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# Disclosure Learnings from Value-based Intermediation (VBI)

## HSBC Amanah

02 April 2020



# Framing

## Framing (1)

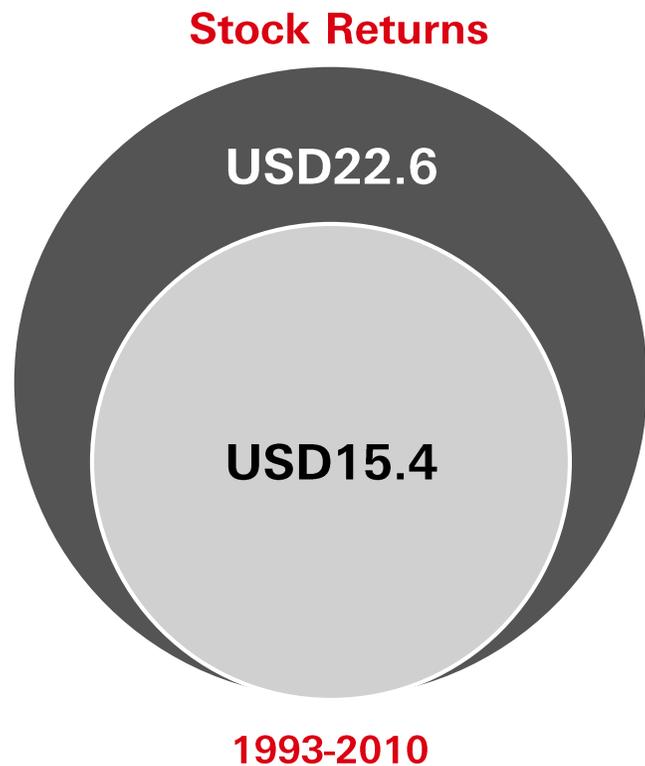
'The Next Sustainability Wave'	<b>Stage 1: Non-Compliance</b>	<b>Stage 2: Compliance</b>	<b>Stage 3: Beyond Compliance</b>	<b>Stage 4: Integrated Strategy</b>	<b>Stage 5: Purpose &amp; Passion</b>
Practices assumed**	N/A	Common Sustainability Practices, typically copied Immaterial ESG Issue		Strategic Sustainability Practices, <b>unique</b> in nature Material ESG Issue	
Impact**	N/A	<b>Not significantly associated</b> with Return on Capital <b>Positively associated</b> with Market Valuation Multiples (Price to Book) Fail to keep up with adoption then performance suffers		With unique sustainability practices <b>significantly</b> and <b>positively associated</b> with financial performance such as Return on Capital and Market Valuation Multiples (Price to Book)	



\* The Next Sustainability Wave, Bob Wilard, 2005

\*\* based on Ioannou & Serafim, 2019, 'Corporate Sustainability: A Strategy?', Sustainability Leadership & Corporate Responsibility - London Business School Online, and SASB Materiality Map

