Conference Report

Asian Business Dialogue on Corporate Governance 2020

"Laying Stronger Governance Foundations for ESG in Asia-Pacific"

25 November 2020 Webcast

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Contents

Dedication – Padma Venkat

ACGA would like to sincerely thank Padma Venkat for her hard work and perseverance in helping to bring our November 2020 virtual conference to a successful conclusion, not to mention supporting our administration and operations team from a distance during a difficult year.

By the time of publication, Padma's five-year tenure as our Chief Operating Officer will be at an end. Based initially in Hong Kong, Padma moved to Kuala Lumpur in 2019 and continued to work for ACGA full time. Although unable to visit Hong Kong in 2020 due to COVID-19 travel restrictions, Padma's continued virtual presence brought stability to our team and helped to boost morale. Her knowledge of ACGA and steady pair of hands on our financial management were of immeasurable value in responding to the many challenges thrown up by the pandemic.

When she joined ACGA in 2016, Padma was determined to bring us into the 21st century in terms of the use of IT and, among other things, oversaw a revamp of our website, including using it more creatively for the ACGA conference. You may have noticed that we adopted an online "mini site" for 2020 conference delegates instead of a printed brochure.

ACGA is a better-run organisation today than five years ago and much of the credit should go to Padma. Although no longer with us full-time, we are delighted that Padma will continue to be part of the ACGA community in a consulting capacity.

Our heartfelt thanks to Padma for her wonderful contributions to ACGA. We wish her well in her future endeavours.

Jamie Allen
ACGA Secretary General

Preface

After a challenging 12 months during which ACGA's 20th anniversary conference was twice postponed, we finally held our first entirely virtual Annual Conference on 25 November 2020. Broadcast to more than 250 people attending online around the globe, the format allowed for greater reach to members and delegates across different time zones. The successful execution has convinced us of the benefits of adding a virtual element to future conferences even after gatherings can once again be convened in person.

While the delegates were all remote, most of our guest speakers assembled at the Kerry Hotel in Hong Kong to address the theme of "Laying Stronger Governance Foundations for ESG in Asia-Pacific". The COVID-19 pandemic which has affected nations worldwide and stalled economic activity, far from putting ESG developments on hold, has brought many of the core issues to the fore. Fairness to employees and consideration of the broader stakeholder universe as well as the environment have become hot topics for consumers and employees and therefore investors and the corporate universe. Strengthening ESG frameworks should now be a key priority for regulators around the world and the conference agenda was similarly designed to put the spotlight on factors beyond the "G" of governance.

The conference also provided a platform to preview the soft launch of the latest edition of *CG Watch*, our biennial publication that ranks 12 markets around Asia-Pacific according to their governance performance. This year's edition included a new ESG sectoral report by CLSA, while the ACGA rankings were based on criteria that were more granular and rigorously scored than in previous versions. A huge undertaking, the publication is keenly anticipated by market regulators and companies across the region and ACGA and its partner CLSA are proud that over the years they have been able to influence policy to the benefit of minority investors.

We are grateful as ever to all our sponsors, partners and speakers.

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Plenary 1
Preview of CG Watch 2020

We were delighted to be able to present a preview of ACGA's new market ranking and CLSA's new ESG sectoral report in *CG Watch 2020*. Jamie Allen, Secretary General ACGA, and Seongjoo Ro, Regional Head of ESG and Thematic Research, CLSA Hong Kong, discussed *CG Watch*'s findings, unveiling the new ratings for markets, sectors and companies around the region.

Jamie Allen opened by introducing the market rankings. Australia remains the regional leader for 2020, ahead of Singapore and Hong Kong by a considerable margin of 10 percentage points. As with Malaysia and Japan, which hold joint fifth position, Singapore and Hong Kong have less than half a percentage point between them, close enough to award an equal ranking.

While all markets barring Indonesia have scored more highly than in previous editions, Taiwan is the standout improver in rankings, moving up from fifth to fourth place, and now closely behind Hong Kong and Singapore in score. Japan rebounded, from equal seventh to equal fifth, while two markets have fallen: Malaysia and Thailand, both suffering significantly from political upheaval.

Of the seven categories behind the input criteria, six relate to stakeholders while the seventh is thematic, dealing with CG Rules. To do well, a market must have a good showing across the board; outstanding performance in just one category is not sufficient to boost an overall ranking. This year introduced a new, more detailed, scoring system. Although the wording of the 119 questions was largely unchanged, four to six underlying components, weighted according to importance, went into the marks. In addition, the cross-referencing between markets was more rigorous, with the team hashing this out over numerous calls during a three-week period. This new system was one factor behind the improved scores across the markets.

Among the categories, markets have tended to score more highly on CG Rules and Auditors & Audit Regulators than Government & Public Governance, Investors and Civil Society & Media. The poor Government & Public Governance scores indicate inconsistent support for regulators, uncertainties surrounding the independence of the judiciary, and weak anti-corruption work. In the Investors category, seven out of the 12 markets do poorly. While investor involvement in CG has increased, it has come from a very low base, particularly in the case of domestic institutions.

As noted, overall scores have improved, which can be attributed to three factors:

1. A genuine improvement in CG around the region;
2. The more granular scoring system resulted in rises across the board; and
3. The correction of certain errors from 2018.

The impact of the more technical factors, however, was not hugely significant and should not undermine the substantive improvements.

That said, there have been some disappointing developments since *CG Watch 2018*. Dual-class shares (DCS) were introduced in several markets. Some factors suggest that regulators have taken ACGA's concerns on board, attempting to mitigate the impact by limiting the nature or size of companies that can issue such securities, but we maintain that if this becomes a common vehicle there will be significant negative impacts on minority investors.

More fundamentally, ACGA believes that the region's CG framework is not yet fit for purpose for the new focus on ESG, which places greater emphasis on the need to manage material environmental and social risks and opportunities, including the significant challenges posed by climate change. For example:

- While CG codes have been in place in most markets for the best part of 20 years, few explicity address ESG and sustainable development issues. Nor do they consider the requirement to educate boards to deal with these new challenges;
- Sustainability reporting guidance lacks clarity on what board oversight of this exercise means in practice; and
- There is little direction on the assurance of ESG reporting or how its role will likely evolve in coming years.

