

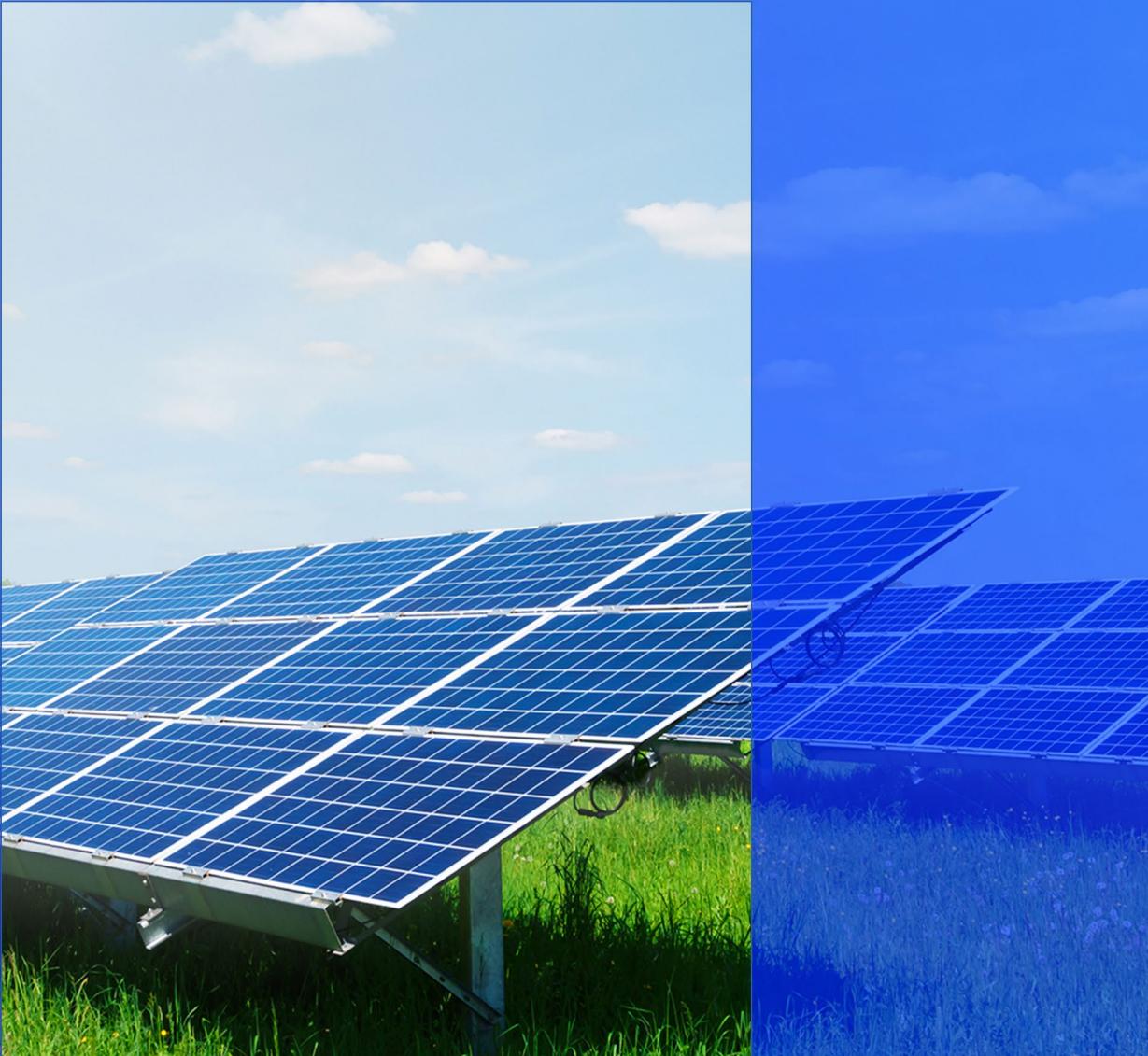


# ESG: A Key to Sustainable Business

**Derek Yuen**

*Partner, Business Reporting and Sustainability/  
Head of Industrial Markets, Hong Kong,  
KPMG*

20 July 2022



# With you today



## Derek Yuen

Partner, Business Reporting and Sustainability/  
Head of Industrial Markets, Hong Kong, KPMG

Derek joined KPMG China in 2000 and provides assurance and ESG advisory services to a wide range of clients. Derek is a core member of the KPMG China Steering Committee on Sustainability. He has been advising clients on ESG strategy from formulation to execution and assisting clients to drive business transformation to achieve sustainable growth.

# Agenda

01



What is ESG?

02



Key drivers for  
ESG?

03



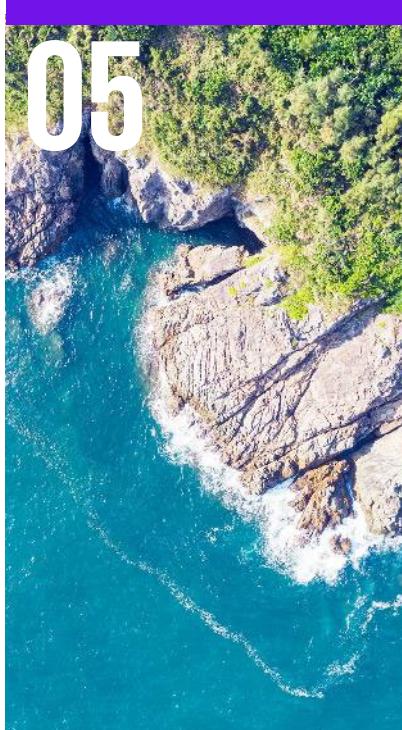
Why carbon  
matters?

