, blanket exclusions of industries, but rather an exercise to conduct more thorough due diligence on issues that may negatively, or positively, affect a given issuer's assets, operations, or its brand and reputation. It is also not about 'nice to have' items that may go into a company's Corporate Social Responsibility ("CSR") report, which may not have a 'material' bearing on risk or opportunity assessment. We would in fact recommend that material ESG issues and disclosures be made in companies' standard financial reports, while CSR reports have a broader focus and include a more comprehensive summary of initiatives and data relevant to a wide set of stakeholders.

[3] Global Sustainable Investment Review. Global Sustainable Investment Alliance, 2018. http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

1. WHY COMPANIES SHOULD ADOPT BEST PRACTICE ON ESG ISSUES

The dramatic rise in consideration of ESG issues is driven by multiple factors, including greater appreciation of their importance in effective risk and opportunity investment assessments, regulation, rapid growth in assets managed under sustainable or ESG-focused strategies, rising expectations of stakeholders, and expanded expectations of fiduciary duty by asset managers to consider ESG issues. We shall examine these factors from a corporate issuer (or investee company) perspective to frame the case for adoption of best practices on ESG issues in terms of governance, strategy and risk management for companies across Asia.

BENEFITS FOR COMPANIES

1.1. MAKES BUSINESS AND FINANCIAL SENSE

Integrating material ESG issues into a company's strategy can increase awareness and understanding of associated risks and opportunities; this can contribute to better risk management, more resilient operations and better strategic planning. [4] For example, a manufacturer with factories in increasingly flood-prone areas as a result of climate change, may need to assess and establish strategies to mitigate the impact of a flood on its own operations and supply chain.

It can also lead to a more empowered, purpose-driven and loyal workforce, and increased customer trust and goodwill. [5] In turn, these contribute to long-term resilience and longevity of the business, allowing the company to mitigate risks, as well as capture opportunities.

Strong board oversight and management of ESG issues can help an investee company gain the trust of investors and improve access to capital. In turn, this lowers the cost of capital and increases the valuation of a company. Given the competition for capital, meaningful global trends in capital are showing an increasing allocation to sustainable investments (see Larry Fink's 2020 letter to CEOs).[6]

The widely cited meta-analysis by Friede, Busch & Bassen (2015) found 60% of the over 2,200 underlying empirical studies showed positive relationship between ESG and corporate financial performance, while 90% of the studies showed a non-negative relationship.

Most recently, Corporate Knight's 2021 Global 100 index[7] of the world's most sustainable companies has generated a total return of 263% vs 220% for its benchmark, the MSCI All Country World Index ("**ACWI**") (from inception, 1 February 2005 to 31 December 2020) and returned 26% vs 16% for MSCI ACWI (2020).

This outperformance, amongst other factors, is driving increasing allocation to ESG products. Thus, an adoption of sustainability issues by a

[4] Foundations of ESG Investing. MSCI, 2019. https://www.msci.com/our-solutions/esg-investing/foundations-of-esg-investing

[5] Five ways that ESG creates value. McKinsey Quarterly, 14 November 2019. https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value

[6] Larry Fink's 2020 Letter to CEOs. BlackRock, 2020. https://www.blackrock.com/us/individual/larry-fink-ceo-letter

[7] The 2021 Global 100: How the world's most sustainable companies outperform. Corporate Knights, 25 January 2021. https://www.corporateknights.com/channels/leadership/2021-global-100-progress-report-16115328/

corporate issuer will better position it to access new investors.

1.2. Controlling the Narrative

Companies are being researched, assessed and scored by investors and independent ratings providers whether they like it or not. Investors and other stakeholders such as customers are using ESG ratings and developing their own proprietary assessments more than ever. Most of the time, these research and assessments are often based on public information of companies which can be limited, not timely and inconsistent, thereby affecting the transparency, accuracy and comparability of the research and assessment process. Where an ESG topic is not disclosed or inadequately disclosed, a company will often be given a score of zero, even if the topic has been considered and addressed internally.

With companies being subject to increasing scrutiny, they need to have credible and proactive strategies to manage their ESG risk exposures and disclose these in a meaningful and useful way. Otherwise companies risk falling behind their peers on ESG ratings, and external perceptions of ESG performance.

Transparency is favoured in order to ensure a company is commensurately rewarded. Proactive disclosure in frameworks and formats that investors are requesting may in fact reduce the number of climate-related disclosure requests and ad hoc engagement requests. Timely provision of material ESG disclosures may also be helpful in aligning shareholders and their proxy votes with management proposals and perspectives.

The ESG ecosystem is dynamic and rapidly evolving, with advanced technology being utilised. For example, many ratings providers now use artificial intelligence to scour for negative press about a company, which is then used to update ratings on an increasingly frequent basis.

1.3. Building Trust with Stakeholders

Accurate, informative, decision-useful and meaningful sustainability / ESG disclosures help to tackle the issue of greenwashing and build trust with investors and other stakeholders.

The 2021 Edelman's Trust Barometer[8] showed that 68% and 62% of survey respondents believe consumers and employees respectively, have the power to force corporations to change. Meanwhile, trust has declined across all sectors. The onus – and expectation – is on companies to engage with consumers and employees to build, maintain, and (re)gain trust.

[8] Trust Barometer. Edelman, 2021. https://www.edelman.com/trust/2021-trust-barometer

Application in Asia

The concepts that we discuss above apply in Asia as well as globally, but their application may differ in Asia. Integrating ESG / sustainability into corporate strategy and risk management processes can be an important part of maintaining a competitive edge in the dynamic and rapidly evolving markets of Asia.

A recent KPMG report on sustainability reporting analysed the top 100 companies across 52 countries globally, of which 13 (25%) were in Asia Pacific. Of these, KPMG found that the sustainability reporting rate was 84% (up 6% from 2017) in Asia Pacific, compared to 77% in Europe and 90% in Americas. While this is an encouraging sign for Asia Pacific, there is still much work to do to improve the *quality* of ESG data and disclosures to ensure that they are meaningful.

Corporate governance, in particular, is a unique challenge for investors of family-owned, state-owned and majority controlled businesses. Transparency into major decisions and related party transactions may build confidence with asset managers that minority investor interests are also taken into account. This confidence is key to building trust between controlled companies and minority investors (and indeed other stakeholders). Family/state interests should not be prioritised over (minority) shareholder interests – and in cases where they are, they should be transparently disclosed to the market.

Preparing for increasing regulation

1.4. Widespread enactment of sustainability targets and regulations

Countries and regions around the world have set in motion ambitious plans to make ESG concerns a central pillar of regulation in the financial services industry, which indirectly impact companies in the broader economy. These plans may go hand-in-hand with broader and more ambitious national greenhouse gas emissions targets following the Paris Agreement, such as China, Japan and South Korea's pledges to achieve carbon neutrality by mid-century, amongst others.

At the forefront is the European Commission's Action Plan on Financing Sustainable Growth, of which Sustainable Finance Disclosure Regulation ("**SFDR**") is a key legislative initiative. In effect since March 2021, the SFDR in particular imposes requirements for asset managers' integration of sustainability risk into investment decision-making processes.

SFDR impacts asset managers which not only operate in the EU, but also those which invest into Asia. It also impacts Asian managers which sell into the EU, as well as the management of EU-domiciled funds which are marketed and distributed into Asia.

Similarly, regulators across Asia have been introducing or are planning to introduce sustainability or environmental-related (including climate-related) regulations. These regulations are impacting market participants from enterprises in certain industries, to listed companies and financial institutions (see Appendix A for a list of developments in key Asian markets).

Recent high-level measures include Singapore's Green Finance Action Plan announced in 2019, and the 10-year Australian Sustainable Finance Roadmap and Taiwan's 3-year Capital Market Roadmap, both announced at the end of 2020.

