Sustainable Financing and Investing Survey 2019

Markets alert to the environment and society

Asia Focus

HSBC

Executive Summary

Values to the fore as environmental and social consciousness sweeps the capital markets

Users of the capital markets, the world over, are now highly alert to environmental and social issues — a remarkable result, considering that nearly all practitioners were trained in a different paradigm, in which financial return and shareholder value were the pre-eminent considerations.

Our global survey of 500 issuers and 500 investors, across Europe, Asia, the Middle East and the Americas, shows around 60% of both groups say environmental and social issues are 'very important'. Three quarters of the rest say they are 'somewhat important'. Hardly any are indifferent. The US, Europe and Canada are leaders on several indicators, with awareness in the Middle East also high. But even in the least aware regions, the vast majority of our sample are paying attention to these issues.

By studying the views of issuers and investors alongside each other, this survey reveals how the wishes and needs of the two groups interact and feed off each other. While on some matters, issuers and investors diverge, on many of the major questions, they are aligned. The most important reason for the rise to prominence of sustainability concerns is the organisation's own values and belief that this is right.

No less than 62% of investors that saw these issues as important said 'We believe it's right to care about the world and society'. Among issuers, 65% say caring about these matters is 'aligned with our values as an organisation'. Issuers and investors also feel pressure from their stakeholders — customers, employees, regulators and society at large. But in virtually every region, the organisation's own values are the most often cited factor, and in the rare exceptions, values come a close second.

This suggests capital markets participants have responded to a shift in society, not reluctantly, but enthusiastically — they share in and endorse the new consciousness.

The survey points to many notable trends shaping sustainable finance, including:

- Supporters have yet to win the argument that sustainable investing is profitable. Nearly 40% of investors believe it sometimes involves accepting lower returns or higher risk, while only 42% of issuers see a potential financial gain from responsibility — a lower share than among investors
- As jurisdictions from China to the European Union have begun to legislate for sustainable finance, the influence of regulators is strong in driving sustainability consciousness, for issuers and investors
- Disclosure to the market on sustainability performance, by issuers and investors, has a long way to go. Issuers are ahead and many expect to increase disclosure in future — nearly two thirds of them welcome it. Many investors still disclose little or nothing on the sustainability of their portfolios
- Climate change is recognised as a reality that already impacts business, or will soon. Despite — or perhaps because of — the heavy reliance of the Middle East on oil and gas, this region is the strongest for recognising this. The US has the least near term concern, but it is still nearly 50%. A fifth of US issuers think they will never be affected by climate change, but none do not believe in it
- Large shifts in capital allocation are coming, in response to sustainability issues. Two thirds of issuers (and in the Middle East 85%) expect to reallocate capital noticeably in the next five years
- Significant barriers exist to fuller development of sustainable investing. Chinese investors feel freest to pursue this, with only 30% citing obstacles, but globally, 60% do. Chief among them are shortage of expertise, lack of attractive investment opportunities and lack of comparable ESG data — highlighting the importance of building the capital markets' intellectual armoury for sustainability, through education and research

Asia Report

Asian investors seek progress on sustainability, need better disclosure

Asia more cautious on sustainability, but catching up

Most indicators in the survey suggest Asian financial markets are not as environmentally and socially aware as those in other regions — but the gaps are often quite narrow.

The 175 issuers and 175 investors analysed — the biggest regional sample in our survey — cover diverse markets, in which state influence and market impulses interact in different ways: mainland China, Hong Kong SAR, Singapore, Indonesia, Malaysia and Thailand.

Financial authorities in each of these markets have taken steps to encourage green and sustainable finance, particularly green bonds, but these vary widely — mainland China has gone furthest in mandating the greening of its financial system.

In Asia 31% of investors say environmental and social issues are ‘somewhat important’ to them and 55% say they are ‘very important’ — not far behind global averages of 30% and 64%. The unconverted or indifferent remainder is 14%, compared with 6% globally. But that is still a small share. Among issuers it is similar — 15% are sceptical of environmental and social matters or do not have a view, compared with 7% globally. But more telling are some other differences, which show the dynamics affecting the development of sustainable finance. When it comes to action, Asia is catching up. Forty-nine percent of investors have a firm-wide policy on ESG issues, against 62% globally — but another 35% intend to develop one, meaning that only one in six are not moving on this issue, or do not know whether their organisation has a policy.

