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Asian Corporate Governance Association (ACGA)

“ESG – What could possibly go wrong?”

Presentation by:

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# 1. Definitions

- The terms “Corporate Governance” (CG) and “Environmental, Social, Governance” (ESG) are often conflated, but not the same.
  - **CG:** relates to the way in which companies are directed and controlled, to core principles of corporate transparency, accountability, fairness – and the wider regulatory and legal regime governing companies (listed and unlisted).
  - **ESG:** relates to how companies analyse, manage, govern and exploit environmental and social risks and opportunities.
- CG and ESG overlap around the role of the board in its oversight of environmental and social factors that can affect a company’s operations, strategy, long-term viability.

# Negatives

- **ESG** evolved from the “corporate social responsibility” (CSR) movement in the mid-2000s. It was a recognition that CSR needed proper governance. This was good, however:
  - Historically, the “G” in ESG has often been downplayed or, at worst, ignored and/or taken for granted. Hence, “ES<sub>g</sub>”.
  - Many proponents of ESG have not been experts in corporate governance.
  - At its worst, ESG allows companies to focus on E & S issues at the expense of “G”. For example, listed companies with excellent “sustainability reports” yet poor corporate governance. They gain credibility because most stakeholders are more interested in, and better understand, E & S issues. For some, the “G” is rather dry and legalistic, not “sexy”.

# Positives

- A growing awareness that companies cannot sensibly address environmental and social risks or opportunities – over the long term – without a sound governance foundation. The board has an important role.
- Among CG advocates, a recognition that E &S risks are real – not just feel-good philanthropy – and need to be addressed and disclosed.
- Hence, the emergence of concepts like “strategic ESG”.
- Perhaps we need a new acronym: CGES, CG/ES, CG+ES

## 2. ESG Reporting in Asia-Pacific

- Reporting is often data-heavy, colourful (ie, full of pictures), and designed for marketing purposes. Hence, not very useful to an institutional shareholder looking to understand higher level risk issues and business opportunities.
- Reports often “get lost in the data” and do not address the big questions:
  - How will emerging ES risks, such as climate change, affect my business model and strategy over the short, medium and long-term?
  - Do I need to reposition my business to respond to climate change?
  - Do I have the requisite expertise on my board to respond?
- Anecdotally, many ESG/sustainability reports are not elevated to the C-suite or board for discussion!

# 3. CG Watch 2018: Market rankings & scores

CG Watch market scores, 2018		
Market	Total (%)	Key CG reform themes and questions
1. Australia	71%	Bank governance needs overhaul, time for a federal ICAC
2. Hong Kong	60%	Going backwards on DCS, about to go forwards on audit regulation
3. Singapore	59%	Going backwards on DCS, reform direction reflects contradictory ideas
4. Malaysia	58%	Can new government rid the system of corruption and cronyism?
5. Taiwan	56%	Moving forward, yet piecemeal reforms hinder progress
6. Thailand	55%	Moving forward, yet corruption and decline in press freedom are concerns
=7. India	54%	Bank governance needs overhaul, new audit regulator disappoints
=7. Japan	54%	Heavy focus on soft law needs to be balanced with hard law reforms
9. Korea	46%	Stewardship code gaining traction, but sadly so is DCS
10. China	41%	Reinforcement of Party Committees raises numerous questions
11. Philippines	37%	CG reform low on the government's priorities, direction unclear
12. Indonesia	34%	CG reform low on the government's priorities, direction unclear

