

Speech
Speech by SFST at Hong Kong Institute of Certified Public Accountants
Best Corporate Governance Awards 2017 Presentation Luncheon
(English only)

Thursday, November 30, 2017

Following is the speech by the Secretary for Financial Services and the Treasury, Mr James Lau, at the Hong Kong Institute of Certified Public Accountants (HKICPA) Best Corporate Governance Awards 2017 Presentation Luncheon today (November 30):

Mabel (President of the HKICPA, Ms Mabel Chan), Derek (Chairman of the Awards Organising Committee, Mr Derek Broadley), distinguished guests, ladies and gentlemen,

Good afternoon. I am delighted to join you all today at the HKICPA Best Corporate Governance Awards 2017. As we celebrate exemplary cases and best practices of corporate governance in Hong Kong this afternoon, I would like to speak briefly on the global trend in ESG - or environmental, social and governance - investing, also known as ethical or socially responsible investing.

In recent years, we have seen a boom in ESG investing, with major institutional investors taking decisive action to integrate ESG considerations into their investment portfolios. In July this year, the Government Pension Investment Fund in Japan, which manages US\$1.3 trillion, announced that it had selected three ESG indices to track 1 trillion yen of investments in Japanese equity. They also intend to raise their allocation to ESG indices from 3 per cent of the stock portfolio currently to 10 per cent in the future.

Also in July this year, Swiss Re decided to move its entire US\$130 billion investment portfolio away from more traditional benchmarks to ones that take into account ESG standards. Swiss Re did not make this decision overnight. It took them 18 months of deliberation and they concluded that it made economic sense.

Indeed, there are a number of consultancy and academic studies that support the positive correlation between ESG standards and financial performance.

Just last month, the Boston Consulting Group released a study of more than 300 global companies. The results revealed a concrete link of performance on specific ESG topics to valuation multiples and margins. For example, higher valuations for biopharmaceutical companies are linked to strong performance in promoting employee safety, socially responsible sourcing and ethical human clinical trials. Similarly, for oil and gas companies, higher valuations are linked to strong performance in combating corruption, maintaining better health and safety programs, and avoiding damage to biodiversity, water and ecology.

Back in 2014, a study by the Smith School of Enterprise and the Environment at the University of Oxford also found a positive correlation between sustainable business practices and economic performance. In this particular study, the Oxford researchers reviewed more than 200 academic studies to try to determine whether sustainable corporate practices are good for business. According to their analysis, around 80 to 90 per cent of the studies show strong correlation between sound sustainability standards and practices on the one hand and lower cost of capital, better operational performance and stronger stock price performance on the other hand.

Amidst this global backdrop, the Hong Kong Government, the Stock Exchange of Hong Kong (SEHK) and the regulators have sought to encourage companies to conduct their business in a sustainable, ethical and socially responsible manner instead of simply eyeing profits in the short term.

ESG disclosure requirements have already been incorporated into the listing rules as mandatory disclosure requirements for all companies listed on the SEHK, regardless of their place of incorporation. SEHK has also held numerous training seminars on ESG with a wealth of information available on their website. These materials include practical steps and tools to guide issuers through the process of preparing an ESG report.

The Securities and Futures Commission has also issued the Principles of Responsible Ownership, which intend to assist investors to determine how best to meet their ownership responsibilities.

Ladies and gentlemen, at this juncture, perhaps I should say a word or two about green finance, which is one of the key priorities for this government.

Growing demand for ethical or socially responsible investing bodes well for green finance and green bonds in particular. More and more fund managers are diversifying their investment criteria to include green factors.

Mainland China was the largest green bond market in the world in 2016, with the total issuance amount reaching US\$23 billion, over one quarter of the total global issuances. As of the end of September this year, China's year-to-date green bond issuance totalled US\$21 billion, representing an increase of 11 per cent compared to the first nine months of 2016.

As an international financial centre and the global RMB business hub, Hong Kong is well equipped to become the premier financing platform for Hong Kong and Mainland enterprises that seek to raise funds through green bonds. Our Chief Executive, Mrs Carrie Lam, announced in the Policy Address in October that the Government will take the lead to issue a green bond in 2018-19 to promote the development of green finance and to demonstrate the Government's commitment to promote sustainable economic development. The Hong Kong Quality Assurance Agency is also working on a Green Finance Certification Scheme that would meet international standards for green bonds, and I believe the Agency is going to launch the Scheme within the coming few months.

Indeed, with the joint efforts of the Government, the regulators and market participants, it is my hope that Hong Kong as an international financial centre will seek to innovate - and not simply follow - in the area of sustainability and social responsibility.

Congratulations to all the winners today. I wish you a fruitful luncheon. Thank you.

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