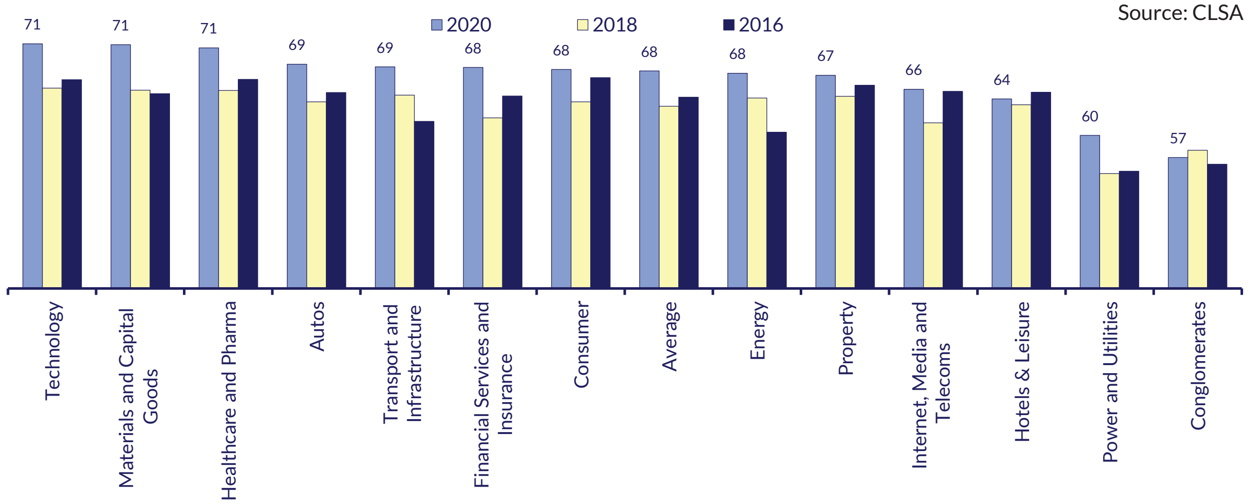
Some further observations on the CG environment:

- Stewardship and CG codes need to be better aligned to ensure that both investors and companies, as stewards of assets, are working with common goals in mind;
- Institutional investors need better transparency on internal governance and conflicts of interest; and
- There needs to be better alignment between central banks, securities commissions and stock exchanges on their ESG/sustainability policies.

SJ Ro introduced CLSA's findings on 1,162 companies in 13 sector groups based on the bottom-up analysis of 130 analysts. Of the sectors, tech scored most highly in 2020, with conglomerates coming out bottom. While materials and capital goods also performed well on CG factors, which account for 90% of the score, the tech sector received a boost from the remaining 10% attributed to ESG. The greatest moves in sector rankings appear in the middle of the pack, with the automotive sector rising three places, financial services and insurance up five and property down four.

CG Watch score trends by sectors

Source: CLSA

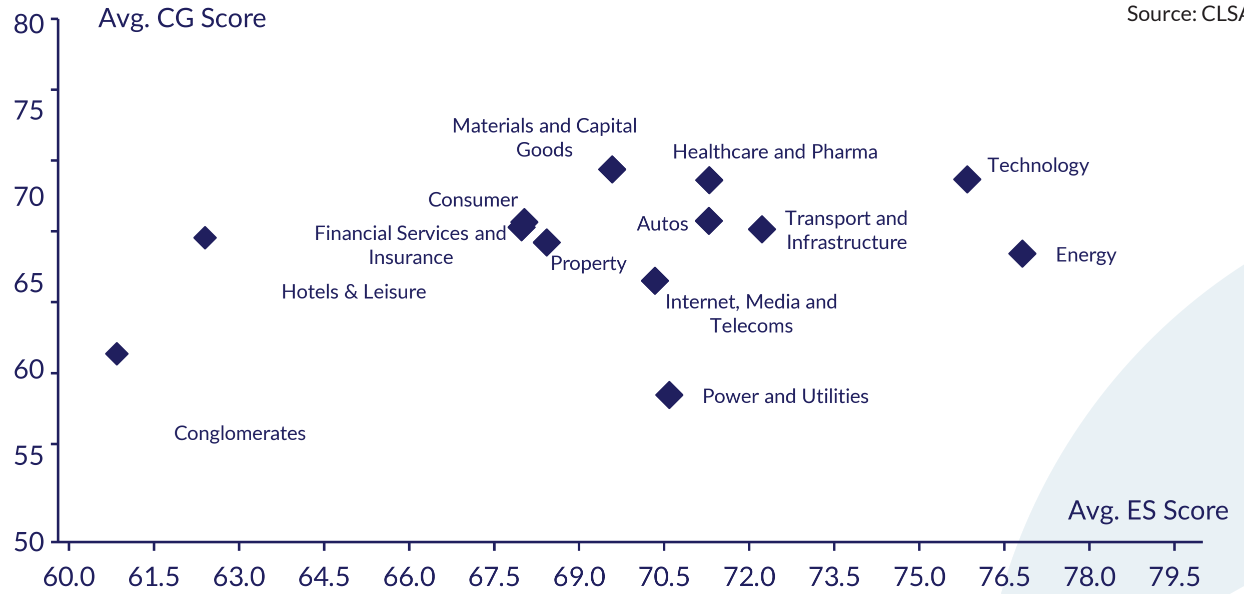


Conglomerates are hampered by family ownership, which can result in poor oversight. Another sector doing badly is internet, media and telecoms, with a preponderance of DCS among newly-listed companies as well as high levels of state ownership and unusual structures such as variable interest entities. It is interesting to note, however, that the share price performance of the sector has not been held back by its poor CG record due to its better growth prospects. But broadly, good CG does appear to boost relative performance.

As with the market rankings, there has been a general improvement across sectors. Board independence has shown the most improvement, albeit it still lags the other factors by some margin, with management responsibility towards minorities also picking up. Similarly convergent with the market findings, half of the 130 top 10 sector performers are in Australia. Korean companies made a good showing in the top 10 improvers category, led by Samsung, whose CG progress has had a trickle-down effect on the country's broader corporate landscape.

Sector score distribution – Corporate governance vs Environment & Social

Source: CLSA



An active Q&A session featured numerous questions from the online audience. It covered topics such as India's relatively strong performance in the Investors category, the criteria used to define director independence, the challenges faced by institutional investors seeking influence in family or state-dominated enterprises, how exchanges can up their game, corporate climate-readiness and the best model for China to follow in a stewardship code—mandatory and centralised or voluntary and independently administered? Some of these topics were covered in more detail in the ACGA analysts chatroom session.

Plenary 2
The Chairman's Dialogue: Hong Kong Futures

This session featured a Q&A session with Anthony Muh Yi-tong, ACGA Chairman, quizzing Ashley Alder, Chief Executive of the Hong Kong Securities and Futures Commission (SFC), on the outlook for Hong Kong in light of challenging geopolitics and China's growing global influence. A selection of the questions and summarised answers appears below.

Q: Given the current geopolitical backdrop, how will Hong Kong's role evolve over the next 5 to 10 years?

A: A lot has happened in Hong Kong over a relatively short period of time (protests, COVID-19, National Security Law), which makes the outlook hard to forecast. From the non political perspective of the regulator and global financial firms:

1. There is some relief that the protests have diminished. Discussions around business continuity have also quietened as a result.

2. Hong Kong's approach to COVID-19 has been effective.

3. Following initial concerns around the National Security Law (NSL) in June 2020, in July the SFC issued a statement to the effect that, from its perspective, it is not aware of any aspects of the new law which should affect normal financial sector business operations in Hong Kong—from research and information dissemination to trading strategies and hedging activities.

The SFC has since confirmed that companies have no plans to relocate material business operations away from Hong Kong and the level of anxiety around the NSL has diminished. More practical issues to do with US sanctions have arisen, but these have no imminent, significant implications.

Hong Kong has welcomed more secondary listings of China businesses as a result of changes in US policy, for instance around audits. Although the international media is focussed on the future of "one country, two systems" and Hong Kong's position as an international financial centre, this year has seen unprecedented levels of investment activity. Market participants expect this to increase due to:

- A better growth outlook in China;
- Differentiated rates of return;
- Improved confidence around currency stability in the Rmb; and
- Maturity of fund flow mechanisms such as Stock Connect.

