FLEISHMANHILLARD

The New World of ESG Compliance and Communications

in Asia Pacific

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Investors and other stakeholders are actively seeking transparent and accountable ESG practices, making effective communication a business imperative.

Executive Summary

The global landscape for environmental, social and governance (ESG) reporting is transforming rapidly, driven by new standards and evolving regulations.

The International Sustainability Standards Board (ISSB) has set a new benchmark for ESG reporting worldwide with the release of its first two standards, while regulatory bodies in the U.S., EU and Asia Pacific are moving ESG disclosures from voluntary to mandatory. Hong Kong is acting swiftly to reinforce its status as a hub of green finance with the region's most stringent ESG disclosure requirements, while Singapore has a mature green taxonomy and a phased approach to climate reporting.

Investors are playing a pivotal role in this transformation. In our *The Future of Asset Management Report in Asia 2023*, 80% of investment professionals in Asia Pacific identified a strong ESG product offering as one of the most important qualities for an asset manager.

Investors and other stakeholders are actively seeking transparent and accountable ESG practices, making effective communication a business imperative. Companies must not only meet compliance requirements but also craft compelling ESG narratives that satisfy diverse stakeholder expectations. Internal audits and collaboration with vendors are becoming crucial, especially as the burden of Scope 3 emissions disclosure ultimately requires the input of supply chain partners who may not be otherwise subject to reporting requirements.

Staying ahead requires ongoing monitoring and adaptation to regulatory changes and an effective crisis management plan. Companies must proactively adjust their strategies, not just to meet compliance standards but as a business imperative for long-term resilience and investor engagement.

The stakes are high. Bloomberg Intelligence reports that ESG investable assets surpassed US$ 35 trillion in 2020 and could reach US$ 50 trillion by 2025, accounting for one-third of projected assets under management globally.[1]

Asia Pacific business leaders are urged to meet evolving ESG reporting challenges with a multifaceted strategy: compliance, transparent communication, internal auditing and continuous monitoring are key to navigating this complex environment successfully.

Best regards,

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How the ESG Reporting Landscape is Evolving Worldwide

The evolution of the ESG reporting landscape is accelerating. Coalescing around newly released global standards, significant regulatory developments and proposed rule changes in the U.S., EU and Asia Pacific are already impacting public and private companies and investors.

Almost all (99%) of S&P 500 companies[2] voluntarily publish ESG reports in some form, while 85% of Hong Kong-listed companies[3] disclose details of climate-related risks and mitigation measures. However, disclosure is not uniform across jurisdictions and few yet require independent auditing of claims.

Here is a summary of the latest regulatory developments.

Global ISSB standards set a benchmark for ESG transparency

The International Sustainability Standards Board (ISSB) issued its first two standards in June 2023. Applicable to companies of all sizes and sectors, they introduce a common language for ESG disclosure around governance, strategy, risk and targets.

IFRS S1 covers general sustainability-related risks and opportunities, and **IFRS S2** covers climate-related disclosures. Both are voluntary and apply after Jan. 1, 2024.

What's next

We expect the standards to be applied by several jurisdictions in Asia Pacific by 2025, with larger listed companies voluntarily adopting them before that.

U.S. SEC requirements face obstacles

The U.S. Securities and Exchange Commission (SEC) intends to enhance and standardize climate-related disclosures, requiring accuracy and verification and including indirect, Scope 3 greenhouse gas (GHG) emissions from supply chain partners.

The SEC was expected to issue the final rules in October 2022, but this has been delayed due to opposition. A start year of fiscal 2024 (October 2024) is now likely for the reporting requirement, but lawsuits could further delay this.

What's next

Many large U.S.-based multinationals have argued that compliance is too difficult and expensive, and Republican lawmakers want congressional approval for such a major rule change. On the other hand, institutional investors strongly support the new rules, according to Ceres research.[4] In addition, 70% of business leaders in a PwC survey are already pushing on to achieve compliance.[5]

Hong Kong to introduce the region's most stringent rules

Hong Kong Exchanges and Clearing (HKEX) became one of the first in the world to announce plans to align with the new ISSB standards, launching a public consultation in April 2023. Aligned with ISSB and other international standards, its new climate-related disclosures will be mandatory, surpassing today's "comply or explain" system.