Regulations which impact listed companies directly include the Stock Exchange of Hong Kong Limited's ("**HKEx**") enhanced ESG reporting requirements which came into effect on 1 July 2020, and Securities and Exchange Board of India's ("**SEBI**") Business Responsibility and Sustainability Reporting ("**BRSR**") which will become effective from the financial year 2022-23. Additionally, Hong Kong has announced plans towards mandatory TCFD-aligned climate-related disclosures by 2025.

The timelines highlighted convey the sense of urgency surrounding and regulatory direction towards the tackling of sustainability issues across the region.

1.5. How regulation impacts investee companies indirectly via asset managers

Asset managers, particularly global ones, are increasingly obligated, by the regulations of the jurisdictions which they operate across, to consider and manage material ESG risks in their investment and risk management processes, and within their portfolios. Thus, asset managers demand investee companies to also consider ESG risks and provide adequate disclosure.

The SFDR disclosure regime, for example, broadly cover three aspects: 1) manager-level obligations around the integration of sustainability risks into the investment decision-making process, 2) product-level obligations around assessing the impact of sustainability risks on returns, and 3) disclosure obligations for products with a specific sustainability focus.

The first two aspects of the SFDR regulation recognise that ESG risks are similar to other risks that a manager considers when making investment and risk management decisions. The assessment of risk requires access to and understanding of the ESG profile of underlying investments i.e., investee companies. For example, the impact across a portfolio from a 3.2 degree Celsius increase in global average temperature.

On the third aspect of the SFDR regulation, to the extent that certain products explicitly consider ESG factors as part of their strategies, managers may screen out or exclude particular companies if those companies do not meet certain socially responsible investing ("**SRI**") criteria.

Within the region, the Monetary Authority of Singapore ("**MAS**") aims to enhance financial institutions' ("**FIs**") resilience to environmental risk through their policies and processes to assess environmental risk by issuing guidelines on environmental risk management at the end of 2020. The Hong Kong Securities and Futures Commission ("**SFC**") is also due to release similar rules that require fund managers to consider climate-related risks in their investment and risk management processes, including the enhanced disclosure of fund level green-house gas ("**GHG**") emissions data by large fund managers. We expect many other regulators in the region to follow suit with similar regulations.

Given the wide-reaching expectations of asset managers, there is inevitably a flow-on impact across the capital markets ecosystem, as they must in turn rely on data from investee companies to fulfil their own regulatory obligations, with indirect impact on investee companies. We can see that ESG is rapidly shifting to become the norm and increasingly part-and-parcel of asset managers' capital allocation decisions.

As integration of ESG risks becomes standard practice in terms of asset managers' fiduciary duty to their clients, those investors are also increasingly applying such standard expectations of incorporating ESG risks as being part of fiduciary duty, to their investee companies. When combined with the regulatory and normative guideline regimes being instituted in major financial markets across Asia, corporate boards will need to understand that their fiduciary duty (and even personal liability) will also be seen, by other stakeholders, to incorporate material ESG issues.

1.6. How regulation impacts investee companies directly

We are expecting strengthened disclosure and compliance requirements for investee companies across the region as governments, under mounting pressure for policy action from different stakeholders, catch up with the realities of ESG risks, particularly climate change.

As highlighted by PRI's Inevitable Policy Response ("**IPR**"),[9] the "question for investors now is not if governments will act, but when they will do so, what policies they will use and where the impact will be felt." The PRI forecasts "a response by 2025 that will be forceful, abrupt, and disorderly because of the delay." Increasing regulation and shortened timelines will force greater demand on planning and resources of investee companies, to achieve compliance within stipulated timeframe.

Investee companies can expect much more engagement with the stewardship teams of asset managers and owners. A common theme across regulations is that asset managers are encouraged and even directed to engage with investee companies to follow good ESG practices, rather than divest from companies which do not abide by the highest sustainability principles.

Given that regulatory guidelines introduced in the region thus far are generally aligned with global standards such as TCFD, proactive corporate adoption of such frameworks will likely prepare companies well for the direction of regulatory travel. By adopting international best practices voluntarily, investee companies can also pre-emptively plan for changing requirements from regulators, as well as investors, and play a role in ensuring that what is issued is practical and implementable.

[9] Inevitable Policy Response. PRI, 2021. https://www.PRI.org/inevitable-policy-response/what-is-the-inevitable-policy-response/4787.article

What We Prefer To See in Regulations

Regulators play an important role in contributing to better corporate disclosure and engagement with material ESG issues, as well as harmonisation of regional and global sustainability standards (a critical issue for global asset managers). For ease of operations and comparability, AAMG prefers to see regulations that are not independently created but linked to international and / or widely-used standards, with some elements specific to the market, where necessary. We believe the TCFD recommendations provide a valuable framework and can be adapted to a broad set of ESG issues (see Section 2).

We are interested in disclosure that is predominantly useful for companies and investors. For example, AAMG supports SASB as a materiality standard that is investor and corporate friendly, not unduly onerous, and based on a robust materiality framework. Our members also recognise that there are global harmonisation efforts in progress and welcome the efforts of various organisations (including SASB, GRI and IFRS) to converge towards a global set of sustainability reporting standards.

The Importance of an ESG Ecosystem

Regulation can be an important catalyst for enhancing ESG disclosure and engagement as evidenced by the step change in data availability in Hong Kong, Taiwan, Malaysia, Thailand and other markets in Asia that have adopted enhanced ESG disclosure requirements. However, regulation is only one piece of the puzzle and can be either amplified or stymied by action or inaction from other participants in the ESG ecosystem such as government-linked pension / investment institutions, asset managers, corporate issuers / investee companies, and asset owners.

When multiple participants in the ESG ecosystem move or are encouraged to move in concert, it can catalyse rapid change. With this in mind, the formation of the Green and Sustainable Finance Cross-Agency Steering Group in Hong Kong and the announcement of a Green Finance Action Plan, including a USD 2bn Green Investments Programme, by the Singapore government is encouraging.

Increasing Expectations from Other Stakeholders

Apart from investor expectations, companies can expect greater demands from customers and employees to incorporate sustainability in their businesses. For B2C businesses, there are shifting preferences from customers for more sustainable and better-quality products and services. An Accenture survey (2019) that included data from China, India, Indonesia and Japan, found that 83% of respondents believed it was important that products be designed to be reused or recycled, with 72% currently buying more environmentally friendly products than five years ago. [10]

For B2B businesses, there is increasing demand from customers for higher ESG standards, particularly if customers are international

[10] Accenture Survey, 4 June 2019. https://newsroom.accenture.com/news/more-than-half-of-consumers-would-pay-more-for-sustainable-products-designed-to-be-reused-or-recycled-accenture-survey-finds.htm

corporations. For example, multinational corporations and retailers' demand for green offices and malls, and the demands of other companies with strict supply chain labour standards and net-zero commitments (often in turn driven by their own customers). These ESG demands are becoming standard terms in tenders and supplier contracts, and can become a key differentiating factor between winning, retaining or losing a customer contract.

We are also seeing a generational shift in today's workforce, with Millennials making up the largest proportion of the workforce. There are numerous studies and surveys showing that they and Gen Z following them are more driven by values and purpose. They want to have an impact as part of their jobs and are willing to change jobs if they do not find alignment with their company's purpose, culture and values. With climate change and the environment being key concerns for Millennials including those across Asia, [11] sustainability will become a notable factor in talent retention. This requires investments in sustainability training to upskill the board and management, so they are able to lead from the top, and embed sustainability values across the organisation.

[11] Deloitte Global Millennial Survey 2020. https://www2.deloitte.com/global/en/pages/about-deloitte/articles/millennialsurvey.html

2. THE WHY AND WHAT OF INVESTOR EXPECTATIONS

In this section, we shift focus from why companies should adopt best practices when dealing with ESG issues to why investors are increasingly focused on ESG issues; and what corporate structures, processes and data points investors seek.