04



How ESG  
transform the  
business?

05



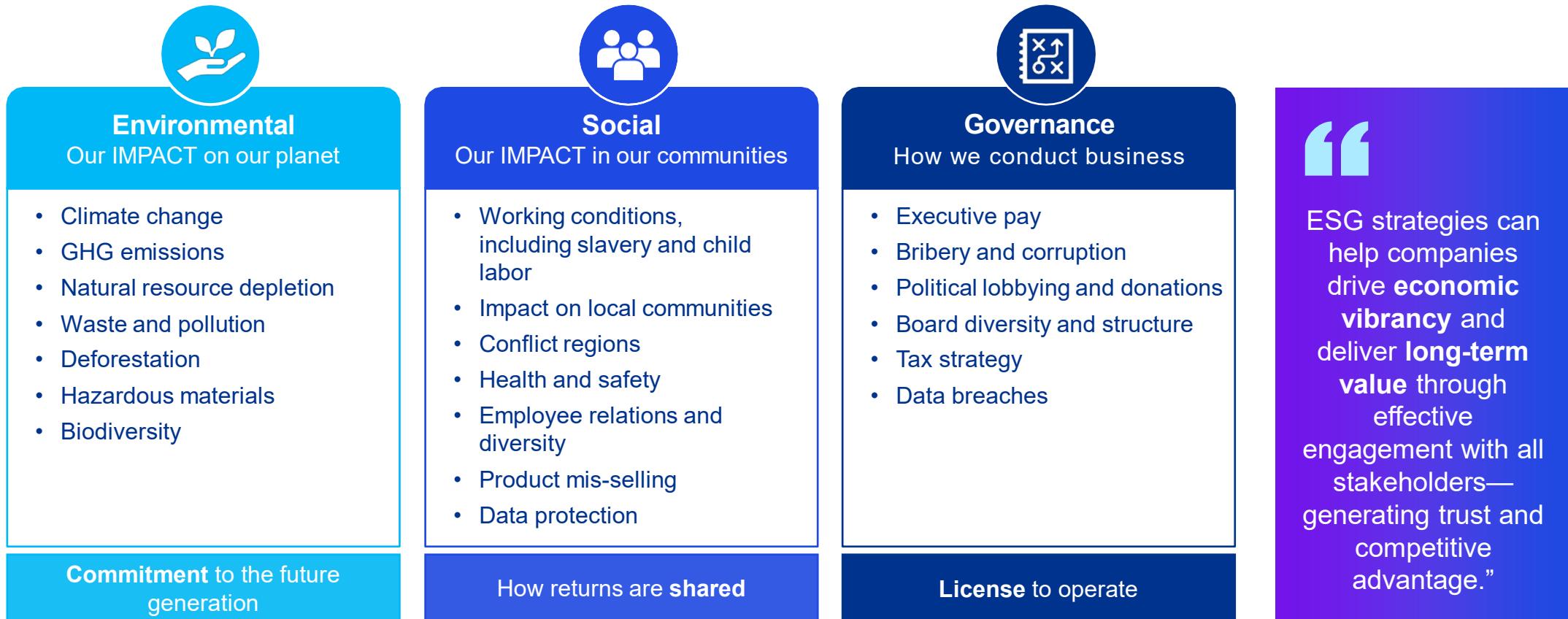
How to get  
started?

01

# What is ESG?

# ESG is everything we do and how we do it

**ESG** is a framework to integrate environmental, social, and governance risks and opportunities into an organization's strategy to build long-term financial sustainability and value creation.



02

## Key drivers for ESG?

# Evolving towards ESG

## Key Drivers



### Increased Awareness of Climate & Social Risks

*More companies are all setting decarbonization targets*



### Changing consumer & employee expectations

*Millennials consider a firm's ESG commitments before deciding to work there*



### Growth of Sustainable Finance

*A total of USD 109 billion green bonds were issued in China in 2021, representing a 149% increase compared to 2020<sup>1</sup>*