And Asian investors feel less inhibited in pursuing ESG investing — only 39% say there are issues holding them back, while globally, 61% of investors spy obstacles.

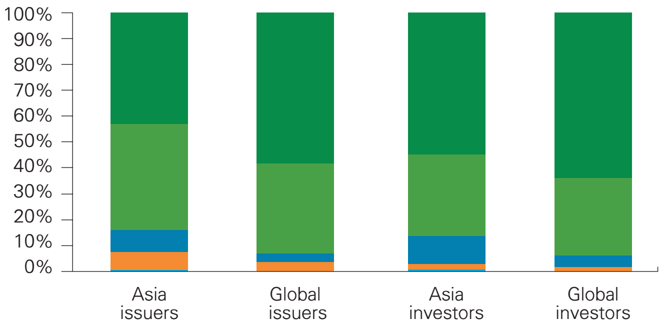
The share of issuers that expect to make no adjustment at all to their capital allocation in five years, in response to environmental and social issues, is lower in Asia, at 6%, than in Europe or the Americas. Among those that will shift capital, however, more issuers expect the change to be slight.

Key Findings

- Asia is close behind Europe and north America in its embrace of sustainable finance and investing, with 86% of the region’s investors and 84% of issuers regarding environmental and social issues as important
- Attitudes on many issues are similar, though the small minority ignoring these matters is larger in Asia
- This may reflect lower external pressure to consider environmental and social factors. Demand from regulators, customers, NGOs and employees is felt more weakly in Asia
- Client expectations are also below average. Thirty-five percent of investors report that a majority of their clients have negative perceptions of ESG and responsible investing. This compares to 21% globally
- But returns are more important to both investors and issuers in Asia, in driving their interest in environmental and social issues — an issue where they may be ahead of the curve
- Disclosure is a key area where improvement is needed — 24% of issuers make no ESG disclosures, twice the share of any region, while below 20% of investors disclose the ESG characteristics of portfolios, against around 25% globally
- Climate change is seen as a significant issue for business in Asia, as much as elsewhere, but on a slower timeline. Only 18% of issuers believe it is affecting them already, against 38% globally. But within a 30 year horizon, the gap is much less marked: 75% in Asia expect effects, versus 82% globally

Asia's investors more attentive to environment and society than issuers

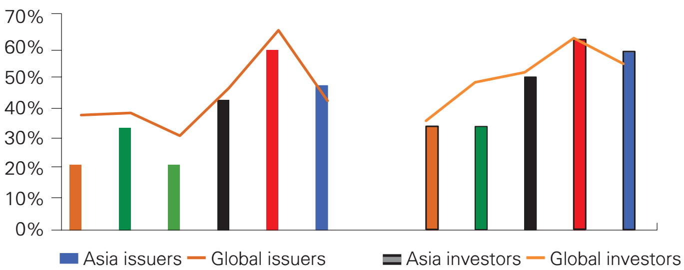
Our organisation's attitude to environmental and social issues is…



- They are very important to us
- They are somewhat important to us
- We don't have a view
- They are not very important to us
- They are not important to us at all

Asian issuers and investors have high confidence environmental and social awareness can boost returns

We care about environmental and social issues because…



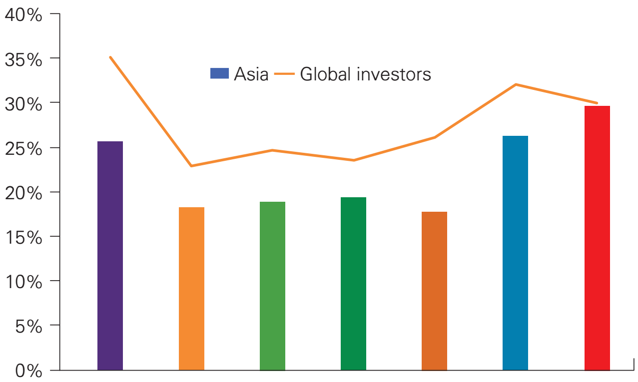
- Our customers want us to
- Our employees want us to
- NGOs or pressure groups demand us to
- Regulators require us to
- It aligns with our values as an organisation
- Paying attention to these issues can improve returns