WHY INVESTORS ARE INCREASINGLY FOCUSED ON ESG ISSUES

Investors typically seek to understand a company's performance on material ESG issues for two broad reasons. Firstly, as an input into an investment process, and secondly, to facilitate disclosure of an investment product's characteristics to clients or regulators.

2.1. ESG FACTORS ARE KEY INPUTS INTO THE INVESTMENT PROCESS

Investors are expected to integrate ESG into investment decision-making process as part of their fiduciary duty.[12] As outlined in the PRI, the duty applies to both investors and asset owners (e.g., pension funds and insurance companies) who owe a fiduciary duty to their clients and beneficiaries. Failure to adequately consider sustainability risks could even be a breach of fiduciary duty.[13]

A common approach to fundamental ESG integration is the use of ESG analysis, in addition to financial analysis, to identify and mitigate ESG risks by investing in companies with either lower ESG risks (up to excluding entire sectors) or superior management of the ESG issues identified. In addition to risk management, evaluating the positive impact of an investment (i.e., impact investing) or seeking to benefit from exposure to ESG opportunities through access to fast growing markets or differentiated products are also a common focus for thematic investors, as well as ESG investors more broadly (see Figure 1 for different types of ESG investing).

A number of studies have demonstrated how ESG integration can improve investment returns. A recent study from Fidelity International has shown that stocks with the highest ESG ratings in their research have outperformed lower-rated stocks since January 2020, with the greatest degree of outperformance coming in March 2020, when stock markets went into a steep decline amid the onset of the Covid-19 pandemic.[14]

Companies are facing increasing pressure from: 1) providers of capital; 2) government & regulators; 3) NGO, civil society and activist groups advocating for a range of environmental issues such as climate change and biodiversity loss; and 4) the communities, employees and customers upon which they depend. Increasingly, this has the potential to influence competitive advantage, sustainable cost bases, business models, the ability to attract and retain talent, and product demand.

If investors see areas where a company appears not to be addressing material ESG risks or opportunities, they will constructively

[12] Fiduciary Duty in the 21st century. PRI, 8 September 2015. https://www.PRI.org/fiduciary-duty/fiduciary-duty-in-the-21st-century/244.article

[13] Rest reaches settlement with Mark McVeigh, 2 November 2020. https://rest.com.au/why-rest/about-rest/news/rest-reaches-settlement-with-mark-mcveigh

[14] Chart Room: The clear link between ESG and returns, 12 November 2020, https://www.fidelityinternational.com/editorial/blog/chart-room-the-clear-link-between-esg-and-returns-bbf01a-en5/

engage with management and boards to take mitigating action.

2.2. MEETING REGULATORY AND CLIENTS' REQUIREMENTS ON SUSTAINABILITY

As ESG-themed investment grows rapidly across Asia and globally, greenwashing has become an area of concern which draws regulators' attention and focus to enhancing the quality and consistency of disclosure of sustainable investment products. At the forefront is the SFDR which impacts EU-domiciled funds which are marketed and distributed in Asia.

Meanwhile, Asian regulators are also in the process of developing regulations that target asset managers' management of climate-related and broader environmental risks in their portfolios. These wide-ranging regulations include the incorporation of ESG considerations across governance, investment processes, risk management, down to the assessment of carbon emissions across portfolios.

Increasing queries on sustainability from retail, institutional and sovereign investors are also driving the need for higher quality reporting and quantification of the positive impact and sustainability characteristics of an investee company or fund. To meet these obligations and to better understand and direct capital towards impactful investing in a robust manner, high quality disclosure by investee companies is critical.

WHAT STRUCTURES, PROCESSES AND DATA POINTS INVESTORS SEEK

To meet the requirements of asset managers outlined above, it is necessary to consider not just headline data, but the systems, governance structure and company culture that lies beneath. This is particularly important in Asia due to:

Dynamics of family or state ownership. Over 50% of companies in the MSCI Asia Ex-Japan index have a controlling stake held by a family or the state. While this can contribute towards a longer-term focus and value creation, it can also introduce the potential for misalignment between controlling and minority shareholders' interests.

High prevalence of conglomerates. Given many material ESG issues are sector specific, some group level sustainability data points may be less insightful for conglomerates. For example, if a conglomerate owns a real estate firm and mining operation, the group level carbon emissions, green building certifications, average wages, and employee safety statistics would be challenging to normalise or benchmark versus other firms for comparative analysis. This makes an overall 'ESG score' for the group entity less likely to capture the underlying ESG risks and opportunities of each component business.

Risk of a compliance mindset. Mandatory ESG disclosure requirements in Asia have contributed to the rapid growth of data availability in the region. However, a compliance-oriented disclosure regime may not change underlying behaviours or foster strategic engagement with the underlying issues. In turn, this can lead to ESG risks and opportunities remaining unmitigated or unrealised. As a result, many regulators are now shifting focus to include the governance structure behind issue identification and data as part of disclosure requirements.

Preferred Sustainability Disclosure Framework

To help address these challenges and meet investors' requirements, we regard the framework of the TCFD (see Figure 2) as a helpful tool to guide best practices in governance, strategy, risk management as well as identification of the key metrics and targets that are most appropriate for a given business.

Figure 2: Core Elements Of Recommended Climate-Related Financial Disclosures

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Source: Task Force on Climate-related Financial Disclosures

Although the TCFD framework focuses on climate-related disclosures, we hold that the four pillars of the framework are applicable to ESG issues more generally and provide a good guide to investors' expectations of investee companies on broader ESG issues.

2.3. Structures & processes: Governance and directors' responsibilities

It is important that both strong commitment and an effective framework for strategic management of material ESG issues be in place at the highest level in an organisation. Increasingly, investors' commitment to ESG is translating into investor action: they will vote against the re-election of directors if they do not see commitment or progress on ESG issues. Below are **key concepts** which we believe are important to understand.

2.3.1. How fiduciary duty is aligned with management of key ESG issues

As part of their responsibilities, board members owe fiduciary duties to shareholders in overseeing the strategic direction and operation of the company to, in most cases, create sustainable long-term value (whilst deliberately assessing, quantifying and mitigating risk that may prove material obstacles to that goal). Our members expect this to include oversight of the effective management of material ESG factors, ensuring that they are embedded into both the emergent and long-term strategy and capital allocation decisions of the company. The understanding and management of ESG issues may be new for many directors and senior management. There are, however, numerous organisations in the region which provide resources, including ESG training courses (see Appendix B for a selected list of resources available to directors).

2.3.2. Shareholder engagement and importance of independent non-executive directors ("INEDs")

The approach that a board adopts in engaging with shareholders on ESG matters is a key consideration for investors as they look to the board, and in particular to the INEDs, to provide meaningful and objective insights on how ESG issues are being resolved or certain ESG aims achieved. Boards should understand the characteristics of the company's shareholder base and shareholders' evolving expectations on ESG issues. This should be followed by proactive engagement with shareholders to share progress and to seek suggestions on how ESG issues are managed. A company's attitude to shareholder interactions is an important signal that investors look towards. Given the prevalence of controlled companies in Asia, it is critical that INEDs are aware of their accountability to the entire shareholder base and exercise their expertise and professionalism to protect the interest of all shareholders. INEDs should be empowered and encouraged to meet directly with investors and to provide an objective view on the risks and opportunities facing a company, even if the view may not harmonise with that of the controlling shareholder or management.

2.3.3. Aligning board structure, capabilities and incentives with desired outcomes

Board composition, capabilities and committee structures need to support strategic engagement with material ESG risks and opportunities. Specifically, we expect:

- Boards and their nomination committees to review and evaluate their composition and capability requirements as ESG expectations and their own assessment of the future evolves,
- Boards to establish and maintain a robust framework of governance mechanisms in overseeing ESG-related risks, which may include a dedicated sustainability board committee, if the board finds it appropriate and / or necessary,
- Boards to identify and commit to disclose meaningful data relating to key ESG issues and associated targets (see Section 2.5 and Section 3),
- The remuneration committee to ensure that where appropriate executive compensation is structured to align pay with key ESG KPIs,
- Directors to participate in ESG skills training if required to help empower directors to embed ESG within corporate culture and strategy.

