

# Top Trends for ESG Compliance in China 2020



## AUTHOR



**Patrick Leung**  
*Director, Marketing  
 Fuji Xerox (Hong Kong) Ltd*

A seasoned and forward-thinking marketer specializing in digital transformation and marketing with extensive regional experience.

Tech-savvy, innovative, and witty, he is apt to planning and implementing new tactics and steering away from traditional marketing in the digital era. Helps companies and clients achieve business goals and works alongside them on their digital transformation journey. His role is to strengthen the position of Fuji Xerox (Hong Kong) as a leading ICT agency in Hong Kong, which is committed to enabling clients' business success through game-changing technologies such as AI (Artificial Intelligence) and RPA (Robotic Process Automation).

Ethical corporate behavior affects the bottom line. That's the simple premise behind measuring environmental, social, and governance (ESG) factors in business, one that was first elucidated in a 2004 UN study<sup>1</sup> and thereafter validated by studies showing that businesses with high ESG ratings enjoy higher profitability and lower risk in the long term.<sup>2</sup>

ESG practice in China suffered from a late start, but, as managing director of SynTao Green Finance Zhang Rui explained, "Since 2017, the development of ESG in China has entered a fast track."<sup>3</sup>

Recognizing that attracting foreign investment requires an emphasis on ESG issues, authorities in China have begun requiring more scrupulous ESG disclosure from companies. The Hong Kong Stock Exchange changed its rules in 2015, shifting from a relaxed "voluntary" ESG reporting regime to a stricter "comply or explain" requirement.<sup>4</sup>

### Greater ESG Disclosure in China

On the mainland, ESG reporting guidelines have been formulated by the China Securities Regulatory Commissions (CSRC)

and the Shanghai Stock Exchange (SSE),<sup>5</sup> and the Chinese government will require listed companies to disclose environmental information by 2020.<sup>6</sup>

Internal resistance to ESG disclosure requirements has largely vanished, as China's financial sector adapts to international reporting standards (and in some ways, has been responsible for formulating them).

29 asset management companies in China signed up to the United Nations Principles for Responsible Investment (UN PRI), including major players like China Life Asset Management, Harvest Fund Management, and China Southern Asset Management.<sup>7</sup>

"More than half of the top 10 public funds have joined—their asset management scale and the impact they bring are very large, which can play a large demonstration effect," explained Nan Luo, Head of PRI China.<sup>8</sup>

In the banking sector, the Commercial and Industrial Bank of China (ICBC) served on the working group that released UN's Principles for Responsible Banking.<sup>9</sup>



## Top Trends for ESG Compliance in China 2020



### Improving ESG Data Over Time

There's a lot more work that needs to be done, to be sure. Bloomberg ranks China at 21.6 in their ESG disclosure score, less than half of France's score at the top of the list.<sup>10</sup> A Sustainalytics study finds that only 7% of Chinese companies exceed the industry average in terms of overall ESG score.<sup>11</sup>

Lack of data is an issue; with China's late start in the game, the reporting regime is seen to be lacking in consistency and coverage. "Some specific data such as environmental data is compulsory for some sectors and companies, but not all of them," explains Yan Xu, chief investment officer at Hwabao WP Fund Management. "Therefore, we have an incomplete dataset of ESG company data."<sup>12</sup>

That, too, may change, as the introduction of 233 China A-shares in Morgan Stanley Capital International's (MSCI's) Emerging Market Index will require these constituent companies to be more forthcoming with their ESG scores.

In the long run, availability and quality of ESG data in China will only be improved by Chinese companies' inclusion in the Emerging Market Index: "Expanding coverage of Chinese companies, together with increased engagements by investors, should lead to both better disclosure and integration of sustainability challenges in Chinese companies' strategies," explains Mandy Lui, regional head of wholesale distribution for BNP Paribas Asset Management.<sup>13</sup>

### A Single, Cloud-Based ESG Platform

For companies operating in China, ESG compliance is a matter of when, not if. Given the increasing pressure from both government and the private sector, Chinese companies must prepare to create an ESG reporting regime, beginning **with an efficient ESG data-gathering system** that combines high quality of data with low adverse impact on workflows.

A solution like Fuji Xerox (Hong Kong)'s **Intelligent Environmental, Social and Governance** (iESG) consolidates all environmental and social data in a single,

cloud-based platform. As it automatically gathers ESG data with minimum prompting from users, iESG eases the burden on employees, and ensures higher data accuracy and more credible reporting.

iESG can collect data supporting pre-determined key performance indicators (KPIs), store them on a single platform, and convert/visualize them to comply with reporting requirements.

As it automatically captures and validates ESG data in the course of day-to-day operations, iESG saves precious staff-hours that previously might have been used to manually collate and organise the report data needed for ESG compliance.

Over time, iESG allows various departments and sites to input and validate ESG data on a regular basis: not only can executives follow reporting requirements to the letter, they can also use their own ESG data to make better, more environment-friendly decisions for the company.

<sup>1</sup> "Who cares wins, 2004–08 (English)." IFC Advisory Services in Environmental and Social Sustainability issue brief. World Bank Group, 2004.

<sup>2</sup> Giese, Guido et al. "Foundations of ESG Investing: How ESG Affects Equity Valuation, Risk, and Performance." MSCI.com. MSCI Inc., 2019.

<sup>3</sup> Zhang Rui. "The golden opportunity period for A-share ESG investment is beginning." Sina.com.cn. Sina Corporation, August 20, 2019.

<sup>4</sup> Kao, Ernest. "Hong Kong Stock Exchange Begins Tighter Environmental and Social Disclosure Standard from 2016." South China Morning Post. SCMP Group, July 20, 2018.

<sup>5</sup> "The Shanghai Stock Exchange's ESG Guidelines will introduce matters such as mandatory disclosure of the environment." Weekly on Stocks. Securities Market Red Weekly, June 9, 2019.

<sup>6</sup> Davies, Paul et al. "China Mandates ESG Disclosures for Listed Companies and Bond Issuers." Latham & Watkins. Lexology LLP, February 6, 2018.

<sup>7</sup> "Signatory Directory." PRI. United Nations. Accessed December 9, 2019.

<sup>8</sup> "Interview with Nan Luo (PRI): China's PRI Signatories Grow at the Highest Speed Globally." CASVI.org. China Alliance of Social Value Investment, July 2, 2019.

<sup>9</sup> "The Principles for Responsible Banking Public Consultation Launch: Have Your Say on the Future of Banking." UNEP FI. United Nations Environment Programme - Finance Initiative, November 26, 2018.

<sup>10</sup> Poh, Jacqueline, and Mariko Ishikawa. "China Set to Lead ESG Disclosure to Lure Foreign Investments." Bloomberg.com. Bloomberg, June 20, 2019.

<sup>11</sup> Pan, Frank. "Revisiting ESG in China: Has Company Performance Improved?" Sustainalytics. Sustainalytics, May 30, 2018.

<sup>12</sup> Acosta, Francis Nikolai. "Domestic Managers Share China's ESG Challenges." Fund Selector Asia. Last Word Media (HK) Ltd., June 13, 2019.

<sup>13</sup> Chou, Cybil Huichen. "China Gets Serious about ESG." Funds Global Asia. Funds-Europe.com, June 2018.