With public consultation now concluded, HKEX reports local support for the move among the business community, tempered by concerns about the timeline and readiness of local companies.

What's next

HKEX expects to implement the new rules in January 2024, with a two-year interim period for some requirements, including Scope 3 emissions and climate scenario analysis.

EU's new ESRS increase transparency

The EU expanded the scope of its ESG-reporting rules to large companies and listed companies in early 2023 and is requiring more granular reporting under specific European Sustainability Reporting Standards (ESRS).

New sector-agnostic ESRS covering general ESG-related reporting requirements are expected to apply from January 2024. Disclosure covers sustainability strategy, business model and value chain, and exposure to ESG-related risks. Companies will also need to disclose and explain any environmental indicators they have assessed as non-material.

What's next

Sector-specific ESRS are being developed for healthcare; pharma and biotech; agriculture; road transport; and oil, gas and mining. Reporting standards for non-EU companies will also be created. These are set to apply from January 2028 to non-EU enterprises with a large turnover or presence in the EU.

Singapore and ASEAN favor multitiered phased approach

The Singapore Stock Exchange (SGX) is taking a phased approach to mandatory climate reporting. It will apply to three sector — financial, energy, and agriculture, food and forestry — from 2024, with buildings and transportation added in 2025. Other issuers will continue to "comply or explain."

The second version of the ASEAN Taxonomy for Sustainable Finance was released in June 2023 with criteria for the energy sector — the first of six focus sectors. It will be interoperable with international taxonomies, including the EU taxonomy. Like the Singapore-Asia Taxonomy also under development, it uses a traffic light system with Green (sustainable), Amber (transition) and Red (not-aligned) categories.

What's next

As carbon-intensive industries remain vital to Southeast Asian economies, the Singapore Taxonomy is expected to include criteria for the phase-out of coal-fired power plants — encouraging financiers to accelerate the retirement of coal plants rather than simply not invest in new ones. This is already included in the ASEAN Taxonomy.

Investors Are Moving the Needle on ESG Disclosure

Against this backdrop of regulatory change, investors are increasingly seeking sustainable investments. Greater public awareness of climate change, energy security and sustainable finance are part of the shift. But higher ESG performance is also seen as correlating with lower risk and better long-term profitability. A 2022 Morningstar survey found that 85% of asset owners, including pensions, sovereign wealth funds and insurers, view ESG factors as financially relevant or "material" to the investment process.[6]

FleishmanHillard's [The Future of Asset Management Report in Asia 2023]() uncovered similar sentiments among Asian investment professionals. It found that 80% of investors place a high value on strong ESG product offerings, especially those in mainland China (90%) and Hong Kong (80%). All markets but South Korea saw an uptick in the importance of ESG products for overseas asset managers in the 2023 report compared to 2022.