The data shows that Hong Kong is stronger than ever, both intrinsically and as an intermediary. If decoupling between the US and China persists, this could even enhance Hong Kong's role as an international financial centre.

Q: As Shanghai and Shenzhen offer more access, how can Hong Kong differentiate itself?

A: Hong Kong's regulatory system under the rule of law means that it will continue to have a central role as long as capital controls persist. Even as China's markets open up, Hong Kong's flexibility will enable it to move up the value chain, for instance by offering more hedging instruments to manage "China" risk. Only Hong Kong has the cross-border cooperation which allows it to offer such risk management products referencing Mainland markets.

Q: Many China tech firms are returning to Hong Kong to do secondary listings but do not have to follow Hong Kong exchange listing requirements fully until 55% of their total worldwide trading volume goes through this market. Should that change?

A: No. By their nature secondary listings are by definition dependent on the regulatory environment of the primary listing, usually the US. Only if the majority of trading comes to Hong Kong should the full set of primary listing rules apply.

Q: Sustainability and green finance are increasingly important for policy makers. What are Hong Kong's opportunities in this field and how can it differentiate itself?

A: This year has been a major turning point for both "E" and the "S" in ESG, partly due to COVID-19. In particular, climate change has gained huge prominence and will continue to be dominant as we count down to COP26. Climate change is a global issue, so it is not about differentiating as much as matching advanced standards, such as those in the EU, and leading the effort in Asia. The US positioning will be interesting with the administration change. The US Federal Reserve has expressed interest in joining the Network for Greening the Financial System.

Convergence is especially critical for disclosure. The SFC convened a private meeting in May 2019 between the People's Bank of China (PBOC), the European Securities and Markets Authority (ESMA), the Task Force on Climate-related Financial Disclosures (TCFD) and the EU Commission to work on alignment. This led to China and Europe working on a common green finance taxonomy, pulling in other jurisdictions.

The SFC also has a consultation out with asset managers around climate risk.

Q: Will Hong Kong adopt TCFD, or even something more stringent?

A: We need better corporate disclosure on climate change globally for asset managers to compare, particularly relating to financial risks around climate and materiality of those risks. A promising solution would be to back voluntary standards into International Financial Reporting Standards (IFRS) as this offers three valuable benefits: convergence, governance, and assurance.

Further disclosure is needed at asset manager and financial products levels. The SFC has a greater sway over fund managers because it directly regulates them. Greenwashing is a concern, but if you have the right taxonomies then you can have more confidence. Central banks also need to stress-test balance sheets for climate risk. It is particularly important to get this right in Hong Kong because its impact extends to listed companies from China; Hong Kong's international financial centre footprint is huge and so, as a result, will be its influence on suitable finance on a global level.

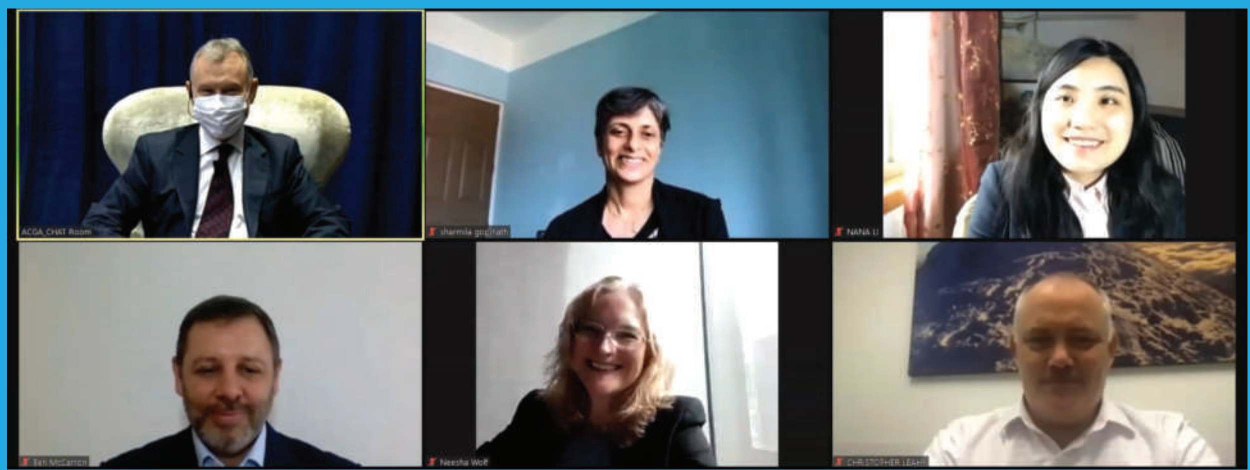
Q: After 20 years of reform, what are the main remaining CG challenges?

A: The SFC these days is focussing on the more serious types of market misconduct. In mid- and small-caps, various abuses such as fraudulent prejudicial transactions have been persistent, affecting the market's reputation. The SFC has pursued a more pre-emptive intervention regime for the past three to four years. The stewardship code is also under active review to give it greater scope, for instance extending it to ESG and voting records.

Q: Has the cancellation of the Ant IPO dented the market's reputation?

A: No. If anything, the smooth unwinding and swift resolution of refunds were to Hong Kong's credit.

Chat Room with ACGA CG Watch Team



This session gave delegates the opportunity to put more in-depth questions to our analysts on the findings of *CG Watch 2020*. **Jamie Allen** moderated input from **Sharmila Gopinath** (India), **Christopher Leahy** (Indonesia and the Philippines), **Nana Li** (China), **Benjamin McCarron** (Malaysia and Thailand) and **Neesha Wolf** (Taiwan).

Do the so-called independent regulatory bodies formed by regional stock exchanges help with enforcement?

Chris Leahy said there was still some way to go in Singapore, but the progress made by Singapore Exchange Regulation (SGX RegCo) and its CEO, Tan Boon Gin, showed that if the leadership was right then the structure could work. Benjamin McCarron felt it was too early to tell for Malaysia: while Bursa Malaysia had announced plans for a separate regulator in early 2020, there has been little subsequent news.

Why has Taiwan done so well in the latest rankings?

Neesha Wolf said that improvements had been seen across the board, a result of the government and regulatory commitment to CG. The core emphasis of the ruling Democratic Progressive Party (DPP) on the environment and sustainability had fed into regulation. Taiwan's "CG Roadmap" is now in its third iteration since 2013 and moving in the right direction. Civil society groups are doing a lot of training and research. ACGA has a good relationship with the audit regulator which helped our information flow. The new stewardship code has been enhancing engagement, and investor disclosure has improved. For listed companies, Corporate Social Responsibility (CSR) and CG codes have been upgraded and the regulator had filled in gaps in the Global Reporting Initiative (GRI) framework for sustainability reporting. And the securities regulator has made huge efforts since *CG Watch 2018*, establishing a dedicated, proactive CG team.

Is there political will to develop board oversight of ESG and sustainability in the region?

Jamie Allen opened by noting there had been limited development in the region on this. CG codes had been around for a long time but lacked in-depth guidance on ESG factors. Ben gave Thailand the highest marks because its CG code integrated ESG considerations and provided detailed guidance notes. Elsewhere, a lot of the ESG guidelines are reporting-based. They emphasise communication and require boxes to be ticked on disclosure and targets, but do not address fundamental risks or the changing landscape.