## Framing (2)

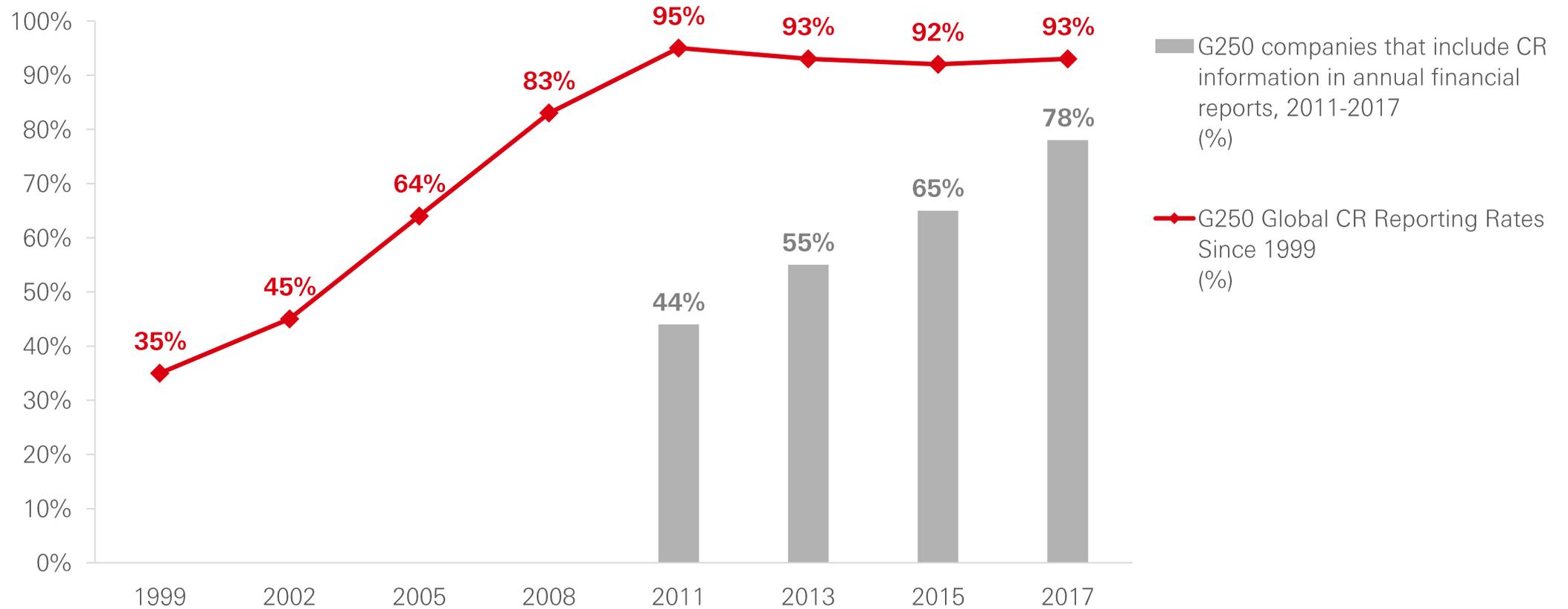


Eccles, Ioannou, Serafeim, Management Science, 2014



KPMG, The numbers that are changing the world, 2019

### Framing (3)



Source: 'The Road Ahead', KPMG Survey of Corporate Responsibility Reporting 2017

# Implementation (based on VBI)

# Non-Financial Disclosures is 1 from many needed initiatives . . . . But a critical one!

## Key Learnings from VBI



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

# Standards(1)



INTEGRATED REPORTING <IR>

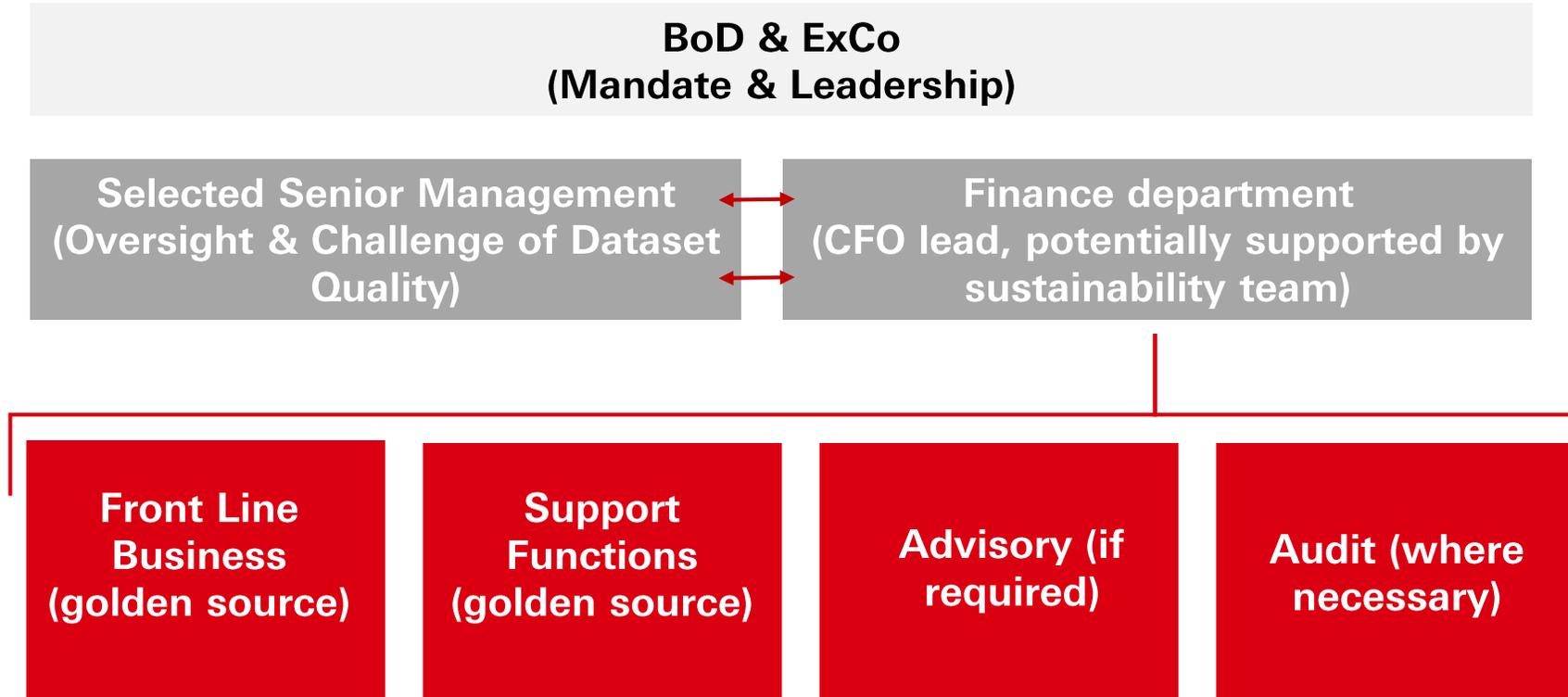


## Standards(2)

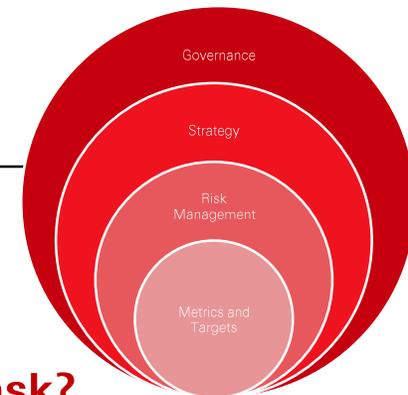
Standards						
<p><b>Brief Info</b></p>	<p>Founded in 2011 with the aim to help businesses to identify, manage and report on sustainability topics that matter most to organisations.</p> <p>Provides a materiality map for organisations to ascertain level of materiality for various environmental and social indicators</p>	<p>Assists organisations to provide details on value creation over the short, medium, and long-term, both financially and non-financially, through an integrated reporting model.</p> <p>An integrated model based on categories of capitals; financial, manufactured, human, social and relationship, intellectual and natural</p>	<p>The first global standards for sustainability reporting. They feature a modular, interrelated structure, and represent the global best practice for reporting on a range of economic, environmental and social impact.</p>	<p>A voluntary, consistent climate-related financial disclosure for companies to provide information to stakeholder.</p> <p>Take into account physical liability and transition risks associated with climate change and what constitute to effective financial disclosures across industries.</p>	<p>UN SDG is a global blueprint developed in 2015 consisting of 17 goals to be achieved by 2030.</p> <p>Addresses various global challenges, including poverty, inequality, climate, prosperity and peace and justice.</p>	<p>Not for profit charity that runs global disclosure system for investors, companies, cities, states and regions to manage environmental impact.</p> <p>Questionnaire and scoring that help organisations to measure, manage, reduce and disclose their impact on the environment, and build resilience, while providing greater transparency to the market.</p>