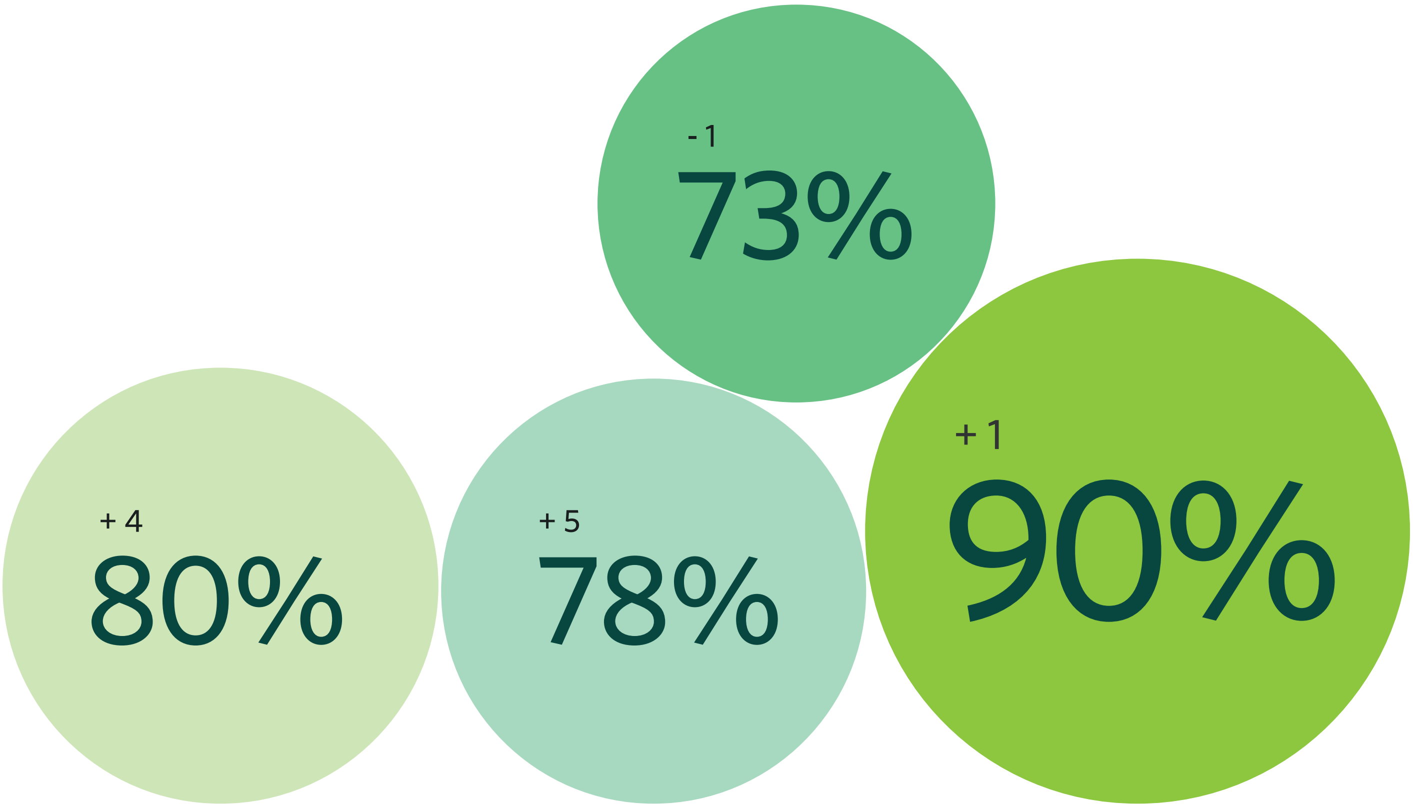
Please indicate how important it is for overseas asset management houses operating in your market to have strong ESG product offerings.

(very + somewhat important)

Mainland China *Hong Kong*

South Korea *Singapore*

+/- *Change since 2022*



Investors were clear about the ESG commitments they see as most important for asset managers to make an impact. Top of the list was the requirement for asset managers to "walk the talk" when proxy voting in listed companies (88%). Transparency in ESG data was also important (86%), followed by clarity in ESG goals and objectives (85%).

While these findings mirrored those of the previous year, the survey found that investment professionals are now putting comparatively more emphasis on avoiding investment in companies allegedly involved with human rights violations or greenwashing than in coal and mining companies. A demand for asset managers to set clear net carbon emission targets is also trending up.

How important are the following Environmental, Social and Governance (ESG) commitments from asset managers?

(very + somewhat important)

Mainland China · *Hong Kong* · *South Korea* · *Singapore*

+/- *Change since 2022*

	Mainland China	Hong Kong	Singapore	South Korea
Clear ESG goals and objectives	+ 1 90%	+ 0 82%	+ 10 86%	+ 1 84%
Transparency in its ESG data and protocol	+ 3 88%	+ 1 82%	+ 6 88%	+ 4 86%
Clear net carbon emission targets	- 2 83%	+ 8 78%	+ 5 80%	+ 1 73%
Walk the talk and action in proxy voting in listed companies	- 5 88%	+ 2 84%	+ 10 89%	- 1 88%
Refrain from investing in coal and mining companies	+ 24 79%	+ 19 71%	+ 10 76%	+ 4 70%
Refrain from investing in companies alleged of violating human rights	+ 0 86%	+ 1 82%	+ 8 89%	+ 9 80%
Refrain from investing in companies alleged of greenwashing	- 6 83%	+ 10 76%	+ 10 84%	+ 2 79%

Five Key Implications for Business Leaders in Asia Pacific

5

Top-down management

1

New reporting standards are putting sustainability information on equal footing with financial information. Compliance, therefore, requires a profound shift in how ESG data is gathered and reported. Most companies will have to make significant investments and budget for higher compliance costs. New technology, personnel, training and consultants may be required, and the company's reporting infrastructure may need to change to enable closer collaboration between the finance, sustainability and risk teams.

