

Story-making, compliance, green finance – lessons from Hong Kong's latest sustainability conference

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The sustainability agenda is touching every element of industry and commerce, and demanding change at every level from individuals and households, to governments and global institutions.

Real changes are taking shape at both ends of the spectrum – from individuals recycling more and shunning single-use plastic, to reform in the international flow of capital.

The CUHK Sustainability Conference in Hong Kong is the newest sustainability focused conference in one of the world's biggest financial centers – Ogier partner Kate Hodson, a specialist in environmental, social and governance investing, has these three big takeaways from the event:

"The necessity for companies to be story-makers and not story-tellers"

When referring to "sustainability" we are talking about how a business manages its impact on the environment but also how the environment is affecting the business and consequently how those risks can be managed.

There has been a global change in the perception of "sustainability" and where it sits within business. It is no longer just about communication and marketing but rather has become embedded in strategy and, to a greater or lesser extent, has become a part of the corporate purpose in many businesses.

Companies which recognise the importance of sustainability and have transitioned to treating sustainability as a core part of their strategy are in a position to be "story makers". ESG reporting remains important but reporting is not about "story telling" and should be about accountability. We are operating in a radically transparent world and as such, if businesses say they are going to do something then they actually need to do it. There is no place for "Green Washing".

In Hong Kong, the Securities and Futures Commission (SFC) has spoken out about the relevance of this when it comes to selling investment products and in the last month the SFC has issued guidance for management companies of SFC-authorized unit trusts and mutual funds. The guidance focuses on enhanced disclosures for SFC-authorized green or environmental, social and governance (ESG) funds. Namely, asset managers are expected to do more than simply make the claim that they take ESG factors into account, this needs to be backed up by substance and clearly explained to investors.

"Compliance is critical to meet increased regulation and legislation"

China has introduced swathes of new environmental regulations and policies in recent years and this has to be seen as the general direction being taken by governments globally. The UN has reported (in the first report on environmental policies worldwide) that as of 2017, 176 countries have environmental framework laws, 150 countries have enshrined environmental protection or the right to a healthy environment in their constitutions and 164 countries have created cabinet-level bodies responsible for environmental protection.

The report concludes that environmental concerns have reached every corner of the world, such that all countries have at least one environmental law or regulation in place—yet very few nations comply with them. What we need to see is more implementation and enforcement.

"Green Finance is growing quickly – and regulators are backing it"

In the perfect world there would be no "green finance" as all finance would have ESG integration. However, as it stands green finance still represents a relatively small portion of traditional finance markets. However, the investor demand is potentially huge. An IFC paper entitled "Creating Impact, the Promise of Impact Investing", April 2019 reported "*We estimate that investor appetite for impact investing is as high as \$26 trillion – \$21 trillion in publicly traded stocks and bonds, and \$5 trillion in private markets involving private equity, non-sovereign private debt, and venture capital.*"

ESG is now being used as a tool to engage with investee companies but this takes more time and effort and experience in this area is not yet widespread. For example, how to rate businesses for ESG performance and thereby screen investee companies for potential investment.

In Europe, the drive towards green finance continues apace, however we are also seeing advances in Asia. A few days following the conference, the Hong Kong Monetary Authority (HKMA) unveiled a set of measures to support and promote Hong Kong's green finance development and kicked off a roadshow for the HKSAR Government's first green bond under its HK\$100 billion green bond program.

The bottom line is that non-financial information is going to continue to play an increasingly

important role in investment decision making given the real and quantifiable impact environmental and social issues can have on businesses.

Kate Hodson is a partner in Ogier's investment funds practice in Hong Kong with a focus on private equity and ESG investing. She was the youngest partner in the firm when she reached the partnership in 2015 and has been named Best Offshore Lawyer at the Euromoney Asia Women in Business Law Awards.

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