- Our clients want us to
- Society expects it
- Regulators require it
- We believe it's right to care about the world and society
- It can improve investment returns and/or reduce investment risk

Asia Report

Impact and ESG analysis more prominent in Asia than disclosure

Our firm-wide policy on responsible investing or ESG issues includes the following...



- Approach for identifying material ESG issues for investments
- Stewardship principles – endorsed at board level
- Disclosure on the ESG characteristics of selected portfolios
- Disclosure on the ESG characteristics of our whole portfolio
- Disclosure on the environmental and social impacts of some portfolios
- Alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) or other reporting frameworks
- Impact goals or metrics used as part of investment decision-making

Drivers of environmental and social awareness

Returns matter more in Asia

Asian investors take environmental, social and governance (ESG) considerations into account when investing at very similar rates to those in other regions.

Thirty-one percent do so always, 18% only in funds with an explicit mandate, and 42% sometimes, when it is likely to be financially material.

However, their convictions about sustainable investing have more to do with risk and return than elsewhere in the world.

Values are the most important driver for investors in Asia to care about environmental and social issues — 62% of investors cite this, the same as the global average. But the share believing it can improve investment returns or reduce risk is higher, at 58%, against 54% globally.

And only 8% of Asian investors, compared with 12% globally, are convinced responsible investing always entails accepting lower returns or higher risk. Nineteen percent in Asia, more than the 17% global average, see RI as an attractive way of trying to generate outperformance.

However, ESG in Asia is not just about improving financial results. Forty-three percent of investors — compared with 38% in Europe and 36% in the Americas — say they consider the effects of their investments on the real world.

Among issuers, a similar pattern emerges. Values are the most important driver, as elsewhere — although less dominant in Asia, at 58% of issuers against the 65% average. The belief that paying attention to the environment and society can improve returns is held by 47% of Asian issuers, more than in any other region.

"Regulators and investors should crank up the pressure on issuers, if they want better disclosure."

Disclosure

More transparency wanted

Asian investors report fewer obstacles impeding them from pursuing ESG investing than their counterparts in other regions. But of the obstacles that are cited, three stand out as bulking larger in Asia than elsewhere.

These are lack of attractive investment opportunities, cited by 22%, inconsistency of ESG definitions (18%) and lack of disclosure by issuers (18%).

The last may not be surprising, considering that Asian issuers, by their own declaration, disclose less than those in other areas.

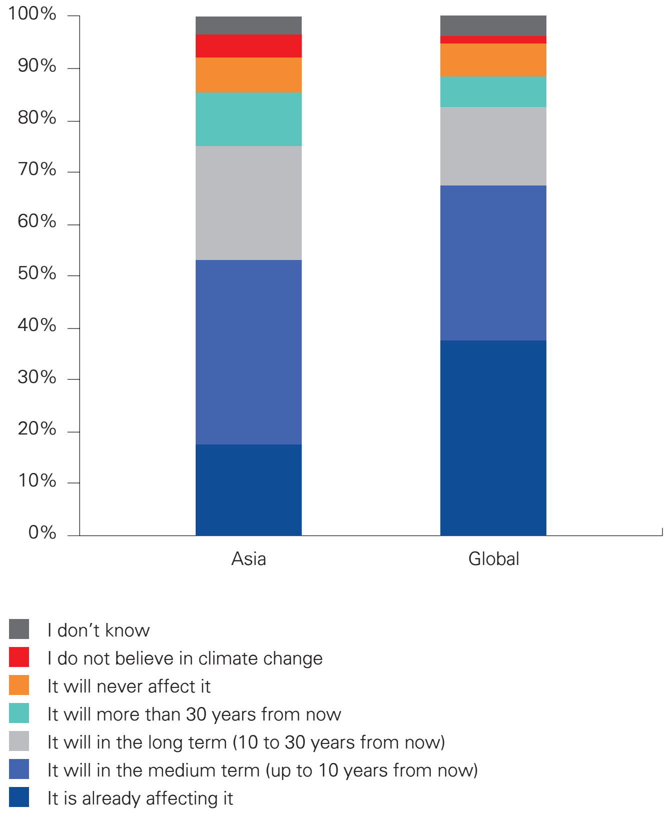
Twenty-four percent of issuers say they do not disclose at the moment on environmental and social issues — double the share anywhere else. And issuers also feel less pressure to increase their disclosure. The same small share, about 10%, say their present disclosure is too much; and a full third, more than elsewhere, believe their current disclosures are about right and they feel no pressure to increase them. Only 18%, compared with 28% globally, think disclosure will increase and welcome this; while 15% expect an unwelcome obligation from regulators or investors to disclose more.