<p><b># rate of adoption</b></p>	<p>120 companies across 77 industries in 2019</p>	<p>IIRC Business Network consists of 1,750 participants internationally from over 30 countries</p>	<p>Of the world largest 250 corporations, 92% report on their sustainability and 82% of these adopted GRI to do so.</p>	<p>As of February 2020, 1027 organizations has been supporting TCFD.</p>	<p>Within two years post UN SDG launch, 40% of top companies acknowledge the global goals in their corporate reporting.</p>	<p>As of 2019, total of 8446 companies are disclosing through CDP. This number is 20% increment from the previous year.</p>
<p><b>Sources</b></p>	<ul style="list-style-type: none"> <li><a href="https://www.sasb.org/">https://www.sasb.org/</a></li> <li><a href="https://www.irmagazine.com/reporting/more-100-companies-using-sasb-standards">https://www.irmagazine.com/reporting/more-100-companies-using-sasb-standards</a></li> </ul>	<ul style="list-style-type: none"> <li><a href="https://integratedreporting.org/ir-businessnetwork/">https://integratedreporting.org/ir-businessnetwork/</a></li> <li><a href="https://www.ideoonpurpose.com/on/2019-guidance-on-reporting-frameworks-gri-iirc-sasb/">https://www.ideoonpurpose.com/on/2019-guidance-on-reporting-frameworks-gri-iirc-sasb/</a></li> </ul>	<ul style="list-style-type: none"> <li><a href="https://globalreporting.org/standards">https://globalreporting.org/standards</a></li> <li><a href="https://www.globalreporting.org/information/news-and-press-center/press-resources/Pages/default.aspx">https://www.globalreporting.org/information/news-and-press-center/press-resources/Pages/default.aspx</a></li> </ul>	<ul style="list-style-type: none"> <li><a href="https://fsb-tcfid.org/about">https://fsb-tcfid.org/about</a></li> <li><a href="https://fsb-tcfid.org/tcfid-supporters/">https://fsb-tcfid.org/tcfid-supporters/</a></li> </ul>	<ul style="list-style-type: none"> <li><a href="https://sustainabledevelopment.un.org/?menu=1300">https://sustainabledevelopment.un.org/?menu=1300</a></li> <li><a href="https://home.kpmg/xx/en/home/insights/2018/02/how-to-report-on-the-sdgs.html">https://home.kpmg/xx/en/home/insights/2018/02/how-to-report-on-the-sdgs.html</a></li> <li><a