Why does India do so well in the Investors category?

Sharmila Gopinath put this down to regulations around voting. Since 2011, mutual funds have been obliged to vote and to disclose their voting. Abstentions were discouraged by a requirement to give reasons—there was no "tick box" response option. Proxy advisors have motivated collaboration among mutual funds against the most egregious resolutions in areas from director elections to related-party transactions and mergers and acquisitions.

Many countries have established stewardship codes, some mandatory under regulators and some comply or explain from third parties. What would be best for China?

Nana Li said it was critical that the sponsor of any stewardship code was strong enough to enforce it. Ideally, it would be issued and mandatorily enforced by the China Securities Regulatory Commission (CSRC) to have the best chance of having an impact.

Why have enforcement scores dropped in some markets?

Chris said that Indonesia's biggest problem was the absence of strong enforcement by the OJK, the lead securities regulator, and the Indonesia Exchange. Although the OJK is well-funded and has some powers, it cannot navigate the enforcement and legal regimes effectively, it is too big and spread out. It has delivered no insider dealing cases despite share price manipulation scandals. Politics has not helped.

Ben said that in Malaysia it had not been all bad, but several high-level corruption cases had been dropped, notwithstanding former Prime Minister Najib Razak's conviction. The environment is constrained by restrictions on a free press and the ability to air opinions in public. This also restricts private sell-side research. More clarity on the Bursa RegCo subsidiary is needed. Meanwhile, there is an improved view in our survey on the formal powers of the Securities Commission. It has the powers, it just needs to use them.

Sharmila said that Indian regulators are opaque about their enforcement work, especially the stock exchanges. Even the Securities and Exchange Board of India (SEBI) has not yet released its annual report for 2019-20. As we are unable to assess what is being done on the enforcement front, points have been docked from India's score.

What would you like exchanges to do to promote better governance and ESG?

Nana said China could be more transparent. The stock exchanges have upgraded their websites, but it is difficult to find disclosure on their work and resources. China said it was upgrading its resources, but the CSRC does not disclose much, so it is hard to judge. Regulators could also improve policy consistency across markets and sectors. For instance, the delisting process is irregular, with large caps getting an easier ride than small caps.

Jamie noted that all stock exchanges provided limited information on their funding and capacity, perhaps with the exception of Japan. They seem reluctant to give out data on levels of funding and resources, in contrast to securities commissions. If they are to continue as regulators of listing rules, they should disclose more about their human and technological capacity.

Neesha said that Taiwan's regulatory agencies could improve their narrative explanations. They give plenty of data but it is hard to judge performance if there is no detail about what the numbers mean.

To what extent are boards integrating SDGs into strategy, KPIs, incentives and reporting?

Ben commented that Sustainable Development Goals (SDGs) were developed for countries rather than companies and investors, so they can be hard to implement. Thailand was first to put SDGs into its CG framework and has been actively cajoling its companies on ESG. Broadly in the region, even if boxes are being ticked, it is hard to judge whether the analysis adequately addresses the risks. It can also be unclear as to which targets a company's strategy or disclosure is being aligned: nationally determined contributions (NDCs), the Paris Agreement, or in isolation with flat in-house targets to reduce emissions.

What advice would you give your markets to improve?

Chris said that Indonesia could usefully look to the Philippines as a guide for improvement. Emilio Aquino, the new SEC chairperson in the Philippines, has made a dramatic difference, updating the Corporations Code, the company law, and the CG code. It is still behind other countries, but making progress. Indonesia lacks purpose and political will. It needs a new CG roadmap because the existing one, now four years old, has drifted.

Neesha urged Taiwan to halve its substantial ownership disclosure rule from 10% to 5% in line with the rest of the region. It should also allow voting on the individuals who hold legal-entity directorships, an unusual Taiwan law allows corporate shareholders to appoint directors as their representatives on boards and remove them at will (ie, without a vote by all shareholders). There is no excuse not to do so, since the market's e-voting system would make this easy.

Sharmila encouraged India's financial regulators, including the stock exchanges, to improve disclosure on enforcement and funding.

Nana said China could do with improved transparency and increased focus on substantive approaches to ESG, not just speeches. Regulators also need to implement changes to the Securities Law effectively. We will review the impact of the revised Securities Law, which will introduce higher penalties for breaching rules, in our forthcoming CG Watch 2020 report.

Ben highlighted issues around public governance in Malaysia and said that progress on CG depended on serious political will, despite the challenging backdrop. Due to the preponderance of listed government-linked companies (GLCs), Malaysia's political leadership change had spilled into these GLCs through the appointments system, reflecting the close connection between public and corporate governance. "No comment" on how to change!

Plenary 3
Speakers' Corner: What do you desire?

Three veteran observers of ESG and sustainability in the region were invited to share their wishlists for reform: John Sayer, Director, Carbon Care Asia; Dharisha Mirando, Investor Engagement and Water Risk Valuation Lead, China Water Risk; and Yoo-Kyung Park, Head of Responsible Investment and Governance, Asia Pacific, APG Asset Management Asia. They were moderated by Ronnie Lim, Senior Engagement Specialist, Robeco Asia-Pacific, and an ACGA Council member.

Ronnie Lim set the context by noting that sustainability had become very topical and has had a measurable impact on investments. While climate change issues are long-term, the effect on valuations can be sudden. There has been massive divergence in performance between battery-makers and oil and gas companies, for instance, with the market capitalisation of renewable company NextEra Energy now larger than that of Exxon Mobil.

John Sayer said that there had been a tragic loss of biodiversity as an outcome of our failure to live sustainably. Financial institutions too often explain their climate efforts in terms of improving resource wastage and energy use in their internal operations, but greenhouse gas (GHG) emissions from their loans and investments are the critical issue. His wish was for the development of methodologies and requirements to report financed emissions. There have been some improvements in methodologies in the past few months, including the Science-Based Targets initiative (SBTi) methodology for financial institutions to set climate goals that came out in October 2020. Companies should also report their absolute emission reductions, not just relative performance against their sector because in finance, business can grow without much additional use of resources.

His second wish was for the onus to be put more heavily on producers to promote sustainability, for instance by making products that reduced plastic waste. The consumer should not have to carry the full responsibility through making lifestyle changes. Faced with a glut of disposable products and inadequate recycling systems there is less consumers could do, and far more producers can do to make a difference.

Dharisha Mirando presented several slides showing the coastal threat of flooding to Hong Kong, using 2018's Typhoon Mangkhut as an illustration. Under different conditions Mangkhut could have been far worse, even at current sea levels (*see map*).

Source: CWR based on Digital Terrain Model (5m) from the Lands Department of Hong Kong, Google Maps. Tide gauge location from the HKO website
Infographic © China Water Risk 2019, all rights reserved

Sea levels are also rising—there is widespread misunderstanding that sea levels will rise only by one metre over the coming 200 years. Ice experts believe we are on a trajectory to see a plausible rise of three metres by 2100, since we are overshooting the Paris Agreement targets, oceans are warming, and the glacier melt is accelerating. It is a threat to populations and assets worldwide. Singapore is already preparing for three metres by 2100. In Hong Kong, that would mean a permanent loss of shoreline which is home to a lot of people, very expensive real estate as well as trade infrastructure. On 23 November 2020, China Water Risk released five reports that examined and benchmarked coastal threats facing 20 APAC capitals and economic hubs.