This will certainly impact business strategy and operations; what gets measured gets managed, after all. As ESG moves up the corporate agenda, the Chief Sustainability Officer role will surely expand beyond compliance to include counsel on strategy, HR, finance and communications.

Increased communications burden

2

With stricter reporting guidelines and increasing investor scrutiny, ESG will play a greater role in communications strategies for listed domestic and foreign companies and financial institutions in Asia Pacific and around the world. Crafting ESG narratives for different stakeholders and aligning these with marketing strategy takes the company beyond mandatory annual reporting to help build valuable connections. Such transparency can also counter rising skepticism about greenwashing.

Private companies will also have to be increasingly proactive in their ESG communications as more stakeholders feel that climate change is a risk.

Regulatory trickle-down

3

Private companies will be impacted by stricter ESG reporting requirements if they are part of a covered company's supply chain. A key sticking point is Scope 3 emissions.

Scope 3 are GHG emissions generated upstream (via suppliers and raw materials) and downstream (through use or disposal of a business's products or services). They can make up between 70% and 90% of an organization's total carbon impact.[7] Businesses will need to work with their vendors to meet the requirements, with the burden of providing data for Scope 3 disclosure ultimately pushed onto companies in the supply chain, such as SME partners.

Interoperability challenges

4

Regulators worldwide have signaled a strong commitment to interoperability. Better alignment of ESG standards — with streamlined definitions and interoperability guidance — would reduce the reporting burden for companies and enhance investor decision-making. Even so, challenges remain. In Asia, the ASEAN Taxonomy targets to align development across the region, but different regulatory practices and economic disparity could make this difficult.

In the EU, regulators have designed the ESRS for a wider audience of stakeholders than the global ISSB, which targets investor-grade information. Critically, ISSB defines "materiality" in terms of how climate-related impacts and other ESG matters affect the company; the ESRS has double materiality, adding how the company impacts the climate and other sustainability matters.

Enhanced opportunities

5

Companies doing business in Asia Pacific and around the world are rightly focused on compliance with applicable ESG reporting standards and regulations as disclosure moves from voluntary to mandatory and sustainability concerns become more mainstream. At the same time, gaining a more complete view of a company's value chain and risks can help leaders embrace innovation, increase resilience and boost performance. Demonstrating sustainability and transparency can also help attract investors and customers, and increase employee satisfaction.

A report by the NYU Stern Center for Sustainable Business, which analyzed over 1,000 studies published between 2015 and 2020, found links between strong corporate management of ESG and improved Return on Equity (ROE), Return on Assets (ROA) and stock price, as well as excess returns for investors using ESG strategies.[8]

Eight Steps to Prepare for ESG-driven Transformation

Begin now 1

ESG reporting is increasingly urgent. Companies have limited time to comply, with more stringent global and local standards being applied in the coming months and years. It is time to define roles and responsibilities within your organization and invest in expertise to close any gaps.

Explore sentiment 2

Perception studies can help you identify investor sentiment and better understand stakeholder perception of corporate ESG performance. You can include comprehensive peer benchmarking to identify key focus areas and build an ESG strategy with relevant and achievable goals.

Build trust 3

Assess your data for alignment with applicable mandatory and voluntary frameworks and identify gaps and actions. You will need to formulate the right metrics and Key Performance Indicators (KPIs) and determine how to report tangible actions rather than generic statements. This is the key to ensuring consistency, comparability and verifiability of disclosures — and building trust.

Talk to investors 4

Integrate ESG messaging for more active investor relations. Investor Days and Roadshows should help build confidence in how sustainability strengthens your equity story, thereby supporting valuation.