Role Of Regulators

Regulators should also consider (controlling for size): (1) minimum engagement requirements between shareholders and INEDs, (2) AGM and other shareholder meeting protocols allowing 2-way discussion and pre-submission of questions that are made known to the shareholder base, (3) lowering the threshold to submit shareholder proposals that include ESG recommendations that are advisory in nature.

Regulators and exchanges in certain markets, e.g., Singapore, have already called for the appointment of a lead independent director to represent independent directors in responding to shareholders' questions and comments that are directed to the independent directors as a group. This is an example of good practice that facilitates directors' accountability to and access by shareholders.

Practically, we see merit in embedding the importance of governance and engagement into director training, especially into the curriculum of the various Institute of Directors in the region. Some regulators may also impose minimum ESG competency training or examinations for capital markets personnel which helps build industry wide competency, as seen in Thailand's Securities and Exchange Commission's proposed mandatory ESG training provisions.

2.4. Structures & Processes: Strategy and Risk Management

Investors receive valuable insight from understanding a company's: 1) processes for identifying, assessing, and managing material ESG risks; and 2) assessment of the potential impacts of ESG risks and opportunities on its businesses, strategy, and financial planning.

It is crucial for companies to identify the most material ESG issues that are relevant to their sector and operating environment. The fact that a company is able to explain how it identifies material issues and prioritises ESG issues shows the legitimacy and genuineness of the management's efforts in addressing investors' concerns with ESG issues.

Importantly, this is not about a company having all the answers regarding the impact of complex or emerging ESG risks and opportunities – it is about helping investors understand the level of engagement with these ESG issues and extent to which they are considered an integrated part of a company's strategic and risk management initiatives. This insight can help investors look beyond mandatory boilerplate disclosure and industry or country norms to identify a customised strategic engagement with material ESG risks and opportunities.

The practical value of a company's strategic approach to ESG issues and supporting hard data on key metrics to investors was highlighted in a TCFD review[15] of disclosures conducted in 2020. The review found that the top 10 TCFD elements (out of a total of 60) were predominantly those from the Strategy, and Metrics and Targets pillars (see Figure 3).

[15] TCFD 2020 Status Report. FSB, 29 October 2020. https://www.fsb.org/2020/10/2020-status-report-task-force-on-climate-related-financial-disclosures/

A key takeaway for a company or a regulator of this assessment should be the indicative degree of decision-usefulness of these disclosures to investors and the relative prominence of disclosures that demonstrate actions taken / intended with reasoning (strategy) as well as defined measures of performance, accountability, and outcomes demonstrated (metrics and targets). A failure to provide decision-useful disclosure by a company or as a general market practice could therefore risk higher costs of capital or additional qualifiers that investors may consequently impose.

FIGURE 3: TOP TEN MOST USEFUL DISCLOSURE ELEMENTS BY SCORE AND VARIANCE

Recommended Disclosure	Disclosure Element	Score	Var*	Rank
Strategy b)	How climate-related issues have **affected business and strategy**	1.1	0.1	1
Metrics and Targets a)	**Key metrics on climate-related issues** for most recent period and historical periods	1.3	0.2	2
Strategy a)	The **material climate-related issues** identified for **each sector and geography**	1.3	0.3	3
Metrics and Targets b)	**Scope 1 GHG emissions** for the most recent period and historical periods	1.3	0.4	4
Metrics and Targets c)	Climate-related **targets related to GHG emissions**	1.3	0.4	5
Strategy a)	The **material climate-related issues identified**	1.4	0.2	6
Metrics and Targets b)	**Scope 2 GHG emissions** for the most recent period and historical periods	1.4	0.4	7
Metrics and Targets c)	The **timeframes** over which climate-related **targets** apply	1.4	0.4	8
Metrics and Targets c)	**Key performance indicators** used to assess progress against **climate-related targets**	1.5	0.4	9
Governance a)	Board consideration of climate-related issues for **major capital expenditures, acquisitions, and divestitures**	1.5	0.6	10

* Var. refers to variance.

Source: TCFD

2.5. DATA: DISCLOSURE INCLUDING METRICS AND TARGETS

Disclosure is critical for investors to understand and assess how companies are effectively identifying, managing and mitigating ESG-related risks and opportunities. This assessment requires access to consistent, high-quality, timely, and material information from companies that is comparable across industries.

Companies should select appropriate metrics with meaningful targets to track progress and performance on managing material ESG risks on a regular basis. SASB's materiality map is a useful resource to highlight differences in material issues and corresponding metrics for different sectors. For example, water management is material to both Agricultural products and Electric Utilities – water stress is also a particularly acute issue in Asia. However, labour issues in the supply chain will be material for Agricultural Products sector but not so for the Electric Utilities (see Figure 4).

For key ESG metrics, many investors will seek to evaluate a company on: 1) the absolute level; 2) the intensity of the metric relative to peers (normalising by revenue, assets etc.); and 3) momentum or direction of travel. This can provide a more complete view of how a company is progressing in tackling ESG issues.

Ultimately, boards should be able to identify a short list of ESG parameters and corresponding levels of prioritisation for the company over short and long-term horizons. These should also feature in the Board and Management's discussions on capital allocation as well as operational updates.

FIGURE 4: EXAMPLE OF APPROPRIATE METRICS FOR TWO DIFFERENT INDUSTRIES

Dimension	General Issue Category	Agricultural Products	Electric Utilities & Power Generators
Environment	GHG Emissions		
	Air Quality		
	Energy Management		
	Water & Wastewater Management		
	Waste & Hazardous Materials Management		
	Ecological Impacts		
Social Capital	Human Rights & Community Relations		
	Customer Privacy		
	Data Security		
	Access & Affordability		
	Product Quality & Safety		
	Customer Welfare		
	Selling Practices & Product Labeling		
Human Capital	Labor Practices		
	Employee Health & Safety		
	Employee Engagement, Diversity & Inclusion		
Business Model & Innovation	Product Design & Lifecycle Management		
	Business Model Resilience		
	Supply Chain Management		
	Materials Sourcing & Efficiency		
	Physical Impacts of Climate Change		
Leadership & Governance	Business Ethics		
	Competitive Behavior		
	Management of the Legal & Regulatory Environment		
	Critical Incident Risk Management		
	Systemic Risk Management		

Source: SASB

3. Common pitfalls and best practices: Examples of what investors want (and don't want)

This section aims to provide a set of real-world case studies and examples to help highlight the ESG disclosures and practices that are most helpful for investors. To put our members' recommendations and expectations in context, this section also details common pitfalls and shortcomings in corporate disclosure in Asia with the aim of providing constructive guidance to companies on practices to avoid.

The case studies presented are intended to be illustrative examples of disclosure or engagement with a material ESG issue. The examples provided are not an exhaustive list of 'best practice' or a statement, implied or otherwise, regarding the company's overall management of material ESG issues or financial performance.

How companies can avoid common pitfalls in sustainability disclosure

3.1. Bridging the expectation gap

One of the most common issues with ESG disclosure in Asia is the 'Expectation Gap' – the mismatch between investor expectations and company disclosure. When AAMG members have engaged with companies, we have noticed that some investee companies believe they have performed well in informing on their ESG issues if they meet international reporting standards or have adopted elements of sustainability reporting such as mandatory or voluntary ESG disclosure guides.

However, as highlighted earlier in this document, and by the outcomes of the TCFD review on decision useful disclosure, the most valuable disclosures to investors are:

- Strategy and governance – a company's actions or intention to identify and address material ESG issues; and
- Metrics and targets – provision of defined measures of performance, accountability, and outcomes.