Two things are needed to reduce the risks:

1. Adaptation, even for the 1.5°C target as we have already locked-in impacts. Less than 8% of climate finance funds this.
2. Fast-tracking of decarbonisation.

Governments have neither the funding nor the capability to advance alone. Capital can have a huge impact. Dharisha's wish was that we would make the right decisions today, without further delay.

YK Park's wish was for more aggressive engagement from the investment community to tackle climate change issues. COVID-19 has been an unfortunate event but it has made people and companies realise that there are limits to our resources and consequences to our living beyond them. The window of opportunity to capitalise on this corporate openness to change is probably only six to nine months. The virus has spurred YK to engage more actively with companies to strategise on carbon reduction. She has also been asking more questions of boards regarding their understanding of exposure, but few had known the answers. Reporting showed inconsistencies, for instance companies have green bonds but are not doing anything to cut their carbon intensity. Japan and Korea have been outstandingly bad at addressing climate risks, although Japan is beginning to make changes.

Ronnie asked who should be responsible for fixing the problem? Should it be governments or should it fall to investors?

John felt that the solutions must be policy driven, hence the Paris Agreement with its government signatories is a foundation for action. He cited the 2015 speech of the former Governor of the Bank of England, Mark Carney, which referred to the “tragedy of the horizons”, saying that even the 10-year credit cycle was inadequate to address the problem of climate risk. Market forces have a role but need a government lead on regulation. Market mechanisms, such as carbon taxes or emissions trading, must be properly designed—buying the “right to pollute” is problematic. The Task Force on Climate-related Financial Disclosures (TCFD) has meanwhile highlighted that investors and asset managers have a fiduciary duty to consider longer term climate risks.

Dharisha agreed that governments are important but believes that finance is the key to forcing governments and companies to examine the risks. It is not just about being good: without action there is the potential for significant financial loss. Central banks are looking at how to regulate for the problem. We should also be stressing the financial and social cost of a 4°C rise in average temperatures to highlight the imperative of the 1.5°C target.

YK believed governments are partly behind the problem due to an inability to agree on what issue to tackle. This cannot, however, be fixed by one party. The solution lies in public-private and investment community partnership.

Which Asian country is making the most progress in policy and regulation?

John noted that good sustainability reporting did not necessarily indicate concrete action and adequate targets. At national level, countries have all submitted nationally determined contributions (NDCs) for emissions reduction under the Paris Climate Agreement. However, these do not add up to holding temperatures to the 1.5°C to 2°C warming commitment of the Paris Agreement—they leave us on a track for 3.2°C. Better news is that East Asian countries have in recent months all announced dates for achieving net-zero emissions. These targets alone will not be enough because the pathway to 2050 or 2060 also matters in terms of carbon emissions. We need comprehensive, concrete plans, especially from China, Japan, Korea, Hong Kong, with roadmaps and measurable milestones on the way to a carbon neutral future.

Using conventional financial tools, how do you persuade people that this global commons problem needs considering? Stern's model, even with a terminal value of zero, suggests that payback on assets is still viable.

Dharisha argued that the actual discounts currently in use for terminal value calculations are not realistic — certain projects are not infinite going concerns under the current climate change scenario but we continue to assume this. Models are being updated only slowly. Banks are relying on insurers to take the risk, but policies are renewed annually. At some point, insurers may no longer shoulder the risk, but the market is not pricing this in.

YK would like investors and financiers to incorporate ESG and climate analysis into all decisions. Investment committees need to look at climate aspects as well as financial return, otherwise they are not doing their jobs properly.

Audience Q&A:

What should governments do to align corporate actions with NDCs? Do we need punitive or incentive policies?

YK said that clarity of government goals and timetables is key. Companies can then work out the viability of projects in that context.

John said that measurements and standards are critical to avoid greenwashing. Governments also need to give early warning on regulations, for instance the UK's 10-year lead-in to banning fossil fuel vehicles. Green finance should consider blended sources from governments and private financing to de-risk the space, with governments and regulators providing support for verification of project standards. Match-making funds with projects through mechanisms such as green finance accelerators would also help solve the issue that both lenders and borrows each claim shortages of projects or funds.

What is most efficient: pressure on and engagement with companies, or carbon taxes? If consumers will not pay higher prices to account for carbon, will companies and investors push the issue?

Speaking personally, YK believes in carbon taxes and thinks governments should set their own prices. Some heavy-emissions projects are still subsidised and this must be stopped: if governments are clear that they want a low-carbon economy, policies must be consistent. Investors must put pressure on companies by continuing to ask about climate change strategy. This engagement would be more efficient if coordinated.

Is exclusion of heavy polluters—for instance disinvestment of coal companies in the fossil fuel industry—effective in promoting change?

YK said divestment can work well in terms of garnering attention, but it needed to be followed by continued engagement to encourage behavioural change.

John said investors should be ready for regulation from governments seeking to honour their medium- to long-term carbon neutrality targets. We cannot continue to burn fossil fuels, as the implications for food supply, infrastructure, biodiversity and social stability are disastrous. The only way countries can establish plans and policies for the low-carbon transition is for these to be set out by governments; these are not up to investors. The costs of the transition to a low carbon economy, including market mechanisms like carbon taxes, involve social issues which must be managed to offset social impacts of things like job changes and increases in costs for fuel and transport. The Paris Climate Agreement uses the term "just transition" to indicate that phasing out of carbon intensive occupations, and the increase in green jobs involves retraining, social protection and engagement with business and social groups about how to chart the course towards a low carbon future.

Is increasingly sophisticated reporting blinding us to a lack of progress in terms of action?

John simply replied: "Yes". The finance sector needs to report not only its own emissions but those of the projects it is financing. Accurate emissions reporting is critical, as is reporting of corporate strategies to contribute to the essential goal of net zero emissions before the second half of this century.

Plenary 4
The Diversity Disconnect

This panel featured Ka Shi Lau, Managing Director and CEO, BCT Group, and an ACGA Council member, facilitating a conversation between Fiona Nott, CEO, The Women's Foundation, and Peter Hwang, Managing Director, Asia, Iron Mountain. The discussion addressed the general lack of gender diversity on boards and in management, with recommendations for moving forward.

Ka Shi Lau opened on a light note with slides illustrating that men's and women's points of view on the same issue can be quite different. These differences can add depth to decision-making on boards and improve governance. Diverse boards better reflect diverse customer bases and data shows that such companies produce better business performance, including higher profitability, than less diverse companies. As a region, Asia has the lowest percentage of gender-diverse boards.

Fiona Nott shared a video illustrating some of the discriminatory questions that women face when interviewing for board roles. She also noted that only 13.7% of Hang Seng Index-listed company directors were women, despite there being more female than male university graduates in Hong Kong. Challenges to progress include the gender pay gap, motherhood penalty, gender stereotypes, caregiving responsibilities, sexual harassment, and lack of flexible working hours. But things are not perfect in other markets either. On the FTSE 350 in the UK, for example, there are fewer female CEOs in total than CEOs just named Peter!

Peter Hwang talked about achieving Iron Mountain's Diversity & Inclusion (D&I) targets and how the company was making tangible progress in changing its culture and employee behaviour. He said this was achieved through three key initiatives:

1. Appointing full-time members of staff responsible for delivering the D&I programme. It does not work if D&I is considered a part-time issue.