The conclusion would appear to be that regulators and investors should crank up the pressure on issuers, if they want better disclosure.

However, Asian investors could do more on disclosure, too. They are closer to international norms than issuers, but still only 18% to 19% are disclosing the environmental and social characteristics of either some portfolios or their whole portfolios — global rates are 24% to 26%.

Asian issuers foresee climate change's effects developing more slowly

Issuers: will climate change begin to affect our business or activities...



Methodology

***GlobalCapital*, the capital markets newspaper, and Euromoney Data conducted a global survey of investors and capital markets issuers in June and July 2019. The survey is unusual in questioning issuers and investors at the same time.**

The questionnaires for issuers and investors were different, but in many cases the questions were complementary, to give insight into the perceptions each group have of the other.

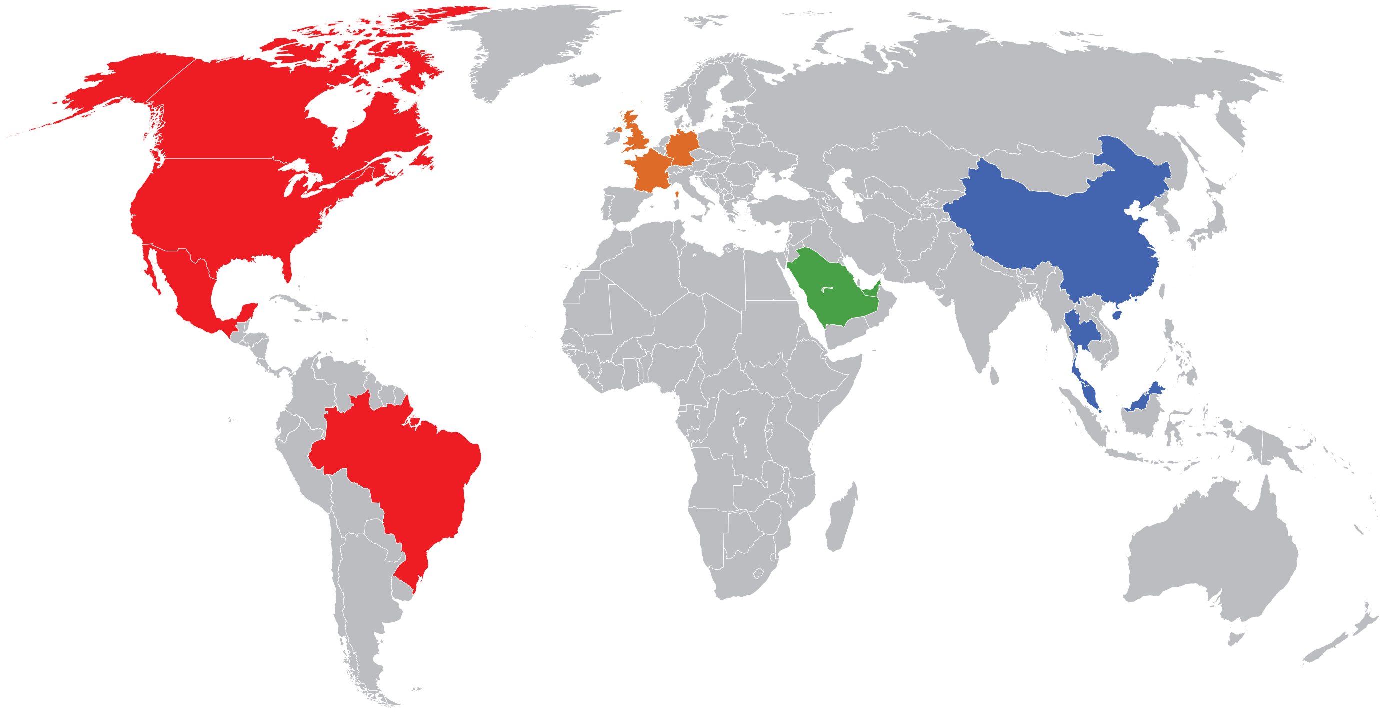
The study was designed to cover a wide diversity of organisations, by size, geography and type of activity.