More importantly, investors seek to understand the material ESG risks and opportunities as they pertain to the industry, location and / or individual circumstances of the company. This can be much more valuable than the extent of regulatory compliance or required disclosures (see Figure 5).

Data on TCFD disclosure (as discussed in Section 2) highlights that the Expectation Gap is a pervasive issue and that a significant gap remains between the metrics that are most helpful to investors, and the information most commonly provided by companies. These findings imply that companies have clear opportunities to differentiate themselves in the face of demonstrated investor intent and to-date positive but incomplete company response.

Figure 5: Example of investor / investee expectation gap

	What a company or its Board might think it is doing well on sustainability / related risks.		How investors assess that a company is providing a clear strategy and understanding of its approach to key material ESG issues		
Company description	Key indicator point 1	Key indicator point 2	Key assessment point 1	Key assessment point 2	Key assessment point 3
Sector: Energy **Material topic:** Climate disclosure **Market:** Asian emerging market **Market cap:** >USD50b **Ownership type:** Controlled	# years that the company produces a sustainability report / section / integrated report: *>10 years*	# of years that the company refers to TCFD / GRI / domestic / SASB or other standard: *>10 years GRI* *TCFD alignment in recent years*	CO_2 Scope 1 and 2 emissions: *Not provided*	Quantified short-term carbon emission targets: *Not provided*	Climate scenario assessments: *Not provided*

Key: Sample data in green

3.2. Avoiding a compliance mindset

Many companies in Asia adopt a compliance mindset when addressing ESG disclosure. This is best summarised by the following quote from an engagement with an investee company by an AAMG working group member, "*We take ESG very seriously at our company; we comply with all corporate governance and environmental regulations and listing requirements*".

The mindset that management of ESG issues begins and ends with meeting minimum regulatory requirements can contribute to the Expectation Gap outlined above and is often symptomatic of a lack of genuine integration of material ESG issues into company strategy and risk management processes. The rapid growth in ESG disclosure rules and environmental regulations in the region have contributed to this outcome with many companies facing both a steep learning curve and significant additional disclosure requirements.

The adoption of a compliance mindset can result in a company bearing the costs of ESG disclosure, but not any of the potential benefits in risk mitigation, opportunities for growth or competitive advantage. As highlighted in Section 2 of this paper, engagement with identifying, evaluating and managing material ESG issues is a core expectation of investors for investee companies. Examples of best practice in this area are set out in Section 3.4.

3.3. REPOSITIONING ESG FROM A MARKETING OR BRANDING FUNCTION

Due to the rapid growth in ESG reporting requirements and expectations across Asia, some companies consider management of ESG issues as the remit of marketing, corporate reporting or public relations teams. This is related to both the issues of a compliance mindset and the Expectation Gap.

Ultimately, as discussed in Section 2 of this paper, the board and senior management should be responsible for establishing the relevant committees and structures for identifying and managing material ESG issues and these processes should be integrated into the underlying risk and broader strategic planning processes undertaken by companies.

Although genuine consideration of ESG issues may still occur if ESG responsibility sits under a marketing function, it can raise questions about whether the structure supports senior management engagement and buy-in as well as the strategic focus on ESG integration at the company.

We believe that companies should be able to show a governance structure which includes a sustainability committee and the alignment of ESG responsibility within the company. See examples from Ping An Insurance[16] and CLP Group[17].

CASE STUDIES OF BEST PRACTICES IN MEETING INVESTOR EXPECTATIONS

3.4. STRUCTURES & PROCESSES: GOVERNANCE AND DIRECTORS' RESPONSIBILITIES

3.4.1. How fiduciary duty is aligned with management of key ESG issues

Boards and senior management should participate in identifying, assessing and responding to ESG risks and opportunities. The approach includes setting up committees at board level to oversee ESG initiatives (as described in Section 2.3.3.), discussing ESG as part of regular board agenda, as well as appointing a senior management executive committee to implement ESG initiatives and to report progress regularly to the board. Further signs of truly aligned boards may include the appointment of directors with diverse skillsets including those in sustainability, cybersecurity, digitalisation, and / or other appropriate material ESG issues that the business might face in the near and longer term.

[16] Ping An Insurance 2019 Sustainability Report, 14 March 2020. https://group.pingan.com/media/news/News-2020/Ping-An-Releases--Sustainability-Report.html

[17] CLP Group 2020 Sustainability Report. https://sustainability.clpgroup.com/en/2020/

CASE STUDY EXAMPLE: TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY (TSMC)

TSMC, a semiconductor manufacturer with a global footprint, demonstrates this senior management engagement clearly. The company established a Corporate Social Responsibility ("CSR") Executive Committee in 2019 filled with senior executives across different functions to serve as the highest-level decision-making centre for corporate social responsibilities.

Led by the Chairman (Board Chair), the CSR Executive Committee reviews TSMC's climate change strategies and goals every six months and reports to the Board of Directors. The CSR committee acts as the communication platform that incorporates and brings together different departments to execute TSMC's sustainable development plan.

Some examples of climate-related decisions made by the Board Chair are as follows:

- To increase the use of renewable energy and set a new aggressive goal – up to 25% of power consumed by TSMC fabrication plants to be supplied from renewable energy, and non-fab power consumption is 100% supplied from renewable energy by the end of 2030.
- To purchase renewable energy until it makes up 100% of TSMC's power consumption.
- To join the RE100 (global 100% renewable energy initiative) in 2020 and become the first RE100 member in the semiconductor industry.

Source: Corporate Social Responsibility Report 2019, CSR committee roles, page 17. https://esg.tsmc.com/download/csr/2019-csr-report/english/pdf/e-all.pdf

3.4.2. Engaging with shareholders, access to the board and the importance of INEDs

Engaging with shareholders and other stakeholders. Companies should provide investors a certain degree of access to boards and senior management such as granting of meetings with senior management or board to discuss ESG issues or to clarify their ESG approach.

We also encourage companies to take a proactive approach in engaging with their stakeholders including regulators, suppliers and customers. By taking the initiative to participate in stakeholder conversations, companies can stay ahead and better prepare themselves to deal with the risks or threats that the various ESG issues could bring about. The open dialogue allows companies to align with global best practice and implement frameworks within their business footprint.

Case Study Example: CLP Group (CLP)

CLP is a positive example on good disclosure and work done on stakeholder engagement. In their sustainability report 2020, CLP demonstrated their willingness to communicate and maintain open channels for dialogue. The company engaged actively with different stakeholders on a periodic basis to better understand the concerns of involved parties and formulate necessary solutions for positive change. Overall, key concerns and interests for each stakeholder were disclosed.

For each stakeholder, a different engagement channel is presented and opened for two-way communication. CLP's response to these concerns were disclosed in the relevant sections of their sustainability report. We appreciate the clarity and believe this is best in class.

Residential, commercial and industrial customers, electricity boards, grid companies

Key Concerns/ Interests in 2020	Engagement Channels	Relevant Sections
· Energy prices, affordability, reliability and availability · Tariff adjustment, management and competitiveness · Energy efficiency, conservation and demand side management · Customer experience · Customer privacy · Renewable energy offerings to customers · India – Market entry and management of corporate PPAs for renewable energy · Australia – Payment support to customers due to the impact of COVID-19 lockdowns	· Working groups e.g. Customer Consultative Group, local customer advisory committees, SME consultative groups and industry groups · Customer/ partner forums and webinars · Visits to assets · Customer satisfaction surveys and feedback forms · Customer Service Centres and Customer Interaction Centre · Online service portals · Direct/ personalised communications through account managers · Participation in government schemes	Responding to climate change · Progress towards Climate Vision 2050 targets · Preparing for the transition to a low-carbon world · Investing in transition enablers Harnessing the power of technology · Supporting the sustainability agenda · Reinforcing cyber resilience and data protection · Customers

Source: CLP sustainability report 2020, key concerns / interests for 2020, and engagement channels, page 162, with reference back to relevant sections in the rest of the report. https://sustainability.clpgroup.com/en/2020/

Positive attitude towards handing ESG issues. Many companies tend to shun investors when being approached on ESG. In the worst case, companies shut down the conversation entirely. But this should not be the case. More often than not, investors reach out so as to better understand the challenges faced by the companies. Investors seldom expect companies to be perfect right away. Instead, they are more interested to understand how companies are thinking about and mitigating the ESG issues. An open and responsive company, with an attitude to think about and implement solutions, sets the foundation for a positive ESG engagement relationship. Investors treasure the continued conversation with companies, their progress and improvement over time. A positive and transparent corporate attitude at first instance, helps build such a relationship.