Source: Asian Corporate Governance Association

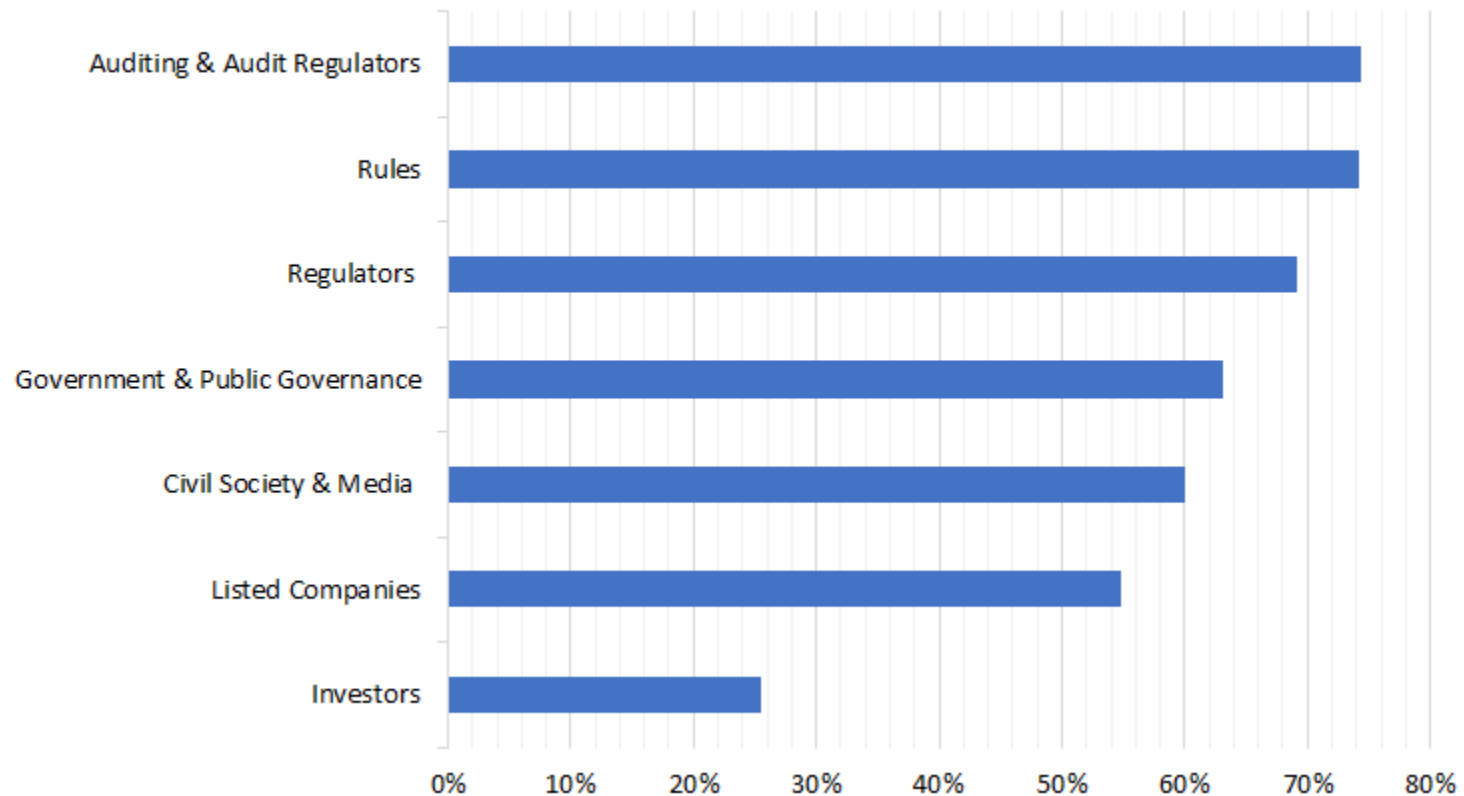
# Category scores, 2018

Categories	AU	CH	HK	IN	ID	JP	KR	MY	PH	SG	TW	TH
1. Government & Public Governance	65%	31%	63%	38%	26%	55%	52%	42%	23%	55%	60%	45%
2. Regulators	57%	56%	69%	60%	21%	52%	56%	61%	25%	54%	60%	50%
- Funding, Capacity, Reform	54%	48%	60%	60%	22%	48%	56%	62%	24%	48%	60%	52%
- Enforcement	60%	64%	78%	60%	19%	57%	55%	59%	26%	59%	60%	49%
3. Rules	78%	58%	74%	68%	35%	47%	45%	70%	43%	68%	63%	68%
4. Listed Companies	73%	36%	55%	62%	43%	48%	38%	57%	44%	63%	56%	63%
5. Investors	63%	18%	26%	36%	19%	53%	33%	38%	21%	32%	33%	30%
6. Auditing & Audit Regulators	84%	50%	74%	39%	61%	71%	69%	84%	63%	79%	70%	71%
7. Civil Society & Media	78%	22%	60%	71%	44%	62%	31%	47%	38%	62%	51%	51%

Source: Asian Corporate Governance Association

# Hong Kong Scores

Hong Kong category scores



Source: Asian Corporate Governance Association



# Hong Kong Highlights

- Hong Kong loses points and credibility due to its introduction of dual-class shares in April 2018. Still no coherent government strategy on CG
- An independent audit regulator finally looks set to arrive in 2019
- Hong Kong shines on regulatory enforcement, with new “front-loaded” strategy from the SFC and high-quality disclosure from HKEX
- HKEX strengthens rules on capital raisings and delistings, but revised Corporate Governance Code disappoints
- Listed companies underperform in our new survey; board practices remain conservative
- Stewardship code has proved a disappointment, no local leadership

## 4. Conclusions

- CG and ESG are related but not identical concepts.
- CG and ESG continue to evolve and accommodate each other, in mostly positive ways.
- “ESG” is an integrated concept: each component matters and is connected; they should not be played off against each other.
- ESG reporting needs to be high-level and strategic, not just data-focussed.
- The board and senior management have a critical role to play in this process—and need the expertise to do so.
- ESG risks – and opportunities – are real.

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