HSBC

News Release

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Environment, Social and Governance (ESG) Moves Mainstream

Research commissioned by HSBC shows that 61% of investors and 48% of issuers around the world have an Environment, Social and Governance (ESG) strategy in place – yet wide geographical differences exist. Among issuers, Europe (87%) and the UK (87%) set the pace, particularly among corporates with over USD10 billion turnover. Hong Kong registers 13%, followed by the US at 21%. For investors, the widest disparity exists between Europe (84%) and Asia (40%).

ESG Decision Drivers

Discussion with 1,731 companies and institutional investors reveals that financial returns and tax incentives are the top two ESG decision drivers across all issuers and the majority of investors. Hong Kong's Issuers see that tax incentives are by far the greatest driver of ESG decision making, followed by stakeholder / shareholder pressure, with 51% and 29% of Issuers noting these respectively. Hong Kong's investors, being more focused on commercial outcomes, have financial returns (32%) and tax incentives (31%) as the two key drivers. Investment decisions are increasingly being based on commercial returns, indicating a developing maturity within the investment market.

Daniel Klier, HSBC's Group Head of Strategy and Global Head of Sustainable Finance, said: "It's notable that the driver of increased disclosure has changed since 2017, where 83% of corporate issuers cited investor pressure first, followed by regulation then risk of negative publicity. This shift towards prioritising financial returns illustrates investor engagement has improved and that market forces are encouraging behavioural change. Put simply, ESG, climate finance and risk management are moving mainstream."

Allocation of Funds

Companies are consistent in their use of proceeds raised, with 66% globally citing internal investments to make their business greener such as new plant and machinery, or new renewable power sources. Hong Kong's Issuers are very targeted with respect to where they invest their ESG financing with 79% invested in "business projects which are green by definition".

Perceived Barriers

Encouragingly, 67% of issuers and 57% of investors globally see no barriers to increasing their ESG commitments. The vast majority of Hong Kong's Issuers see no barriers to increasing their ESG commitments with over 90% of each revenue segment stating this as fact. However, Hong Kong's investors tell a different story with over 52% stating they encounter barriers. For those Investors who see barriers to increasing their ESG investments, there are two clear areas: lack of investment opportunities (81%), and ESG data quality (69%).

Low Task Force on Climate-related Financial Disclosures (TCFD) Awareness

While international regulation is cited as the number one reason to increase disclosure levels globally, only 8% of issuers and 10% of investors are aware of the TCFD's existence. The TCFD is the task force that has worked to develop a set of clear and consistent global recommendations for corporate disclosure around climate risk.

Mr Klier added: "The market is now looking to regulation to provide clarity and definition, especially as inconsistency of definitions is an issue for all. With the providers of capital looking for enhanced disclosure, and TCFD providing a framework for doing so, implementing the recommendations is now a pressing global priority."

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Note to editors:

About the report

The reporting is based on direct interviews with 1,731 global entities, including 863 issuers and 868 investors, conducted by East & Partners over a five-week period ending 29 June 2018 Group Treasurers, CFOs, CIOs and heads of investments strategy included in the sample frame were located across Europe, North America, Asia and the Middle East. Demographic breakdowns are provided in the methodology section of the analysis report, broken down by interviewee, assets under management (AUM), annual revenue and industry distribution for the two respective segments.

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