Case Study Example: Centre Testing International Group (CTI)

CTI is a great example to share on having a positive attitude towards handling ESG issues. Prior to financial year 2020, the company did not have an ESG/CSR report. CTI was open minded during investor engagement and willing to embark on the journey to improve the way they think about ESG, and to implement necessary frameworks to manage ESG issues within the company. It participated in ESG associations and made efforts towards ESG management. Eventually, they managed to publish their first ever ESG report. The company is on track to consider how ESG impacts their business and how they can look at potential opportunities.

Source: CTI 2020 Environmental Social and Governance Report (in Chinese). https://www.cti-cert.com/new/6716.html

Better quality conversations, not just with the sustainability executive. Apart from having a positive corporate attitude, we believe that senior management (i.e., Managing Director, CEO, CFO) should be able to speak knowledgeably on ESG topics, answering ESG questions from investors without deferring to investor relations or the sustainability function. This suggests an integration of ESG issues into companies' governance and strategy.

Whilst we appreciate that having a CEO signing off on a carefully drafted statement is different from a CEO being able to speak knowledgeably on sustainability, we still view such statements favourably.

"Tone from the top is important. IR or Sustainability personnel speaking about ESG is like marketing ESG but with no actual change." – asset manager executive.

Case Study Example: Ultratech Cement

In this example, Ultratech Cement's Managing Director Kailash Jhanwar described the company's approach towards sustainability in a COVID-19 world, including its pursuit of climate change. More importantly, senior management in Ultratech have oversight of ESG issues within the company. They willingly share and discuss their approach towards ESG risk mitigation for material issues impacting the business during investor engagement.

Interview with Mr Kailash Jhanwar, Managing Director, UltraTech Cement Limited on the occasion of World Environment Day, 5th June 2020

Our MD, Mr Kailash Jhanwar shares his views on the importance of sustainable business and sustainable living habits, especially in a post COVID-19 world.

According to you, how will sustainability shape the building materials sector and especially UltraTech as a company going forward?

Over the last decade, the word "sustainability" has taken center stage. It has not only become a corporate philosophy of doing business but also its core 'purpose'. For UltraTech Cement, sustainability is a business approach to create long-term value by taking into consideration how we as an organization operate in the ecological, social, and economic environment. There is a trend of increased expectations and being absolutely transparent from companies that recognizes the need to act on sustainability.

Building material sector is resource intensive, having footprints across the value chain. The performance on climate change and circular economy will define the path of growth for the sector and this remains true for UltraTech as well.

Source: Interview with Kailash Jhanwar. UltraTech Cement, 6 June 2020. https://www.ultratechcement.com/about-us/media/features/interview-with-mr-kailash-jhanwar-managing-director-ultratech-cement-limited-on-the-occasion-of-world-environment-day-5th-june-2020

Case Study Example: Development Bank of Singapore (DBS)

In this example, DBS's CEO shared his thoughts on sustainability, and how it is essential in the bank's digitalisation journey given rapid technological disruption and advancement. He also shared the bank's journey through the COVID-19 crisis. Similarly, senior management of the bank are well versed with the ESG issues impacting the business, and are able to discuss their strategy to mitigate those risks or capture relevant opportunities during investor meetings.

Source: DBS Sustainability Report 2020, CEO Reflections, page 18. https://www.dbs.com/annualreports/2020/ceo-reflections.html

3.5. STRUCTURES & PROCESSES: STRATEGY AND RISK MANAGEMENT

3.5.1. Climate scenario analysis and climate risk and opportunity management

Climate change has brought about significant risks and opportunities to companies and investors. As climate-related risks intensify, the shift towards low carbon economy also brings about increasing opportunities. Furthermore, as governments around the world are committing towards carbon neutral goals, companies are under mounting pressure to modify their business model and strategy in a bid to adapt to a low carbon economy.

Globally, governments are committing to a lower carbon future. Companies are therefore facing pressure to rethink their business model and strategy to adapt to a low carbon future.

A useful climate scenario analysis framework available to think about climate and its impact on businesses is the Representative Concentration Pathway ("**RCP**"). Two positive case studies on the utilisation of this framework designed by the Intergovernmental Panel on Climate Change ("**IPCC**") are described below.

CASE STUDY EXAMPLE: SWIRE PROPERTIES

Swire Properties, in their CDP response, make reference to conducting modelling of risks associated with RCP 2.6, 4.5, 6 & 8.5, and their commitment to Science Based Targets initiative ("**SBTi**"), developed by the United Nations Global Compact, World Resources Institute, the CDP and the World Wide Fund for Nature.

"Our property division, Swire Properties has conducted climate-related scenario analysis. In accordance with the TCFD recommendations, it is conducting asset-level modelling of acute & chronic physical risks associated with 4 Representative Concentration Pathways (RCP 2.6, 4.5, 6 & 8.5) used by the IPCC. As part of its ongoing climate risk assessment, it is collating historical data and projecting climate variables, such as temperature, precipitation, sea level rise & wind speed from suitable Global Climate Models ("GCM") & using the climate data to predict local climate scenarios to help them accurately evaluate the exposure of specific assets & operations in selected timeframes, from the immediate term to the distant future (i.e., 2025, 2030, 2050, 2100). As part of their ongoing climate risk assessment, it is also undertaking detailed risk & resilience assessments at the asset-level to evaluate the degree of vulnerability & criticality of various business & operational areas under the potential effects of the identified climate risks. It has considered individual building's features such as system robustness, redundancy & susceptibility to climate hazards, including flooding, heat stress, water stress & extreme wind effects. On transition risks, it is reviewing global & local government policies, regulatory, technological, & market trends based on different climate scenarios such as the International Energy Agency 2o C Scenario (IEA 2DS), in the global transition to a low carbon economy. Through the review of these mega-trends, it is working to identify the potential risks & opportunities that may have a financial impact to the business. Findings of the assessment will be used to develop a targeted action plan for mitigating risks & building resilience across the portfolios & will be incorporated into their ERM system for continuous management of material climate risks. Regarding investment assessment, as part of its due diligence process for new acquisitions, they have integrated SD criteria, including climate adaptation & resilience, energy efficiency & carbon emissions, of the acquired assets into the risk assessment process."

Source: Swire Properties' Sustainable Development Report 2020,
https://sd.swireproperties.com/2020/pdf/en/SwirePropertiesSustainableDevelopmentReport2020_EN.pdf
and CDP Worldwide, Section C3.1c of Swire Properties' CDP response

Case Study Example: Taiwan Semiconductor Manufacturing Company (TSMC)

TSMC understands the need for scenario analysis to assess potential implications and to prepare for climate-related risks and opportunities. TSMC used the Representative Concentration Pathway, in particular RCP 2.6 and RCP 8.5, to understand what the company must do to meet Science Based Targets and how the different scenarios will influence their business objective and strategy. In their response to CDP, TSMC further explained the various transition and physical risks they would face, the implications and a case specific to the company.

