Are Asian Boards Prepared for Climate Change?

1. Conclusion
No, most listed company boards in Asia do not seem prepared for climate change.

But a small percentage of larger companies in the power, banking, insurance, and transport sectors are responding and getting prepared.

Across countries and markets in this region, Japanese and Korean firms tend to score highest in surveys of climate change-related disclosure. Hong Kong and Singapore do less well in general, except for power in Hong Kong (CLP) and agriculture/food in Singapore.

Worth highlighting that globally the issue of climate change governance and disclosure is a relatively new area: although carbon disclosure has been around for a long time (CDP was founded in 2000) and ESG/sustainability reporting is not new (GRI started in 1997), it is only the last few years that governance has been put front and centre through the publication of the FSB’s TCFD framework in June 2017.

Also worth noting that many companies globally—and no doubt in Asia too—do not think climate change will negatively affect them.

2. ACGA backgrounder: CG Watch report
- What ACGA does: the “G” in ESG. We see governance as foundational.
- How we got involved in sustainability: CG Watch
- Sustainability reporting: Easy to get lost in the data. Big questions not answered: link to the business, role of the board, impact of climate change?
- Pre-TCFD, insufficient focus on corporate governance in the sustainability debate.
- History of CSR/ESG

3. The global landscape
Numerous catalysts are driving corporate behavioural change around climate change:
- The science of global warming and extreme weather events;
- Regulatory changes, especially around disclosure of material events/issues;
- Corporate self-interest: mitigating risk, new business opportunities, the climate entrepreneurs;
- Institutional investor pressure: the rise of “responsible investment” (UNPRI), fears of value destruction from “stranded assets” in the fossil fuel sector (esp. coal), growing clout of state/industry pension funds;
- Emergence of new standards, mostly from non-profit entities (CDP, GRI, SASB);
- Societal/consumer demand for corporate change and new products/services.
- The growing youth/protest movement.
Regulatory initiatives:

- Sustainable Stock Exchanges Initiative: 2009
- Disclosure rules: In 2010, the US SEC clarified that its existing rules on disclosure of material information applied to climate-related financial risks. Since then, regulators in the UK, Canada and Australia have followed suit.
- Requirements for ESG risk disclosure in annual reports and/or separate ESG reporting guidelines.

Investor initiatives:

- Investor Group on Climate Change (IGCC) in Aust/NZ; the IIGCC in Europe; the AIGCC for Asia (but HQ in Sydney); and Ceres (US). Together they make up the Global Investor Coalition on Climate Change.
- Climate Action 100+
- UNPRI membership now at 2,300.
- Coal divestment growing.
- Shareholder statements/resolutions increasing.

Global standards:

- Global Reporting Initiative (GRI). Dominant global ESG/sustainability reporting standard. Historically better on E and S than G.
- Carbon Disclosure Project (CDP): Started with CO2 emissions, now broadened to water security and forests (deforestation) as well.
- Task Force on Climate-related Financial Disclosures (TCFD). A logical framework:
  1. Governance
  2. Strategy
  3. Risk management
  4. Metrics and targets

Important to view these standards as complementary, not competing. But companies are clearly overwhelmed. Local standards as well.


- 53% of companies reporting to CDP globally identify climate-related risks to their businesses, while 51% identify substantive opportunities. (What about the rest?)
- Most companies focusing on a narrow range of risks: eg, direct operations rather than supply chains.
- Larger companies report higher rates of risk and opportunity, including more board oversight, stakeholder scrutiny, and reputational risk.
- 215 of top 500 firms put financial impact (cost) of climate change at US$970 billion.
- 225 of top 500 firms put new business opportunities at more than US$2.1 trillion.
- Half the risks and almost all opportunities are rated “likely, very likely, or virtually certain” over the short to medium term (five years or less).
European companies are most attuned to both risks and opportunities. US firms see more opportunities than risks! Ditto fossil fuel companies!

- Biggest winner and loser (absolute terms) is likely to be the financial sector.
- The cost of managing risks is much lower than their potential financial impact for most industries. (Ditto for opportunities.)
- Power sector likely to be the biggest net loser.

5. The landscape in Asia

Regulatory initiatives:
- Material disclosure guidance not as firm.
- Yet strong growth in ESG reporting guidelines/requirements: Hong Kong, India, Malaysia, Singapore, Taiwan, Thailand.
- HKEX’s new guide will include climate change.
- China has older “CSR” guidelines.
- The exceptions: Japan and Australia.
- Focus on green finance.

Investor initiatives:
- Stewardship codes—focus on ESG as well as CG.
- Asset owner leadership: Japan, Malaysia, Thailand, Korea, finally Hong Kong.
- AIGCC

Regional standards?
- None really. We are still largely a taker, not a maker, of standards.
- And: Asian regulators, companies, investors have some input into global standards.

Corporate disclosure: AIGCC/EY/FTSE Russell report on TCFD Disclosure (October 2018)

- EY assessed 74 issuers in Japan, 36 in Korea, 33 in Singapore, and 18 in Hong Kong from a range of financial and other sectors.
- Scored both “coverage” (disclosure on 11 TCFD recommendations) and quality (level of detail).
- Best sectors for coverage (descending): energy, transport, banking, insurance.
- Best sectors for quality: energy, transport, insurance. Banking not so good.
- Japan and Korea stand above HK/SG in most sectors—especially banking, insurance.
- HK does relatively better in energy and transport. Singapore in agriculture/food and materials/construction. (But note small sample sizes.)
- FTSE Russell compared Asian disclosure against global norms (3,000 companies in seven regions).
  - Governance: Companies in Asia do relatively well in having climate change policies, but few have a dedicated board committee. Well below other regions (except ME).
Strategy: Asia well below most other regions in incorporating climate change risks and opportunities into corporate strategy (ex ME and S America).

Risk management: Fewer companies in Asia recognise climate change as a risk or integrate it into their risk management procedures. (Again, only ME is worse.)

Metrics and targets: Asia performs somewhat better in disclosing GHG emissions (and having them verified), though still below most other regions. It actually does slightly better than most regions in setting short-term reduction targets, though extent of disclosure is low across the world here.

Interesting firms in Asia:
- ICBC in China
- CLP in Hong Kong
- MUFG in Japan
- Shinhan Financial in Korea
- DBS in Singapore

6. What can companies do?

Read the World Economic Forum guidelines!

Eight principles, with practical recommendations and guiding questions.