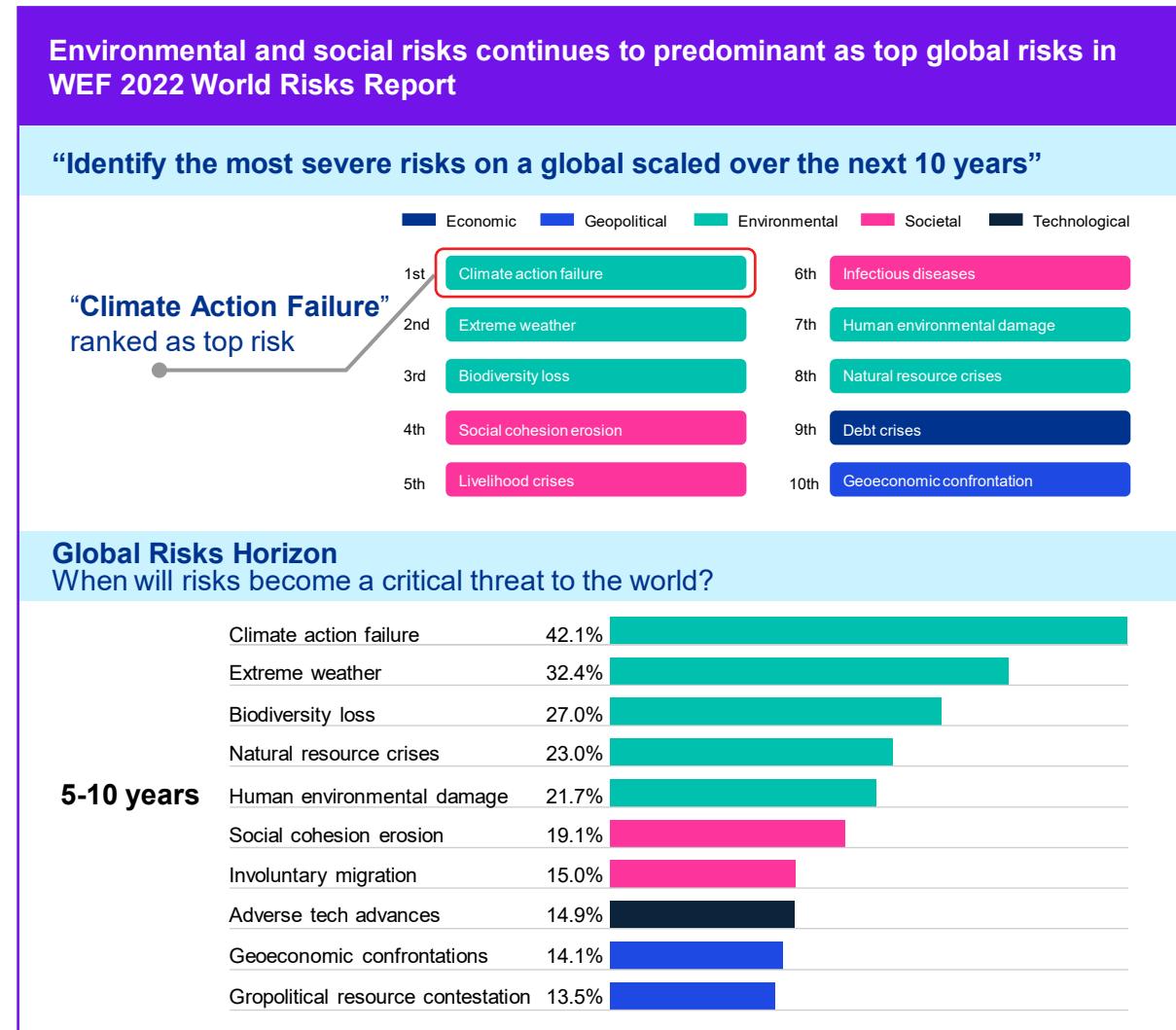
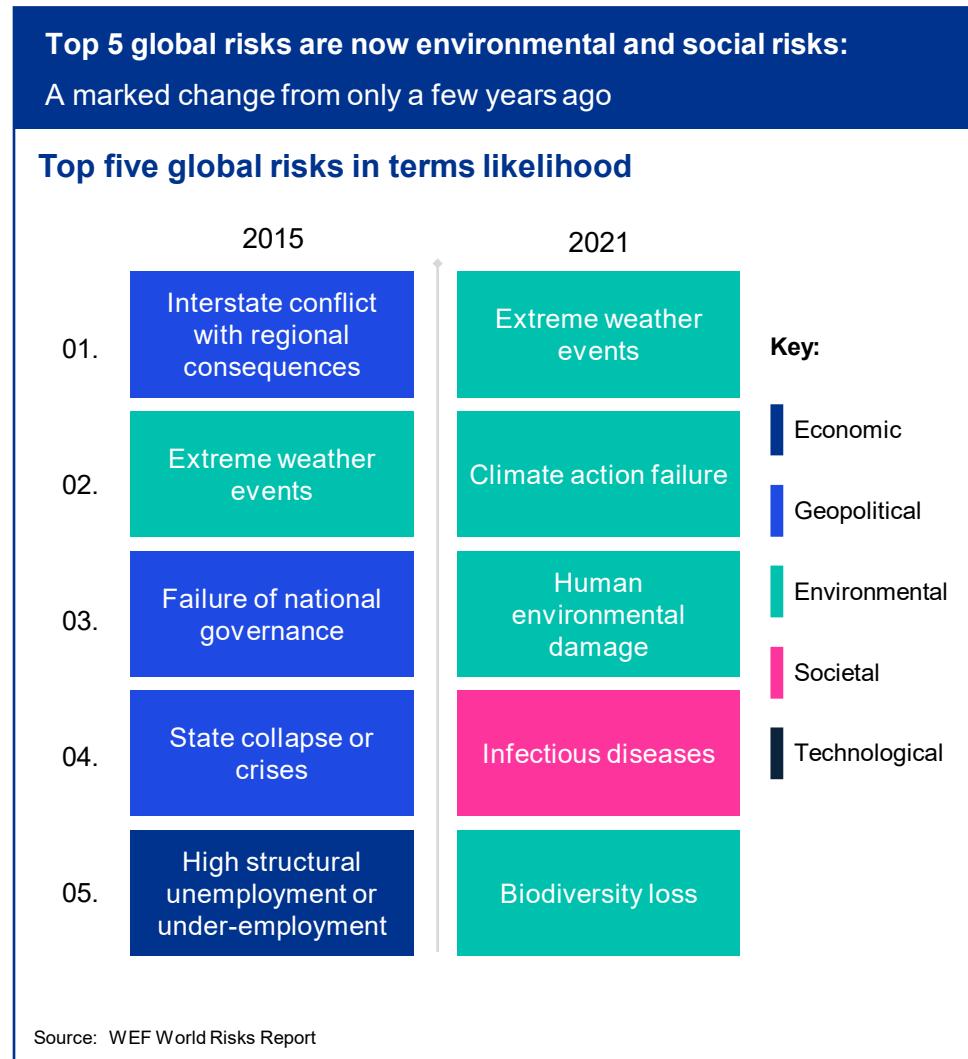
### Pressure on and from Governments & Regulators

