Disclosure Learnings from Value-based Intermediation (VBI)

HSBC Amanah

02 April 2020
Framing
## Framing (1)

<table>
<thead>
<tr>
<th>The Next Sustainability Wave*</th>
<th>Stage 1: Non-Compliance</th>
<th>Stage 2: Compliance</th>
<th>Stage 3: Beyond Compliance</th>
<th>Stage 4: Integrated Strategy</th>
<th>Stage 5: Purpose &amp; Passion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practices assumed**</td>
<td>N/A</td>
<td>Common Sustainability Practices, typically copied Immaterial ESG Issue</td>
<td>Stragetic Sustainability Practices, unique in nature Material ESG Issue</td>
<td>With unique sustainability practices significantly and positively associated with financial performance such as Return on Capital and Market Valuation Multiples (Price to Book)</td>
<td></td>
</tr>
<tr>
<td>Impact**</td>
<td>N/A</td>
<td>Not significantly associated with Return on Capital Positively associated with Market Valuation Multiples (Price to Book) Fail to keep up with adoption then performance suffers</td>
<td></td>
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</tbody>
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* The Next Sustainability Wave, Bob Willard, 2005
** based on Ioannou & Serafin, 2019, 'Corporate Sustainability: A Strategy?', Sustainability Leadership & Corporate Responsibility - London Business School Online, and SASB Materiality Map
## Framing (2)

### Stock Returns

<table>
<thead>
<tr>
<th>USD22.6</th>
<th>USD15.4</th>
</tr>
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<tbody>
<tr>
<td>1993-2010</td>
<td></td>
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</tbody>
</table>

### Global Sustainable Investment Assets

- **$30tn**
  - Global sustainable investment assets in 2018

### Growth in ESG and Impact Investing Assets

- **63%**
  - Of sustainable funds performed in the top half of their respective categories in 2018, according to Morningstar

- **34%**
  - Growth in ESG and impact investing assets under management across all regions from 2016-2019

### Estimated Growth in ESG ETFs

- **$400bn**
  - Estimated growth in ESG ETFs over the next decade

### Net Inflows in ESG Strategies

- **$78bn**
  - Net inflows in ESG strategies worldwide, 2018

- **2x**
  - Millennials are twice as likely as older generations to want their pension to be invested responsibly

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Eccles, Ioannou, Serafeim, Management Science, 2014

KPMG, The numbers that are changing the world, 2019
Framing (3)

G250 companies that include CR information in annual financial reports, 2011-2017 (%)

G250 Global CR Reporting Rates Since 1999 (%)

Implementation (based on VBI)
Non-Financial Disclosures is 1 from many needed initiatives . . . . But a critical one!

Key Learnings from VBI

- Using Value-Based Intermediation as an example to develop Stage 4 & 5, there are multiple areas needed to progress Sustainable business activities that also deliver value to a company.
- One aspect is Reporting Transparency and one component of that is Non-Financial disclosures.
- It is critical as it is very visible and accessible to external stakeholders. Its public and typically unsolicited nature, covering areas where voluntary action will need to be taken influences organisational behavior change.

Note: HSBC Amanah approach, adopted from the scorecard of the Global Alliance for Banking on Values (GABV) and BNM strategy paper on Value-based Intermediation (VBI), 2018
Standards(1)
## Standards (2)

<table>
<thead>
<tr>
<th>Standards</th>
<th>INTEGRATED REPORTING</th>
<th>GRI</th>
<th>TCFD</th>
<th>IIRC</th>
<th>CDP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brief Info</strong></td>
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<tr>
<td>Founded in 2011 with the aim to help businesses to identify, manage and report on sustainability topics that matter most to organisations.</td>
<td>Assists organisations to provide details on value creation over the short, medium, and long-term, both financially and non-financially, through an integrated reporting model.</td>
<td>The first global standards for sustainability reporting. They feature a modular, interrelated structure, and represent the global best practice for reporting on a range of economic, environmental and social impact.</td>
<td>A voluntary, consistent climate-related financial disclosure for companies to provide information to stakeholder.</td>
<td>UN SDG is a global blueprint developed in 2015 consisting of 17 goals to be achieved by 2030.</td>
<td>Not for profit charity that runs global disclosure system for investors, companies, cities, states and regions to manage environmental impact.</td>
</tr>
<tr>
<td>Provides a materiality map for organisations to ascertain level of materiality for various environmental and social indicators.</td>
<td>An integrated model based on categories of capitals; financial, manufactured, human, social and relationship, intellectual and natural</td>
<td>Take into account physical liability and transition risks associated with climate change and what constitute to effective financial disclosures across industries.</td>
<td></td>
<td>Questionnaire and scoring that help organisations to measure, manage, reduce and disclose their impact on the environment, and build resilience, while providing greater transparency to the market.</td>
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<tr>
<td><strong># rate of adoption</strong></td>
<td>120 companies across 77 industries in 2019</td>
<td>IIRC Business Network consists of 1,750 participants internationally from over 30 countries.</td>
<td>Of the world largest 250 corporations, 92% report on their sustainability and 82% of these adopted GRI to do so.</td>
<td>As of February 2020, 1027 organizations has been supporting TCFD.</td>
<td>Within two years post UN SDG launch, 40% of top companies acknowledge the global goals in their corporate reporting.</td>
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<td><strong>Sources</strong></td>
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Governance Framework
Key Learnings from VBI

BoD & ExCo
(Mandate & Leadership)

Selected Senior Management
(Oversight & Challenge of Dataset
Quality)

Finance department
(CFO lead, potentially supported by
sustainability team)

Front Line
Business
(golden source)

Support
Functions
(golden source)

Advisory (if
required)

Audit (where
necessary)

- For serious non-Financial disclosures, a mandate must be given by the Board of Directors to the Executive Management.
- Though led by Finance, challenge must be provided by Senior Management to ensure the non-Financial disclosures speak to material topics, hot topics to ensure a robust data is being put together to disclose.
- Empowerment through strong governance is needed for the leads to be able to procure, interrogate and validate information being provided.
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<tr>
<th>Who asks?</th>
<th>What to ask?</th>
<th>Whom to ask?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main Board</td>
<td>What is the Bank’s business strategy on Sustainability?</td>
<td>CEO</td>
</tr>
<tr>
<td>Board Risk Committee</td>
<td>What are our Sustainability Risks? How are we defining and managing them? How are we measuring them the short term and long term impact?</td>
<td>CRO</td>
</tr>
<tr>
<td>Board Audit Committee</td>
<td>What non-financial disclosures on Sustainability are we producing? What is our internal Sustainability dashboard / MI for management at the Board?</td>
<td>CFO</td>
</tr>
<tr>
<td>Nomination &amp; Remuneration Committee</td>
<td>On appointing CEO and KRI: what is the candidates Sustainability credentials on? What are the CEO and KRI Sustainability metrics for the yearly performance scorecard? How are incentives, pay, specifically aligned?</td>
<td>CHRO</td>
</tr>
<tr>
<td>Chairman of Board</td>
<td>Do you have a specific budget for BOD Sustainability Training? Introduce Sustainability contribution assessment for BoD evaluation</td>
<td>Shareholders</td>
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