2. Addressing both the business and the personal component. The business component is harder to track since there are a lot of inputs that affect performance. However, employee surveys can help if you ask the right questions: you can easily track the effect that diversity is having on engagement and identify where more work needs to be done.

3. Measurement of senior management vis-à-vis tracking and meeting targets. Ideally, you should not have to link incentives to this—"it's like paying people to be nice"—but the company is asking for a behavioural change after years of systemic ignorance and bias.

Recruitment needs time to come up to speed and men are concerned about being penalised. He noted that the D&I programme had been in place for two years already and, while behaviour had not fully altered, employees had come to understand the logic for change.

Peter's involvement with Male Allies, an initiative established in 2013 by The Women's Foundation, was a key turning point in his own approach. The network of more than 100 Allies in 40 companies had given him opportunities to learn from initiatives for gender equality elsewhere.

Fiona gave some practical steps to improve diversity at the executive committee level:

- Make a solemn commitment at the executive committee level, put it on the company agenda;
- Implement sponsorship, mentoring, recruitment and retention policies;
- Monitor retention of female employees—who is dropping out and why? Once you understand the problems you can start addressing them—such as gender pay gaps or, just as importantly, the perception of a gender pay gap even when the reality has been addressed.

She noted that COVID-19 has provided an accelerated understanding of the benefits and challenges of flexible working with work-from-home policies being implemented. However, there are reports that more women than men may be taking up long-term work from home or flex work options during the pandemic which presents challenges for women to break into informal networks that may still be centred on office attendance.

When it comes to grooming a pipeline of women for board positions, Peter said that this work needs to start early in-house. The biggest challenge is providing opportunities to develop C-suite skills such as:

- Strategic orientation;
- Financial acumen;
- Risk management; and
- An understanding of technological disruption.

He recommended that companies should provide high-potential female executives to outside board opportunities.

Fiona noted that when companies conduct external searches, they tended to complain about a lack of female candidates; while women who might be suitable for such roles say they were not approached and, more generally, that they do not know how to break into the right networks to access opportunities. Companies must talk to search firms and demand long- and shortlists of candidates that include women. Broadening the experience requirements, such as not insisting on CEO experience, would also reduce the barriers to recruiting women.

Peter concurred that the role of search firms is critical to improving diversity. It is vital to be specific in setting criteria for search firms—and to be persistent about pushing them to present a well-rounded shortlist, even if a search then takes longer than usual.

Ka Shi noted that databases of the government or search firms in Hong Kong generally do not contain a long list of candidates for potential appointment to advisory/statutory bodies and boards/committees, so women should be encouraged to register themselves. The same men always seemed to be recycled onto boards. She wondered, then, whether it was time for quotas.

Fiona agreed that Hong Kong is far behind other markets and even the Hong Kong exchange diversity policy has made little difference: it is easy to have a policy but there is little sign of action among companies. Listed companies should be required to give more detail about how they intended to improve diversity. Given the slow pace of change it is time for targets to be set, and if those targets are not met, quotas should be considered.

Peter said that Iron Mountain Asia has a 50:50 goal for external recruitment and for promotions. The latter is harder to achieve given inherent imbalances. To accelerate progress you probably do need quotas.

Fiona mused that Singapore may be ahead of Hong Kong on diversity because the government and other stakeholders have a strong and perhaps more coordinated commitment to the issue overall. In Hong Kong there is less cohesion between the government, investors and regulators. It is true that companies frequently recruit within relatively narrow networks from people they know and if women are not in these networks it is challenging for them to access opportunities.

Does the pipeline process need to begin earlier, such as in school?

All panellists agreed that education needs to address gender stereotyping in young boys and girls so that opportunities are viewed as equal, and thereby become equally available. Peter said that companies needed to address the motherhood penalty with measures such as paternity leave to encourage men to have greater input in caregiving. Investors and customers can have a significant impact if they give weight to the issue of diversity and hold companies to account. Engagement, rather than exclusion, has the power to promote change.

Workshop 1
2 December 2020

Making ESG Reporting Financially Relevant

As part of the programme of the ACGA Virtual Conference 2020, ACGA held two follow-on webinar workshops on the Zoom platform. The first workshop held on 2 December 2020 focussed on making ESG reporting financially relevant. Katie Schmitz Eulitt, Director of Investor Outreach at Sustainability Accounting Standards Board (SASB), facilitated the discussion featuring Egon Vavrek, Director of Global Emerging Markets Equities – Fundamental Strategies, at APG Asset Management Asia (APG), and Jessica Ground, Global Head of ESG at Capital Group, both of whom are members of SASB's Investor Advisory Group (IAG).

Katie Schmitz Eulitt opened with an update on SASB's evolving standards and international efforts. There has been tremendous growth in corporate use of the SASB standards in Asia-Pacific markets as well as around the world. SASB has also worked with other standard and framework setters to create a globally consistent set of ESG reporting standards. In September 2020, SASB published a joint statement, to publicise a shared vision on how the standards and frameworks can work together.

The speakers then gave their opening remarks. Egon Vavrek talked about APG's involvement with SASB on the IAG, and its use of SASB standards for its internal sustainability integrated framework. Jessica Ground commented on Capital Group's strong working relationships with both SASB and ACGA, and how those two groups work complementarily, with their visions and commitments.

The workshop was then structured as a Q&A, led by Katie and with questions also from the audience.

The IFRS Foundation has published a consultation on sustainability reporting. Does SASB also plan to collaborate with the IFRS on sustainability reporting in future?

Katie noted that SASB is supportive of the IFRS wading into this space, but that it is important for IFRS to build on the standards and frameworks that came before, including SASB standards, and to maintain an industry-specific focus.

Although the uptake of SASB standards has grown significantly in Asia in 2020, it still lags Europe, UK, and the US. Why do you think this is the case?

Jessica said that many companies in Asia are keen to progress and some are doing things that have not yet been recognised. They are just starting on this journey.

Egon noted that corporates, regulators and governing bodies, which he has engaged with, are receptive to the topic; and that SASB standards have helped with the heavy lifting.

Katie mentioned that roughly 70% of the data available to investors on ESG issues is binary. She thinks that companies are challenged to understand how investors use ESG information, and said, "Whether or not you have a policy in place might have been something interesting five or 10 years ago, but it is what you have done with that policy and what progress have you made that investors can make comparisons of companies across markets."

Myth-busting

Jessica helped dispel a few myths by sharing some examples of good practices she has seen in the Asian markets, particularly in Hong Kong, Malaysia and Indonesia. The myths she would like to challenge include beliefs that:

1. Companies in Asian markets are in a race to the bottom when it comes to disclosure on ESG and sustainability performance.

2. All Asian businesses are rent seeking, trying to offshore production.

3. Asian investors, retail investors or Asian consumers do not care.

4. Family-owned businesses are not paying attention.

Jessica also highlighted that "E", "S" and "G" factors do not often move in parallel or in a straight line and she noted that ESG ratings are heavily weighted to governance factors.

Egon discussed the tendency of companies to chase ratings and rankings. He believes that looking at trackers, indices or rating agencies may be a good starting point, but what is important are the actions taken by management. Analysts or portfolio managers who can look beyond the reporting and start an in-depth discussion will have an edge.