*Hong Kong will introduce mandatory TCFD aligned climate disclosures by 2025 or earlier*

## Increasing standards for Social License to Operate (SLO)

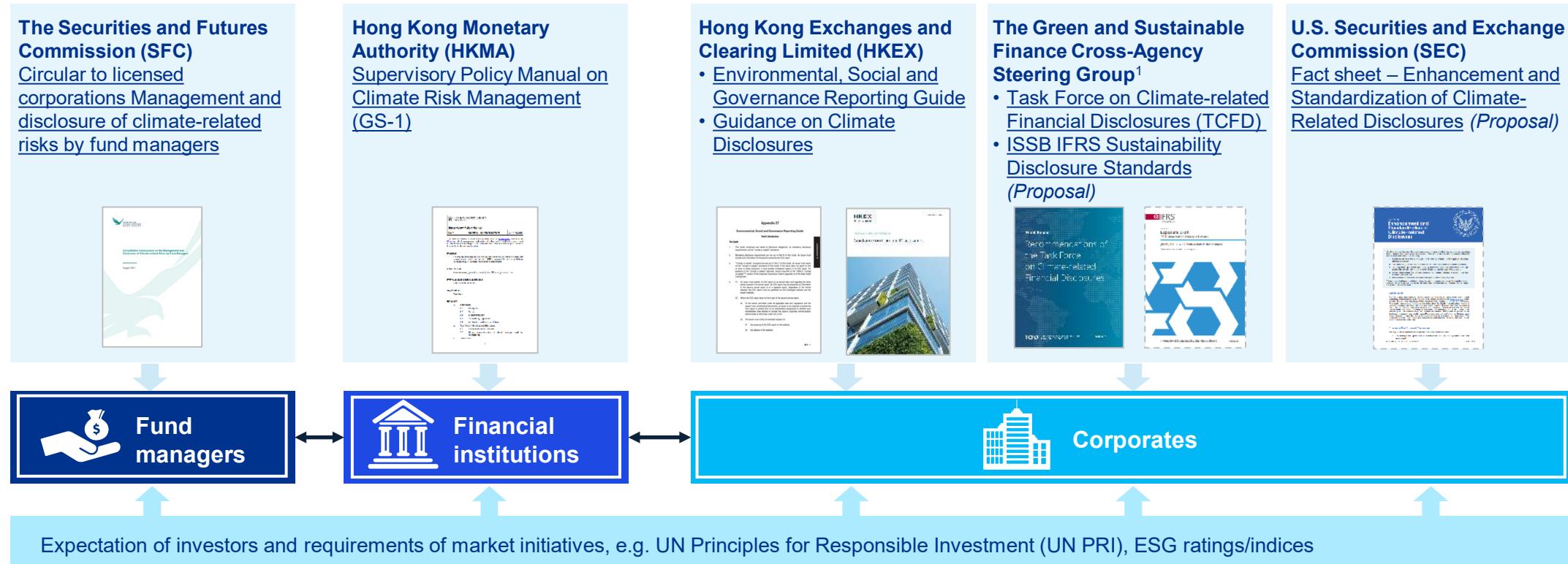
Source: (1) Climate Bonds Initiative

# Climate-related risk is emerging as one of the biggest risks corporates face



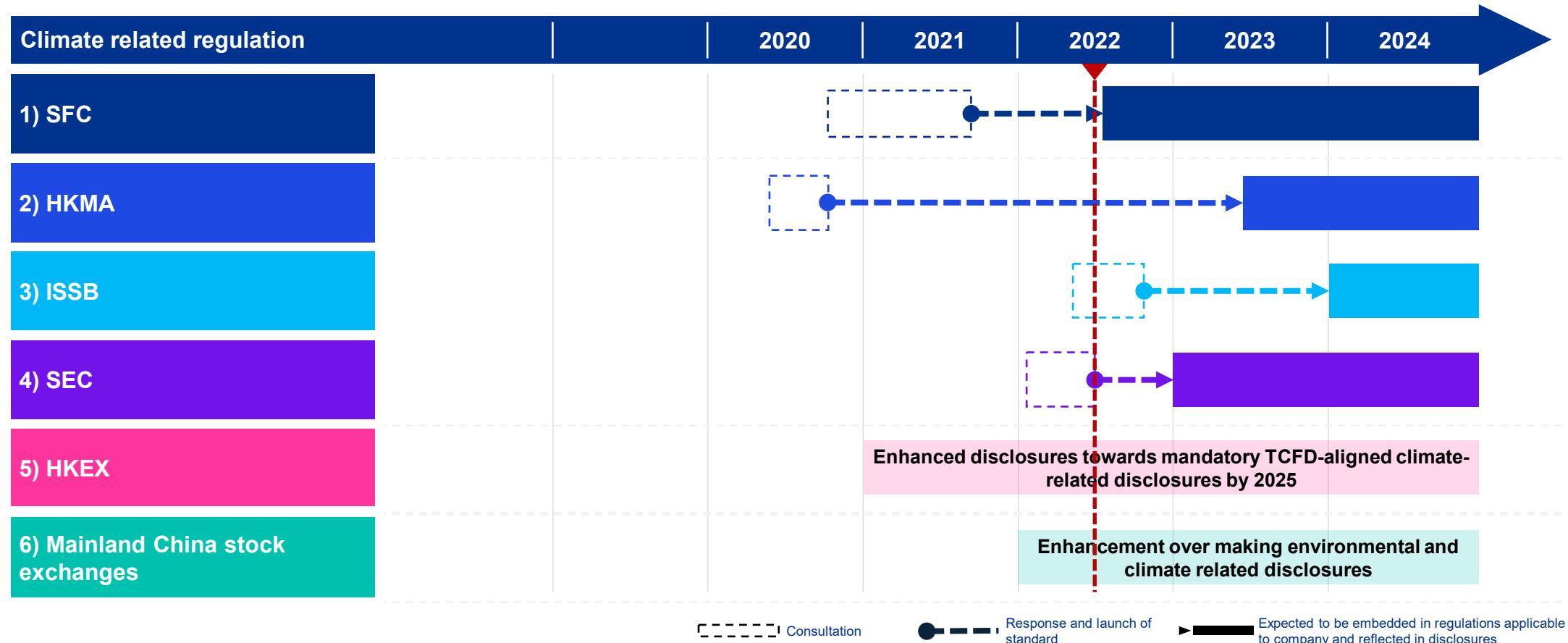
# The pressure over climate risk management and disclosure

Regulators (and investors, lenders, creditors) are increasingly requiring companies to incorporate **climate considerations** into their business processes and related disclosures. Companies **need to understand the interaction of the different driving forces** to effectively define their response to the rising demand in this area.



1. Established in May 2020, the Steering Group is co-chaired by the HKMA and the SFC. Members include the Environment Bureau, Financial Services and the Treasury Bureau, HKEX, the Insurance Authority and the Mandatory Provident Fund Schemes Authority.

# Regulatory requirements overview (climate-related risks)



\* On top of SHSE and SSE, Ministry of Ecology and Environment of the People's Republic of China (MEE) is also requesting disclosures over environmental aspects made by highly polluted industries. Ministry of Finance is currently working on providing comments on ISSB Exposure Drafts and developing Chinese reporting standards.

# How the climate-related risks affect the business

## Physical Risks

Impacts of a changing and more variable climate



Water stress



Wildfires



Droughts or floods



Rising sea levels



## Transitional Risks

Regulator and market response to curbing physical risks



Meeting consumer expectations



Changes in consumer preferences and spending trends



Talent retention



Policy change (eg. energy efficiency standards, access to capital)



Which could lead to consequential risks and opportunities to businesses, such as:



Opportunities to access new markets driven by changing customer sentiment



Prolonged business interruption in key locations or stranded assets



A need to reduce and decarbonize energy consumption



Damage to brands reducing customer demand



03

# Why carbon matters?



© 2022 KPMG, a Hong Kong (SAR) partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Document Classification: KPMG Public

12



## UK heatwave: Amber warning in place as UK has hottest day of the year

1

### UK Heat Wave to 'Make a Dent' in Economy as It Hits Productivity

- British homes and small offices aren't suited for hot weather
- Unusually high temperatures expected to last until next week