RCP 2.6	**The major results of the conducted scenario analysis:** It will need more than 100% renewable energy to lower the carbon emission to meet SBT goal. **How the results have informed or directly influenced your business objectives and strategy:** Implement carbon reduction and energy efficiency measures is the recent focus. With the blooming of renewable energy market where operation facilities located, renewable energy PPA will be the major key of lower the emission. However, 100% renewable energy cannot fulfil the SBT goal after 2040. So, the carbon capture technologies will be the last but not the least approach that can make the goal achieved. According to the analysis, chairman announced a new goal of renewable energy: 25% of power consumed by TSMC fabs to be supplied from renewable energy, and non-fab power consumption is 100% supplied from renewable energy by the end of 2030. Our long-term goal is to purchase renewable energy until it makes up 100% of TSMC's power consumption in 2050
RCP 8.5	**The major results of the conducted scenario analysis:** The temperature rising adaption and flooding prevention are the two major issues. Results and outcomes: Judging from the average rainfall by GCM models, the average temperature will rise regardless of the season, and it may increase by more than 4 degrees Celsius in either summer or winter. That is, 40 degrees Celsius will be observed in summer, while in winter it may reach around 20 degrees Celsius. It also revealed that the more rain days in the wet season, the less rainfall in dry season will be. The largest rainfall intensity in Taiwan will increase in the future, and the maximum rainfall in summer may increase to as high as 300% comparing to present. **How the results have informed or directly influenced your business objectives and strategy:** In order to avoid flooding damage, floodgates in the low-lying areas are standard and foundation level also raise by 2~5 meters then ground level to keep operation running well in the future extreme situation. For average temperature rising issue, the design of new facilities' HVAC system is more flexible on the capacity and working conditions by considering the worst situation in the future.

Source: CDP Worldwide, TSMC's CDP response, Climate-related Scenario Analysis, Section C3.1b.

TSMC also utilised the TCFD framework to identify climate risks and opportunities.

Source: TSMC's Corporate Social Responsibility Report 2019, TCFD, page 98. https://www.tsmc.com/english/aboutTSMC/dc_csr_report

They also provided a matrix that draws out the climate change risk and opportunities and its length of impact.

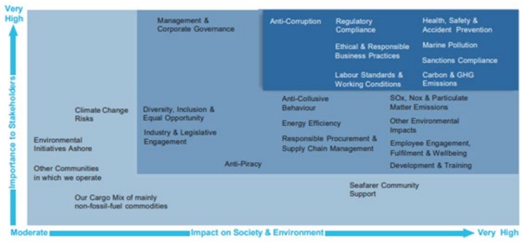
Source: TSMC's Corporate Social Responsibility Report 2019, Climate Change Risk and Opportunity Matrix, page 99.

3.5.2. Materiality mapping

Companies that conduct annual ESG materiality assessments with their stakeholders and present their findings on a materiality map, help investors better understand the issues impacting the business. It also demonstrates that a company has analysed and prioritised those issues.

CASE STUDY EXAMPLE: PACIFIC BASIN

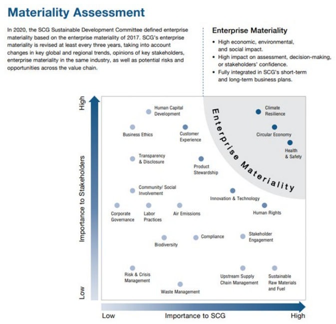
Pacific Basin is a company that does materiality mapping well. The company engages in active two-way dialogue with its stakeholders before presenting ESG issues on a materiality map to rank their importance to stakeholders and their impact on society and environment.



Source: Pacific Basin's ESG Report 2020, Materiality map, page 13.
https://www.pacificbasin.com/en/sustainability/documents/esgreport2020.pdf

CASE STUDY EXAMPLE: SIAM CEMENT GROUP

Similarly, we note that Siam Cement Group also does materiality mapping well. The company analysed sustainability issues across its value chain and issues that matter to its stakeholders before grouping these issues and analysing them on its enterprise risk management framework.



Source: Siam Cement Group's Sustainability Report 2020, Materiality Assessment, page 65.
https://scg.listedcompany.com/misc/sustainability_report/20210302-scc-sdr-2020-en.pdf

3.6. DATA: DISCLOSURE INCLUDING METRICS AND TARGETS

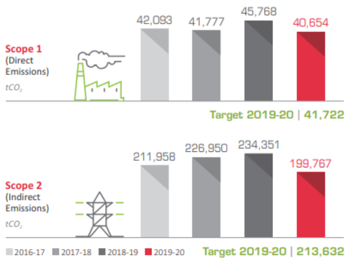
Quantitative and qualitative disclosures provided. Complete ESG disclosures should encompass the disclosure of quantitative and qualitative metrics and targets. Quantitative disclosures which are consistent and comparable allow investors to monitor the effectiveness of the companies' ESG risk mitigation efforts over time. At the same time, there should be supportive explanatory statements to describe the trend of each metric, and whether they are on track to reach the set targets.

CASE STUDY EXAMPLE: MAHINDRA & MAHINDRA LTD (M&M LTD.)

Conglomerates such as M&M Ltd, with business across sectors, are not uncommon in Asia. M&M Ltd's greenhouse gas emissions are disclosed over time, with a breakdown by sector. A clear breakdown of Scope 3 emissions, often the most difficult to calculate and of increasing importance, is provided.

GREENHOUSE GASES

Total Absolute GHG Emissions



M&M Ltd. has reduced its total Scope 1 & 2 emissions by 14% as compared to previous year.

In line with our SBT emission reduction roadmap, we have decided an emission intensity reduction target of 4.1% year-on-year for the next 15 years. This was used to derive the Scope 1 absolute emission reduction target for F20. For Scope 3, we reported only for 6 categories till 2018-19. From 2019-20, we have improved our reporting of Scope 3 to 11 categories, and hence the increase.

We achieved our targeted emission reduction with a clear focus on increasing the energy efficiency and the transition to renewable energy in our operations.

11 categories considered for Scope 3 this year

Sr. No.	Category No.	Category Name	Emission (tCO_2)	% share
1	Category 1	Purchased goods and services	4,372,542	7.48%
2	Category 3	Fuel and energy related activities	111,338	0.19%
3	Category 4	Upstream transportation and distribution	56,528	0.10%
4	Category 5	Waste generated in operations	51,127	0.09%
5	Category 6	Business travel	12,762	0.02%
6	Category 7	Employee commute	2,017	0.00%
7	Category 9	Downstream transportation and distribution	91,786	0.16%
8	Category 11	Use of sold products	53,677,130	91.87%
9	Category 12	End-of-life treatment of sold products	38,938	0.07%
10	Category 13	Downstream leased assets	8,960	0.02%
11	Category 14	Franchises	2,403	0.004%
		Total	**58,425,531**	**100%**

GHG Emissions - Division-Wise Composition

tCO_2

Sector	2016-17		2017-18		2018-19		2019-20	
	Scope 1	Scope 2	Scope 1	Scope 2	Scope 1	Scope 2	Scope 1	Scope 2
AD	20,024	87,465	17,943	94,897	20,466	102,596	14,840	82,247
FD+SD	15,819	70,720	17,609	75,421	17,843	72,795	16,086	61,720
SBU	77	1,611	155	1,919	154	1,826	182	2,566
SFD	1,119	25,427	1,081	27,884	1,184	28,641	946	22,000
NPD	27	2,432	29	2,250	29	2,085	41	1,424
MRV	5,026	21,844	4,959	22,177	5,794	23,159	7,382	23,928
CC	DNA	2,460	0.25	2,403	111	2,232	19	2,162
MTWD	344	843	286	1,146	189	1,017	1,159	3,721

DNA - Data Not Available

Total Specific Emissions (Scope 1 + 2)

tCO_2

Sector	2016-17	2017-18	2018-19	2019-20	% Reduction in 2019-20 over previous year
AD	0.192	0.185	0.191	0.198	-4%
FD+SD	0.204	0.190	0.177	0.181	-3%
SBU	0.229	0.300	0.279	0.338	-21%
SFD	0.908	0.901	0.878	0.836	5%
NPD	4.398	4.340	3.894	2.113	46%
MRV	9.545	9.640	10.039	10.856	-8%
CC	0.168	0.164	0.160	0.149	7%
MTWD	DNA	DNA	0.055	0.023	57%

NA - Not Applicable DNA - Data Not Available

GRI 102-11, 305-1, 305-2, 305-3, 305-4, 305-5

SBTi

Mahindra Susten

Scope 3 emission screening completed as per Science Based Targets | Committed to SBT; targets derived and under management review | Decrease in specific emissions by 2% from F19

Mahindra Holidays and Resorts India Ltd.