Jessica added that "just because companies have nailed SASB standards, it does not mean they have nailed the management of ESG."

What would you wish for when it comes to ESG reporting?

Jessica wished for clear reporting to international ESG reporting standards and to put an end to investor surveys of portfolio companies (which would not be necessary if reporting was done well in the first place and would remove survey fatigue at the company level). She also hoped for a shift away from the rating agencies.

Egon's wish overlapped with Jessica's: to find a standardised and codified system of ESG disclosure, similar to international accounting standards. He also commented on how local regulatory agencies could help the evolution, using the building blocks of SASB standards and Integrated Reporting disclosure, and tweaking to local needs.

Jessica highlighted the strong acceptance of SASB standards in the US as the biggest capital market and noted that other regulators need to consider this movement going forward.

Regarding the Joint Statement, how does SASB view its relationship with other regulatory requirements?

Katie is hopeful that SASB standards will be one of the fundamental building blocks of what gets built into regulation. It is likely that TCFD reporting will become mandatory in different markets, and SASB has been working closely with TCFD. She added that SASB is aware that companies are responding to investors, in addition to the need to comply with their local regime. Investor support for SASB is strong, regardless of what happens in regulation.

How is SASB going to evolve its standards and make them relevant to different parts of the world? How will it handle the workload as more companies/countries adopt SASB?

Katie explained how SASB has taken a project-based approach, and shifted to a project-based maintenance approach, whereby SASB takes feedback from the market. SASB has an internationalisation advancement project, which looks at its metrics and their applicability around the world. SASB is working with groups to leverage work in local markets, and to internationalise the standards. She also shared that translations of SASB's standards application guidance and implementation primer are now available in Japanese, French, German and Spanish; translations of all SASB standards in those languages will be published in early 2021. SASB is working on translations of this guidance and standards in traditional and simplified Chinese for publication later in 2021.

Jessica mentioned that Asian financial companies tend to be ahead of the pack on ESG disclosure. What are the driving factors for this?

Jessica clarified that she only said she had more Asian financials reaching out to her, but she thinks that banks tend to be larger companies and there is a correlation between ESG disclosure and size. When it comes to banking regulation, she has seen swift adoption around the world. For example, in Europe, regulators are starting to look at the impact of sustainability factors on capital as part of the regulatory conversation.

Relating to greater convergence in terms of standards, is there any timeframe for when you think absolute progress is likely to be made?

Egon echoed that he has seen the most significant leadership from Europe. If this works, many global regulators and exchanges will follow suit.

Katie added that SASB is sticking to its standards-setting and will focus on financially material issues. She again highlighted the need to be industry-specific and added that SASB will make comments to the IFRS along the lines of, "it is great that we all want to elevate this information to the same level and quality of what's provided in financial reporting, but you cannot take the same path that was taken to get to international GAAP or US GAAP. Investors value an industry lens on ESG disclosure, as few ESG issues manifest themselves the same way across industries."

Jessica believes that progress will be uneven. She highlighted the importance of the investor voice, as regulators and standards setters often have not had the experience and may have other objectives.

To what extent does the SASB framework consider issues that are material at the company level, but also of relevance at the systemic level, like tax?

Katie noted that SASB has been keeping an eye on tax, but it does not currently have a tax standards-setting project. In the standards-setting process, SASB looked at the entire landscape. Because of SASB's industry-specific approach, there are thematic issues that may not trickle down across every industry. But SASB listens to the market for topics that require attention and then abides by SASB's Conceptual Framework and Rules of Procedure.

How useful is ESG disclosure put out by companies in Asian markets in providing an understanding of the corporate culture?

Egon discussed how companies can reveal their culture through better sustainability disclosure. He said sustainability is a good starting point for discussion and communication, but he urged companies to use the platform to communicate more. He also noted that as a pension manager, he has a longer duration to understand the culture and ethos of companies, and hopefully align with them.

What is your view on how biodiversity fits into SASB?

Katie said that SASB's industry-specific approach to setting standards would dial in on biodiversity in those industries where it is an important topic, and she asked the audience to stay in touch with SASB to pull the topic into its standards-setting project.

Jessica shared an interesting report on biodiversity released by the Dutch Central Bank. She said she has seen asset managers get together to think about quantifiable metrics. She also pointed out that biodiversity was one of the principal adverse impacts within the EU sustainable finance and ESG factors, so the biodiversity quantification journey has just begun.

The role of auditors: your thoughts on if and what auditors can and/or should do more in implementing sustainability reporting going forward?

Egon pointed out that it is challenging to have an honest and in-depth sustainability report, which is acceptable to the legal counsel and auditors. He noted that APG has tried to convince management to produce such reports, but he believes that auditors have to lean in more to have the board improve its disclosure.

Katie referred to the earlier discussion about the evolution of financial reporting and standards. She believes that audited and assured reports require the evolution of internal systems of control, standardised information, suitable criteria for assurance, and the education of the accounting profession, and everyone needs to continue moving in that direction.

Workshop 2
16 December 2020
The ABCs of Creating Climate-Ready Boards

The second follow-on webinar workshop, held on 16 December 2020, discussed the preparedness of boards for changes in climate and related policies. It featured Karina Litvack, an independent director of Eni and Co-founder and Advisor of Climate Governance Initiative, World Economic Forum, and Sunita Rajakumar, founder of Climate Governance Malaysia, and was moderated by Benjamin McCarron, Managing Director of Asia Research & Engagement (ARE) and a Specialist Consultant for ACGA.

Benjamin McCarron opened by observing that the short-term demand destruction engendered by the COVID-19 pandemic had reduced absolute emissions. The disorderly nature of the pandemic response has emphasised the requirement for more coordinated effort to manage systemic risks, notably from climate change. Over the year, a number of countries have introduced net zero emissions targets and with the election of Joe Biden to the presidency, the US is likely to rejoin the Paris Agreement and embrace its own targets. How should companies and directors of boards organise themselves to respond to the challenge of climate change and related policies?

The webinar followed a Q&A format, with the moderator asking questions of the speakers and posing written questions from the audience.

What is climate governance and why is it important?

Sunita Rajakumar said firms are facing real physical and transition risks from climate change. They need to assess and disclose both the risks and opportunities and to build resilience before it is too late. Robust climate change practices are required, with routine disclosure of risks—the latter is an investor expectation and, increasingly, an explicit regulatory requirement. Asset managers are looking for preparedness and accountability from boards, and directors have a responsibility to manage the risks to ensure value preservation.

What have been the major challenges for directors?

Karina Litvack said investors have been talking about climate change for 20 years, but it is not yet at the top of the boardroom agenda and directors are not attuned to the issue. There is a lack of awareness about the urgency and a lack of understanding about how to tackle the challenge within normal board procedures.

The overwhelming and systemic nature of climate change is one hurdle. The COVID crisis showed that even those companies which are armed to deal with one aspect, such as limiting the health impacts, could not mitigate the broader economic disruptions. This is a factor in climate change: the unpredictability and all-encompassing nature of the crisis.

Another hurdle is that of the time horizon of directors' legal obligations. In response to the climate crisis, some directors are convinced they would be in breach of their legal obligations if they left near-term business opportunities on the table for competitors while shifting focus to resilience planning. However, avoiding future risks that lie beyond their own tenure is also part of their fiduciary duty.