href="https://www.ideoonpurpose.com/on/2019-guidance-on-reporting-frameworks-gri-iirc-sasb/">https://www.ideoonpurpose.com/on/2019-guidance-on-reporting-frameworks-gri-iirc-sasb/</a></li> </ul>	<ul style="list-style-type: none"> <li><a href="https://www.cdp.net/en/info/about-us/what-we-do">https://www.cdp.net/en/info/about-us/what-we-do</a></li> <li><a href="https://www.ideoonpurpose.com/on/2019-guidance-on-reporting-frameworks-gri-iirc-sasb/">https://www.ideoonpurpose.com/on/2019-guidance-on-reporting-frameworks-gri-iirc-sasb/</a></li> <li><a href="https://www.cdp.net/en/companies/companies-scores">https://www.cdp.net/en/companies/companies-scores</a></li> </ul>

## Governance Framework

### Key Learnings from VBI



- ◆ For serious non-Financial disclosures, a mandate must be given by the Board of Directors to the Executive Management
- ◆ Though led by Finance, challenge must be provided by Senior Management to ensure the non-Financial disclosures speak to material topics, hot topics to ensure a robust data is being put together to disclose
- ◆ Empowerment through strong governance is needed for the leads to be able to procure, interrogate and validate information being provided



# Making it happen...the Board of Director Cheat Sheet...and the TCFD Recommendations

## Key Learnings from VBI

### Who asks?

### What to ask?

### Whom to ask?

Main Board	What is the Bank’s business strategy on Sustainability?	CEO
Board Risk Committee	What are our Sustainability Risks? How are we defining and managing them? How are we measuring them the short term and long term impact?	CRO
Board Audit Committee	What non-financial disclosures on Sustainability are we producing? What is our internal Sustainability dashboard / MI for management at the Board?	CFO
Nomination & Remuneration Committee	On appointing CEO and KRIs: what is the candidates Sustainability credentials on? What are the CEO and KRI Sustainability metrics for the yearly performance scorecard? How are incentives, pay, specifically aligned?	CHRO
Chairman of Board	Do you have a specific budget for BOD Sustainability Training? Introduce Sustainability contribution assessment for BoD evaluation	Shareholders

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