CNN

Weather

Audio

Loc

### Londoners urged not to travel as heat wave engulfs Europe

### Europe heatwave: Outdoor events banned in parts of France

17 June



Europe heatwaves

Death toll from brutal heat wave tops 1,000 in Spain and Portugal

### Spain melts under the earliest heat wave in over 40 years

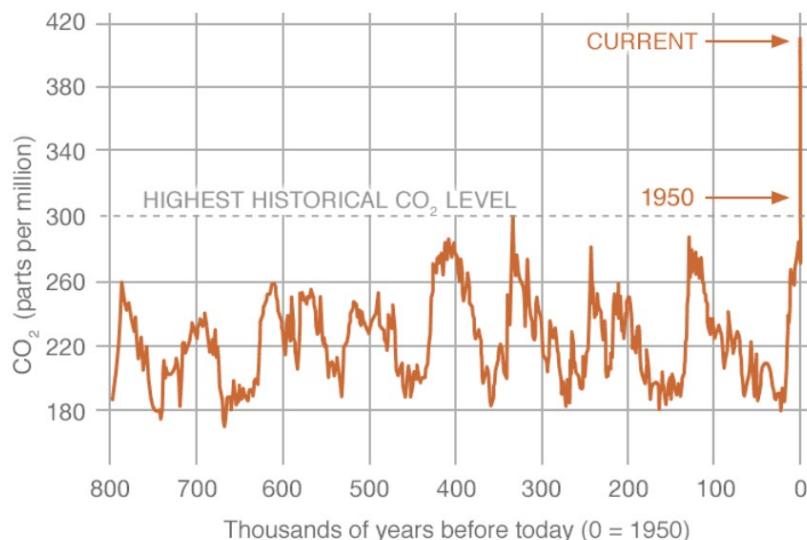
By Marco Trujillo

# Carbon emissions and climate change

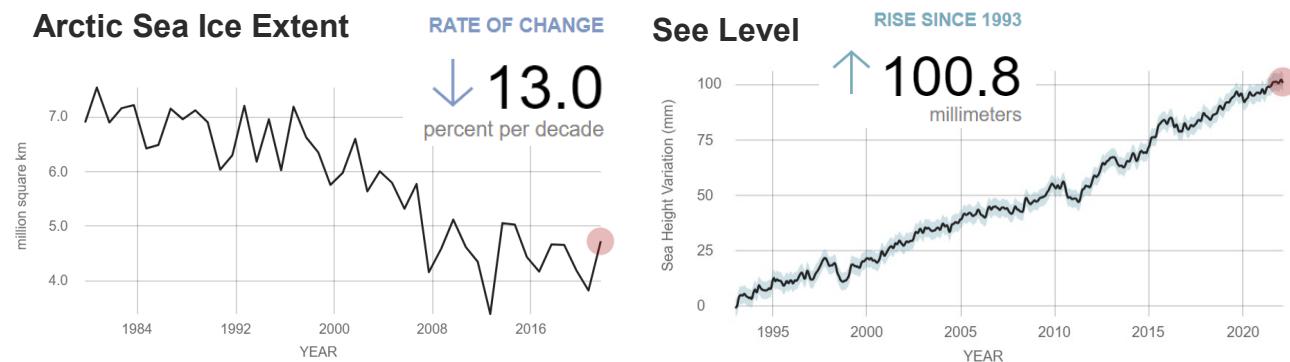


Carbon dioxide (CO<sub>2</sub>) is an important heat-trapping (greenhouse) gas, which is released through human activities