Sunita noted that some directors have questioned the need for climate risk-related disclosure. There has been legal opinion that if there is no disclosure in the annual report, in light of the overwhelming science and data available, the presumption would be that the board must have applied its mind to this matter, considered the issue and decided it was not material. IFRS has issued a guidance note that even if boards conclude that climate change is not material to their operations, they should explain why this is the case.

How does one set up effective climate governance on boards?

Karina outlined the eight principles of the World Economic Forum's Climate Governance Initiative. Foremost is that the board should be responsible for a company's climate resilience. Not all boards buy into this yet. Education on the subject is also key, as well as being informed on investor expectations. Scenario planning is critical to building a climate strategy for climate resilience. Climate resilience KPIs should extend beyond mere reductions in operational greenhouse gases; they must also take account of the need for longer term strategies to lead transformation of the business model to reposition the company in order to accommodate net zero goals across the whole economy.

What challenges did you face when setting up the governance initiative in Malaysia?

Sunita said the initial challenge was not having anyone locally with whom to discuss the issues. The support of the stock exchange was invaluable to Climate Governance Malaysia's launch in 2019. Still, while official support in Malaysia is strong, broader awareness of the sustainability agenda is quite low. A lot of non-executive directors are not aware of what goes into a sustainability report. The conversation needs to become more mainstream and move from carbon footprint measurement to climate strategy disclosure with other metrics and targets. Investors have been responsive to the idea of tying fund managers' compensation to portfolio climate targets. On the plus side, businesses are becoming worried about the looming policy response, so education is improving.

How should boards balance climate and other risks?

Karina said boards often prefer to look at all aspects of sustainability, including employee and community relations, together. Under such an umbrella, climate issues have tended to be sidelined as "too difficult", not least because many companies believe that influencing climate is beyond the scope of any individual business. It is of course true that no single company can solve the climate challenge single-handedly, but this does this does not excuse inaction. Companies need to map out where they are directly exposed to climate-related risks, be they physical, transition or liability related, and set out a clear plan with transparent targets to mitigate them. And they must likewise identify the business opportunities that lie in reshaping their business to succeed in a zero-carbon world.

At the same time the climate issue does intersect with other sustainability challenges and should be dealt with in those contexts. For instance, the concept of a "just transition" as laid out in the Paris Agreement addresses risks to employees and communities as certain types of jobs become obsolete.

Sunita said it is up to the board to identify how climate change risks rank. If, for instance, you export a carbon-heavy product to countries with net zero targets, you need to consider emission reduction as a matter of priority. Others, such as agribusiness companies, may have to consider biodiversity issues.

Should the board take responsibility for strategic climate challenges or can this be left to management?

Karina believes the board must direct the strategy. Leaders that can see looming obsolescence of their products may need to take action before the market is ready for it—if they wait then it is probably already too late. CEOs must be confident that bold strategic change will be supported by the board in the face of possible investor resistance. In some cases, the board has folded under pressure because it has not understood the imperative for transformation.

Who should lead the discussion on a board—the chair? The independent directors? A specialist?

Karina said the chairman should own the discussion, but there also needs to be specialist knowledge on the board. If the board lacks this expertise it will not understand the issues, which can lead to complacency. In the absence of an expert, the leadership should bring in specialists to challenge the board's assumptions and help it gain adequate mastery of the subject. The board at the very least needs to know what it does not know. Either way, you need visionary leadership to engage the board in addressing the issues.

Sunita said just as risk management needs to be embedded into a company's culture, climate issues need to be understood throughout the organisation. Investors want to know details of the climate strategy from board members and that, from the C-suite downwards, the risks are understood and managed.

Karina said more fluid contact between institutional investors and independent directors—their board representatives—would help companies better understand investor expectations. It is unfortunately not the norm for the independent non-executives to talk to investors, especially in Asia, and the dialogue with investors tends to be monopolised by the chairman.

Some boards have appointed a board member to take responsibility for sustainability, which they consider broad enough to cover climate risk. Is that sufficient?

Sunita said boards should be as resourced for climate literacy as they are for financial. Governments are going to have a huge policy response to climate change, for instance carbon taxes or carbon pricing. When the implications are so far-reaching the conversation must be mainstream. Investors, bankers, accountants—all of these will be asking tough questions and the entire board must understand the issues and have a concrete strategy. Leaving just one person in charge is irresponsible.

Do you see governance risks from the recent call for companies to give shareholders a say over their transition plans?

Sunita noted that former Governor of the Bank of England, Mark Carney, has suggested that shareholders should have a say on climate strategy, in a similar vein to Say on Pay. The regulatory environment is so disjointed that allowing shareholders to ratify the company strategy gives them buy-in to any decisions and allows the strategy to be guided by market forces.

Karina believes the company should still be the lead to determine strategy and vision, and an advisory vote would be most appropriate to gauge investor receptivity, particularly when a company is making big changes.

Both speakers agreed that it should be clear whether any vote was binding or advisory. Advisory votes offer useful guidance without being perceived by investors as the "nuclear option" that a binding vote would be, so it is a good way for companies to test acceptance and for investors to voice reservations without plunging the company into crisis. Investors need to be transparent with their voting and their reasons.

Could you give examples of companies that have done well on climate strategy?

Sunita said AXA has tremendous levels of disclosure of the risks and extensive data sourcing. Bloomberg details potential scenarios. This level of disclosure makes it clear to investors that companies are doing the work to future-proof themselves.

Karina said HSBC has been exemplary in engaging its global leadership to identify the highest transition risk clients and works with them to help them reposition. Financial actors can make a big difference by directing capital and working with clients to change. Swiss Re has said it will no longer reinsure fossil fuel projects that breach a certain carbon intensity threshold, which is extremely significant, as it drives access to cover and pricing.

Ben noted that CLP has targets to reduce its carbon intensity which marry overarching regulatory pathways, unlike many other company targets.

Have opportunities started to outweigh the risks?

Karina said it depends on the sector. For most tech companies the opportunities outweigh the risks—and they could enable clients to reduce emissions, but there is no methodology to credit them for this, so they have no incentive to do so. For fossil fuel companies there is a much greater risk of stranded assets and a need to dispose of or mothball assets before being penalised for owning them. Auditors will have a huge role in influencing decisions if they fully exercise oversight when testing assumptions about future values.

Sunita noted that traceability will add opportunities for those who can show that their products come, for instance, from sustainably forested plantations. France has already said it will not buy deforested goods. The C-suite needs to understand the opportunities as well as the risks.

Other challenges

Sunita said dealing with trading partners that have gone net zero will be a huge challenge. Shadow pricing could be mandated in order for companies to start adjusting to carbon prices. Governments must understand and be clear about where decarbonisation ranks in their national priorities.

Protection of carbon sinks needs to be given greater support. The value of the offsets in countries such as Malaysia should be given as much emphasis as cutting carbon emissions.

Karina noted that policy frequently lags technological innovation, even though being too bold a first-mover or early responder can put companies at a competitive disadvantage. But do you wait to act until policy turns and then try to catch up? Companies have to be proactive. Boards must be made up of people who are trying to stay ahead of the policy and the extensive disasters that an overheating world will bring.

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