Investors and issuers were invited to participate in online surveys, comprising multiple choice questions. The surveys were offered in Chinese, English, French, German, Portuguese and Spanish. Over 1,300 completed responses were received from issuers and investors. To participate, they had to enter their contact details, the name, nature and size of their organisation, and where they were based. Responses are treated anonymously.

From these, a structured sample was extracted for use in the survey. This comprised 500 issuers and 500 investors, distributed across 15 target markets in four regions.

Where there were too many responses from a particular country, those from larger organisations were used.

The sample analysed is as follows:



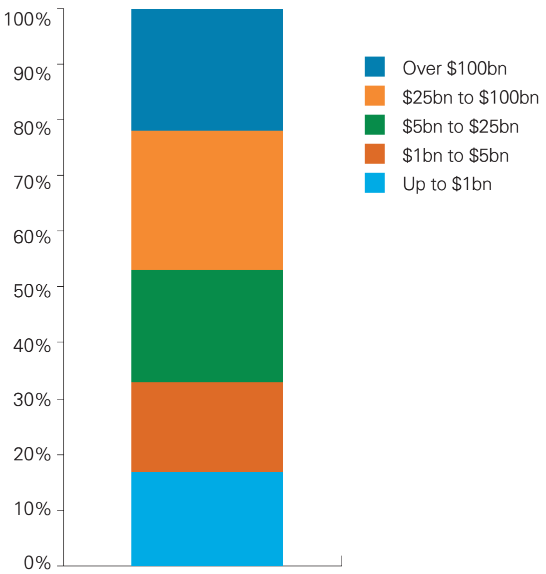
	Issuers	Investors
Americas	**135**	**135**
US	50	50
Canada	50	50
Brazil and Mexico	35	35

	Issuers	Investors
Europe	**120**	**120**
UK	50	50
France	35	35
Germany	35	35

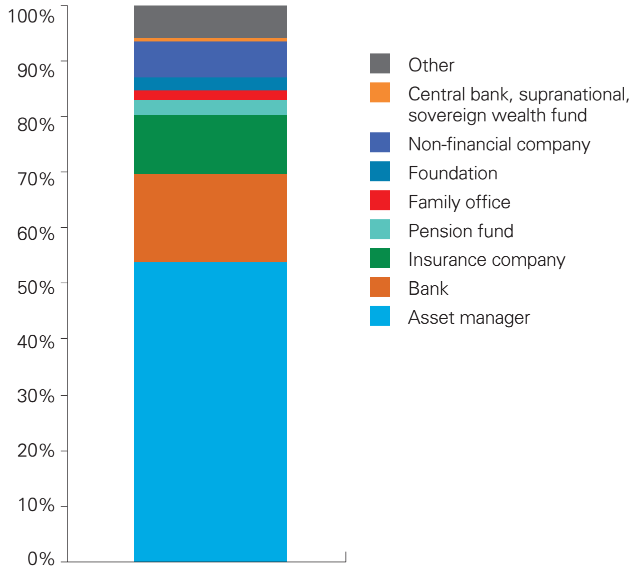
	Issuers	Investors
Asia	**175**	**175**
Mainland China	50	50
Hong Kong SAR	50	50
Singapore	35	35
Indonesia, Malaysia and Thailand	40	40