such as **burning fossil fuels**, deforestation, as well as natural processes such as respiration and volcanic eruptions.

Latest measurement: June 2022  
CO<sub>2</sub> concentration: **419 ppm**



- Global surface temperature has increased faster since 1970 than in any other 50-year period over at least the last 2000 years.
- GHG concentrations, already at their highest levels in 2 million years, have continued to rise.



**Warning: Are we at a Tipping Point?**

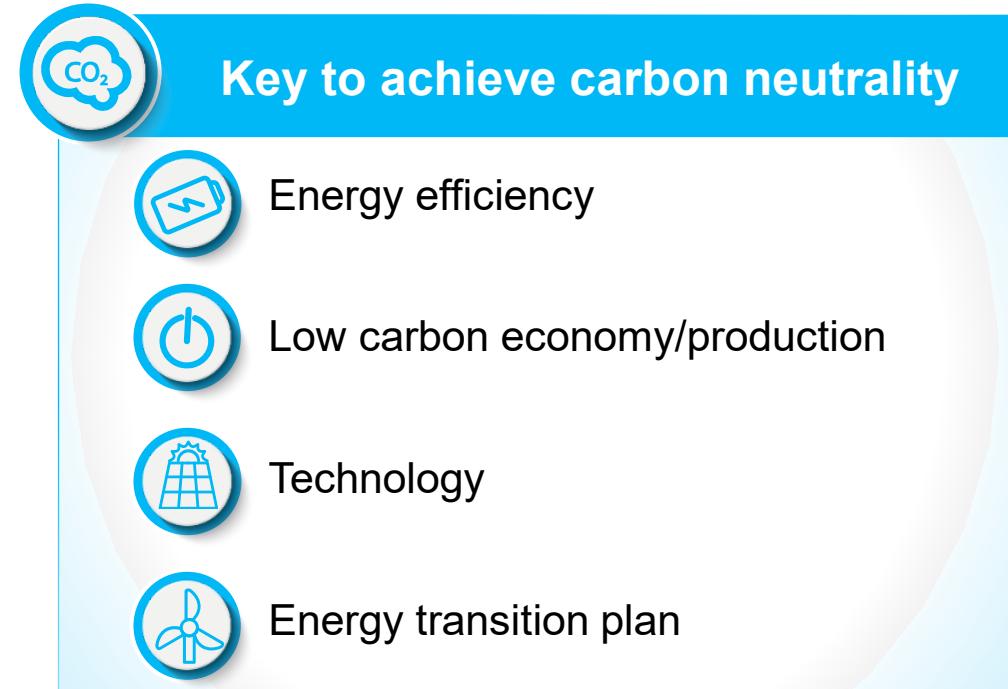
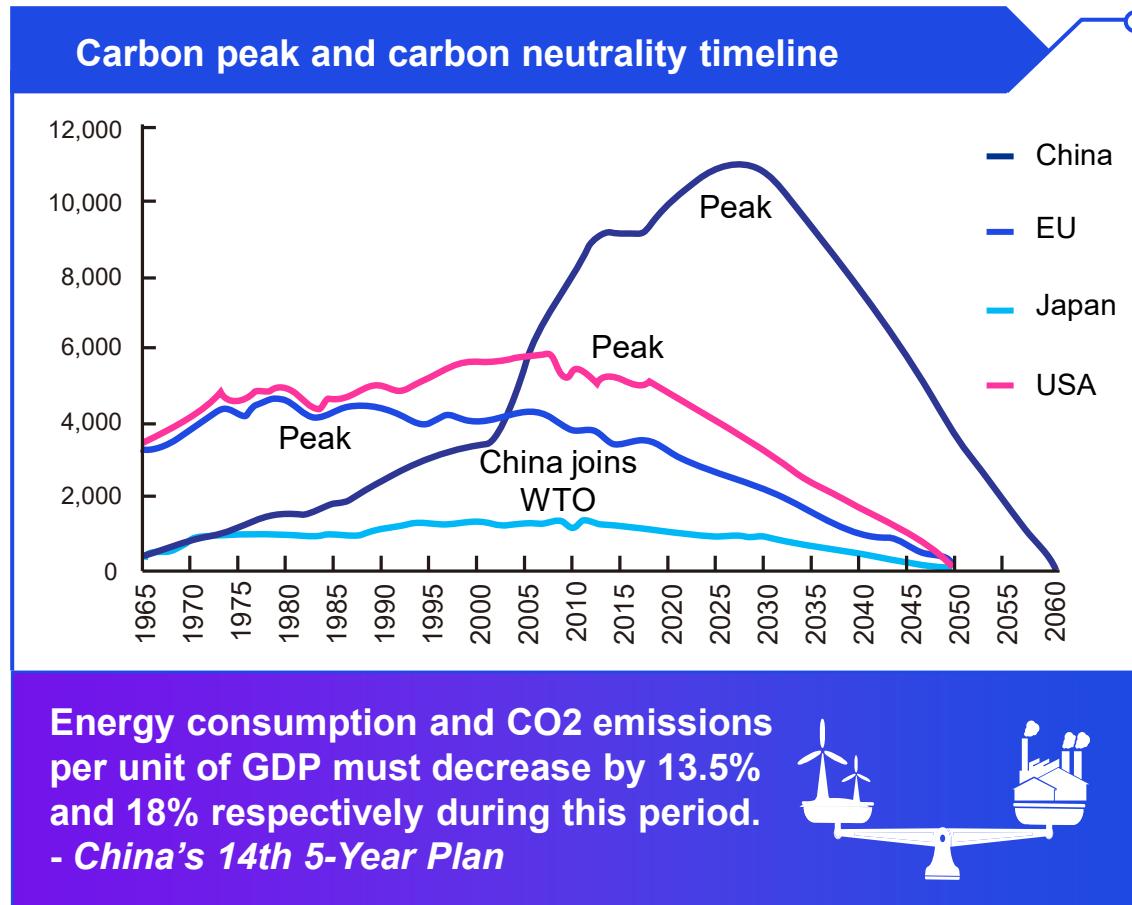
Sources: NASA, WMO, UNEP