Scope 1, 2 & 3 emission data and targets submitted to SBTi on September 27 | Received acceptance from SBTi, targets to be approved | MHRIL commits to reduce Scope 1, 2 & 3 GHG emissions by 88.3 % per Room Night Booked by 2031 from the base year of 2016 | Through this initiative, MHRIL will monitor and reduce its carbon footprint at all its Resorts pan India

Mahindra Logistics Ltd.

Science Based Targets have been submitted to SBTi for reducing carbon emissions

M&M Ltd. also discloses their emission intensity reduction target. Businesses within M&M Ltd. that have committed to Science-Based Targets (SBT) are clearly indicated. Commitment to science-based and net zero targets will be increasingly important in investment decisions, as momentum for Net Zero Asset Owners and Net Zero Asset Managers initiatives accelerate.

Source: Mahindra Sustainability Report 2019-20, pages 48, 49 & 153.
https://www.mahindra.com/resources/pdf/sustainability/Mahindra-Sustainability-Report-2019-20.pdf

CONCLUSION

AAMG hopes that this paper has offered a comprehensive overview of the various impetus for companies to focus on material ESG issues, from the operational to the financial imperative.

By explaining the rationale for investors' increasing focus on ESG disclosures from Asian companies, our members hope that this can better align companies to appropriately disclose the structures, processes and data points that investors seek. The recommendations, case studies and resources from around the region offer practical guidance and a ready reference to companies, especially those that are just starting on the ESG journey.

Our members are seeing an incredible pace of developments across the ESG ecosystem, with regulators in the region playing a key catalysing role. We recognise both the challenges and opportunities that the focus on ESG by institutional investors, particularly asset managers, presents and urge companies to maintain open communication with investors who are able to guide companies towards best practice.

Appendix A – List of selected governmental and regulatory developments in key Asian markets

Below is a non-exhaustive list of governmental and regulatory developments in select Asian markets to illustrate the types of initiatives planned, current as of June 2020.

Elements	China	Hong Kong	Korea	Japan	Singapore
Key commitments	• Carbon neutral by 2060		• 2050 zero carbon initiative	• Carbon neutral by 2050	
Key initiatives	• Plan on Climate Investment and Finance • National Carbon Market trading scheme effective **1 Feb 2021**	• Green and Sustainable Finance Cross-Agency Steering Group (Steering Group) • The STAGE (Sustainable and Green Exchange)	• Green finance initiatives	• The Expert Panel on Sustainable Finance	• Green Finance Action Plan • Environmental Risk Management Guidelines • Green Finance Industry Taskforce • Singapore Green Finance Centre • Green Investments Programme
Compliance & Disclosure	• All enterprises in sectors with >26,000 mt/year of CO2 emissions in scope • Companies to issue emissions reports to determine the allowances they can trade • Penalties for insufficient and inaccurate reporting • To formulate a climate information disclosure standard for projects, entities and funds, as well as to a centrally-managed climate investment and finance statistics and monitoring platform	• Climate-related disclosures for relevant sectors must be aligned with all the TCFD recommendations **by 2025** • Issuers on STAGE must provide additional voluntary disclosures on their sustainable investment products and annual post issuance reports.	• Require all KOSPI-listed firms to disclose their environment data from 2030. Mandatory for larger companies **from 2025**	• Promoting climate-related corporate disclosures	• Asset managers, banks, and insurers are required to achieve full compliance **by June 2022** • Exploring technology solutions for FIs to enhance the quality of their climate-related disclosures
Enhancement to regulatory framework	• A national carbon emission rights registration agency will be responsible for organising the centralised and unified trading of national carbon emission rights • Provincial level authorities to set carbon emissions caps and verify greenhouse gas emissions reports • Authorised institutions are required to establish risk management mechanisms and information disclosure systems	• To adopt the Common ground taxonomy in 2021 • Support sustainability reporting standards • Promote climate-focused scenario analysis • Establish a platform to act as a focal point for financial regulators, Government agencies, industry stakeholders and the academia	• Develop the 'K-taxonomy' within 1H 2021 to help the industry clearly distinguish between green and non-green industries and activities, as well as introduce best practice guidelines on green financing • Draw up a climate risk management and oversight plan for FIs in 2021	• Focus on regulatory and supervisory measures to drive the adoption of sustainable finance • Sub-committee under the Expert Panel to develop "practical guidelines" for the issuance of social bonds.	• Proposed taxonomy for Singapore-based FIs to identify activities that can be considered green or transitioning towards green. • Launched a best practices handbook for asset managers, banks, and insurers • Will develop a combination of principle-based criteria and quantifiable thresholds for activities

Key: Country level commitments and development; Initiatives that impact asset managers / investors; Initiatives that impact corporates directly

Source: various regulatory announcements

Appendix B – List of Selected Resources for Directors

Organisation

- Asian Corporate Governance Association
  https://www.acga-asia.org/

- Climate Governance Malaysia
  https://www.cgmalaysia.com/

- Institute of Corporate Directors Malaysia
  https://icdm.com.my/

- Institute of Corporate Directors (Philippines)
  https://www.icd.ph/

- Practising Governance (Hong Kong)
  http://practisingov.com/

- Singapore Institute of Directors
  https://www.sid.org.sg/

- Thai Institute of Directors
  https://www.thai-iod.com/cover-page/cover.asp

- The Hong Kong INED Association
  https://www.hkineda.com/

Other Resources

- Building on the base: TCFD disclosure in Asia, the Asia Investor Group on Climate Change, October 2018
  https://www.aigcc.net/wp-content/uploads/2018/10/AIGCC_Building-on-the-base_TCFD-Disclosure-in-Asia_FINAL.pdf

- CarbonCareAsia, various courses in collaboration with National University of Singapore, HKU Space and HK Institute of Bankers
  https://www.carboncareasia.com/eng/Sustainability_Learning/courses.php

- How to set up effective climate governance on corporate boards: Guiding principles and questions, World Economic Forum and PwC, January 2019
  http://www3.weforum.org/docs/WEF_Creating_effective_climate_governance_on_corporate_boards.pdf

- Leadership role and accountability in ESG: Guide for Boards and Directors, Hong Kong Exchanges and Clearing Limited, March 2020
  https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Environmental-Social-and-Governance/Exchanges-guidance-materials-on-ESG/directors_guide.pdf?la=en

- Listed issuers e-learning, Hong Kong Exchanges and Clearing Limited
  https://www.hkex.com.hk/Listing/Listed-Issuers/e-Learning?sc_lang=en

- Making inroads into good corporate governance and ESG management: Perspectives from industry practitioners by Hong Kong Exchanges and Clearing Limited, December 2020
  https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Corporate-Governance-Practices/Practitioners_insights.pdf?la=en

- Online courses, Task Force on Climate-related Financial Disclosures
  https://www.tcfdhub.org/online-courses/

- Singapore Directors' Toolkit, KPMG, Chapter 17 Corporate Sustainability, October 2019
  https://assets.kpmg/content/dam/kpmg/sg/pdf/2019/10/The-singapore-directors-toolkit-2019.pdf

- Stewardship 2.0, Awareness, Effectiveness, and Progression of Stewardship Codes in Asia Pacific, CFA Institute, August 2020
  https://www.cfainstitute.org/en/advocacy/policy-positions/stewardship

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