Tell compelling stories 5

Refresh and update narratives and communications materials to meet the heightened expectations of external stakeholders via paid, earned, shared and owned channels. Consider what matters most and how it aligns with business purpose: pay equity may be more relevant in one local market while water conservation measures may be a more compelling story elsewhere.

Inspire collaboration 6

Leverage internal communications to help staff elevate their knowledge of relevant ESG standards, build informed and engaged fulfillment teams, and inspire the business-wide collaboration necessary to collect data, implement ESG initiatives and improve performance. Engaging with vendors on Scope 3 emissions reporting and reduction will increasingly be required.

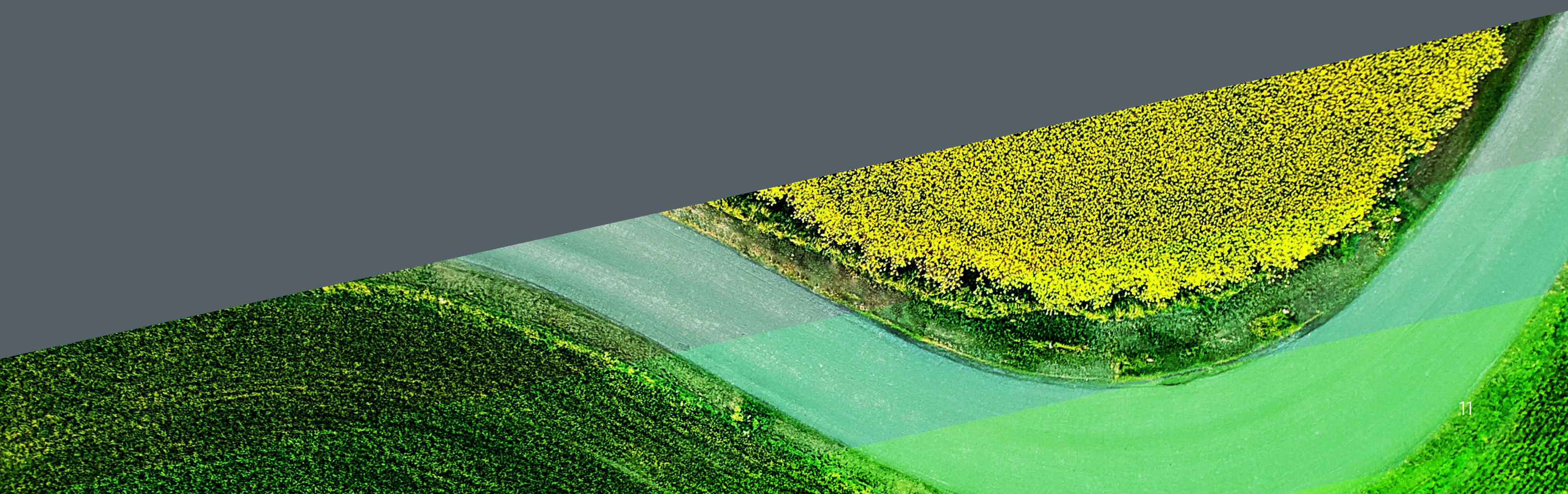
Plan for the worst 7

Crisis management does not start with the crisis. Corporations need to prepare for ESG-related risks such as a greenwashing accusation, non-compliance, or action by consumer or shareholder activists. A fast and effective response goes a long way to minimize damage and restore confidence in today's interconnected world.

Stay on track 8

It is vital to continue monitoring the development of global and local standards. Care should be taken to map out potential stakeholders for engagement, and to identify when, where, how and whether to appropriately speak up as an ESG advocate.

Asia Pacific is a fragmented region with various opportunities and challenges in ESG compliance and communications. Having a trusted advisor will help you navigate the complexity of the ESG landscape in the future. A distinct ESG narrative and a well-versed public affairs and stakeholder engagement strategy can become your competitive advantage in the market.



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FleishmanHillard specializes in public relations, reputation management, public affairs, brand marketing, digital strategy, social engagement and content strategy. We are committed to advising corporations, investors and financial institutions on their ESG journeys in Asia, building an elevated ESG narrative and stakeholder engagement strategy.

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