© 2022 KPMG, a Hong Kong (SAR) partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Document Classification: KPMG Public

# China “30·60” carbon target



ETS introduced in July 2021 covering 4.5 billion tones of carbon emission over 2,000 power generation entity.

# Putting a price on carbon emission

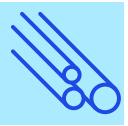


# Carbon Border Adjustment Mechanism (CBAM)

On 22 June 2022, the European Parliament adopted the position to introduce Carbon Border Adjustment Mechanism (CBAM) likely starting from 1 Jan 2023.\*

## In-scope sectors\*

*Exports of the in-scope products from China to the EU in 2021 hit RMB 250 billion.*



Iron and steel



Cement



Aluminium



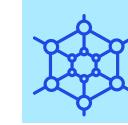
Fertiliser



Electricity



Hydrogen



Polymers



Organic chemicals

\* Subject to further negotiation with European Council

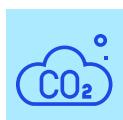
## Direct cost



Assuming a GHG emissions intensity at 3 tCO2e per tonne\*\*



Cash price of aluminum USD 2,357 per tonne (LME on 6 July 2022)



EUR 83 per tCO2e  
(EU Carbon Permits price on 6 July 2022)



Additional carbon “tax” cost at EUR 249 per tonne (11% increase!!)

\*\* This assumption is for illustrative purpose only. GHG emissions data for CBAM purpose should follow specific rules.

# Carbon Market Opportunities in Hong Kong



## Green and Sustainable Finance Cross-Agency Steering Group

### Carbon Market Opportunities for Hong Kong - Preliminary Feasibility Assessment (March 2022)



Develop Hong Kong into a global, high quality voluntary carbon markets (VCMs)



Work towards establishing the GBA Unified Carbon Market



Link up international investors with the GBA Unified Carbon Market and potentially the national Emissions Trading System (ETS)



Strengthen cooperation with the Guangzhou Futures Exchange



## Hong Kong International Carbon Market Council

- **HKEX** launched the Hong Kong International Carbon Market Council (the Council) in **Jul 2022**, together with a number of **leading corporates and financial institutions** as inaugural Council members to explore carbon opportunities in the region.

- The Council will gather insights from members on the **development of an efficient and effective Hong Kong-based international carbon market** with best-in-class market infrastructure, products and services.
- List of inaugural council members

- |                  |                           |
|------------------|---------------------------|
| • ANZ            | • Standard Chartered Bank |
| • BOC(HK)        | • Tencent                 |
| • BNP Paribas    | • HSBC                    |
| • Cathay Pacific | • ICBC (Asia)             |
- And few others...