	Issuers	Investors
Middle East	**70**	**70**
Saudi Arabia	35	35
UAE	35	35
TOTAL	**500**	**500**

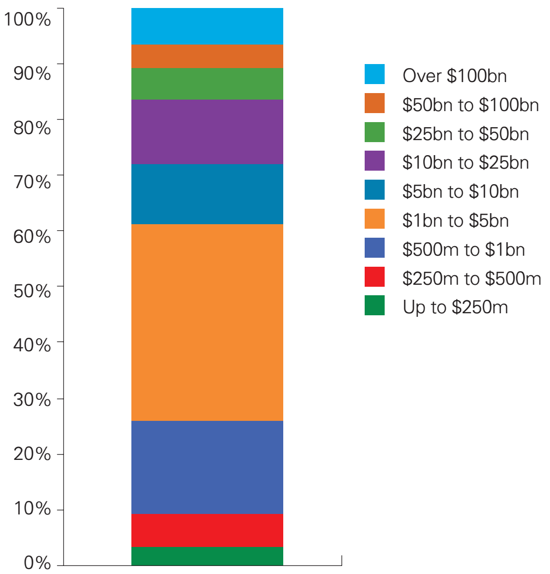
Investors by assets under management



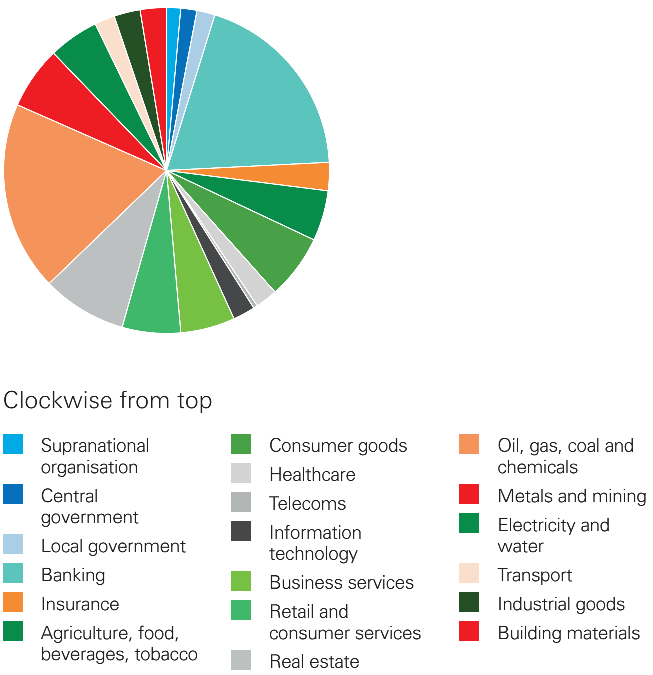
Investors by type



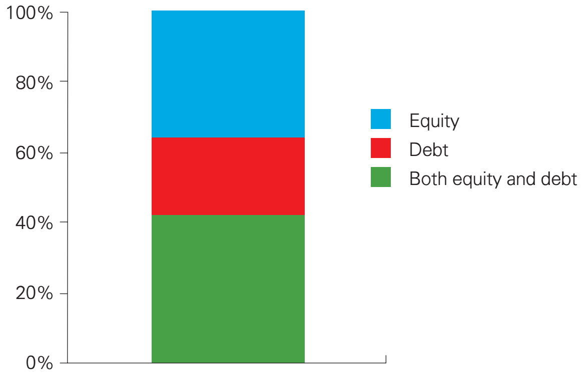
Issuers by annual revenue



Issuers by industry



Investors by asset type



Published: September 2019
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