04

# How ESG transform your business?



# How does ESG help businesses grow?

## Grow Revenue

- Attract capital from investors
- Launch sustainable portfolio of products, services and solutions
- Shift from selling products to selling services



## Reduce Cost

- Save energy (& cut costs)
- Source sustainable raw materials
- Leverage digital technologies to reduce resource usage

## Enhance Brand

- Brand & reputation
- Attract & retain talent
- Enhance license to operate
- Engage communities & stakeholders

## Reduce Risk

- Stay ahead of future regulations
- Anticipate resource scarcity & price volatility
- Account for externalities
- Avoid supply chain disruptions

# Embedding ESG into business

Industry	ESG considerations
 Property development	<ul style="list-style-type: none"><li>• Green building standards</li><li>• Use of low embodied carbon construction material</li></ul>
 Fashion	<ul style="list-style-type: none"><li>• Circular economy</li><li>• Sustainable supply chain</li></ul>
 Food & Beverage	<ul style="list-style-type: none"><li>• Reduce packaging and wastage</li><li>• Sustainable food source</li></ul>
 Transportation & Logistics	<ul style="list-style-type: none"><li>• Use of low carbon fuel</li><li>• Electrification</li></ul>
 Agriculture	<ul style="list-style-type: none"><li>• Ethical farming / animal welfare</li><li>• Local produce</li></ul>
 Metals	<ul style="list-style-type: none"><li>• Ethical / responsible sourcing</li><li>• Low carbon technology</li></ul>

05

# How to get started?



# How to integrate ESG into your business



# Common challenge we see from corporate



# How to integrate ESG into your business

“

**ESG isn't something you do.  
ESG is everything you do, and how you do it.”**

# To recap



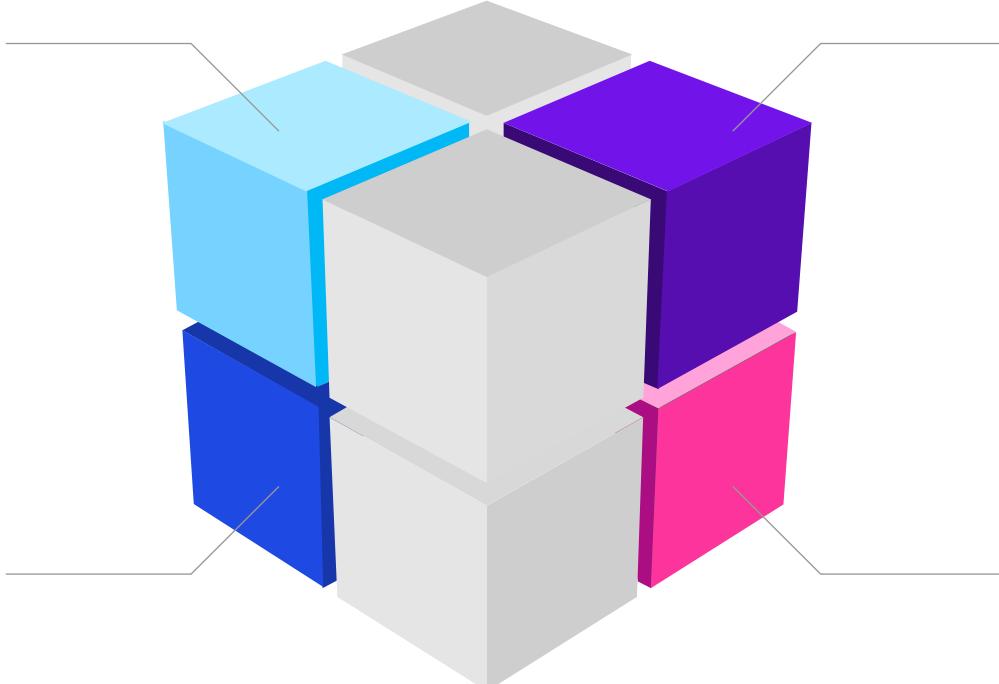
## Every sustainability journey is unique

How every company implement their strategy should also be unique and be center around the core business to suit their needs and characteristics.



## Carbon emission will be priced

Every company, irrespective of the size and industry will be affected. Company need to keep track of the development to stay competitive in the market.



## Climate change is one of the major challenges of our time

With regulator imposing more rules and regulations, corporate are required to assess, quantity and disclose its climate-related risks



## Get buy-in from the top and project owners is crucial for effective ESG management

# Thank you



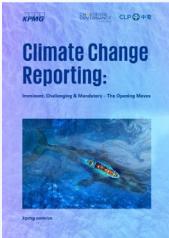
## Derek Yuen

Partner, Business Reporting and Sustainability/  
Head of Industrial Markets, Hong Kong, KPMG

E [derek.yuen@kpmg.com](mailto:derek.yuen@kpmg.com)



### Climate Change Reporting



### Net Zero Readiness Index 2021



### ESG: A key approach to business resilience



© 2022 KPMG, a Hong Kong (SAR) partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Document Classification: KPMG Public



Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.



[home.kpmg/cn/socialmedia](http://home.kpmg/cn/socialmedia)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2022 KPMG, a Hong Kong (SAR) partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. Printed in Hong Kong (SAR).

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

**Document Classification: KPMG Public**