



## Making the right choices: Developing a sustainability reporting strategy

The Hong Kong Stock Exchange has been considering guidelines for Environmental Social and Governance (ESG) disclosure, a development that keeps Hong Kong in line with a global trend among stock exchanges to recommend and mandate increased disclosure around sustainability. The long-term vision is to upgrade the reporting requirements to “comply or explain”, which is similar to the arrangement for the Code on Corporate Governance Practices.

For many Hong Kong listed companies, development of guidelines would mean they must make an active decision whether or not to initiate sustainability reporting. For others, it is a chance to consider ways to improve their existing reporting frameworks to differentiate themselves in the market.

### Key issues for Audit Committees

Boards and senior management need to evaluate the relative emphasis on reporting in markets of primary importance as well as investor requirements. While the trend in many markets is clearly towards increased reporting, it is not uniform. As such, a company should consider its own particular situation alongside the significance of their ESG impacts.

### What is sustainability reporting?

Sustainability reporting is a process for publicly disclosing a company’s performance on environmental, social, and governance performance. Over the last decade, sustainability reporting has grown rapidly as a practice amongst leading companies. According to KPMG’s 2008 International survey of corporate responsibility reporting, in 2008, 79 percent of global 250 companies published sustainability reports. In China, the number of sustainability reports reached over 700 in 2010.

### Evolving requirements: From ad hoc to standards

Over the last ten years, sustainability reporting has moved from an ad hoc practice to one increasingly governed by standards. The most widely used voluntary guidelines are those of the Global Reporting Initiative, a non-profit organisation based in Amsterdam.

## Realising the benefits

The MTR Corporation is a Hong Kong listed company, which has received several awards for its reporting on sustainability. They have made sustainability a part of their overall risk management system and incorporated it into their risk register.

*"The fuel to publish annual sustainability reports came from our senior executives, who recognised it was a way to engage potential investors and relevant stakeholders prior to our IPO in 2000. Back then we provided separate reports covering various sustainability issues but realised considerable benefits by integrating these reports into a single document."*

**Glenn Frommer**, Chief Sustainability Development Manager, The MTR Corporation

## Managing stakeholder expectations

CLP is a Hong Kong listed company and has been recognised for its work in the field of sustainability reporting for many years. In response to stakeholder interest, CLP is increasingly looking to integrate sustainability information into its annual report.

*"The introduction of integrated reporting allows us to focus further on our investors, to inform them of the ESG risks and opportunities impacting our business and how we manage them. It is our responsibility to make sure our investors are aware of the evolving ESG challenges as they are material to our business and hence to their investment."*

**April Chan**, Company Secretary, CLP Holdings Limited

Originally a voluntary activity, ESG disclosure has progressively found its way into listing rules and national laws governing corporate disclosure. Stock exchanges in Shanghai, Singapore, Shenzhen, Taiwan, Malaysia, US, Europe and South Africa have all implemented initiatives to promote, and in some cases mandate, reporting by listed companies. In addition, company law in several jurisdictions recognises ESG as potentially material disclosures.

This movement within financial markets is being prompted by the growing interest of investors alongside other stakeholders in ESG information. For example, a growing investor movement is the UN Principles for Responsible Investment, which currently has USD 20 trillion Assets Under Management and commits signatories from the international investor community to incorporate ESG risks consideration into their investment mandates. UNPRI membership includes institutional investors from many diverse countries including the Netherlands, South Africa, Brazil, UK, US and Korea. Beyond investors, NGOs and communities have taken an increasingly sophisticated approach to corporate engagement and remain active audiences for reporting.

## Benefits of sustainability reporting

Companies generally treat reporting as a way both to support external engagement and improve internal management processes.

For external engagement, reporting can be an effective way to demonstrate to stakeholders how a company proactively manages environmental, social, and governance issues. It also creates a reference point for all departments and employees who have to communicate externally on a regular basis. Sustainability reporting is particularly relevant for companies seeking to target investors, expert groups and employees.

Many companies also use reporting as a management tool to improve internal processes. A good report rests on the foundation of the company's internal management system and a shared understanding of priorities across the company. Many companies identify weaknesses and stimulate internal dialogue through reporting and use it as the basis for an annual review of their systems and performance. Reporting is also used as a tool to build corporate culture and values and build employee motivation.

## Deciding what and how to report

Regardless of government policy or Hong Kong Exchange listing requirements, overall trends place increasing pressure on companies to establish a conscious strategy on their approach to transparency. Some companies will find that market conditions have changed such that it is increasingly to their advantage to implement a more systematic program.



## The rise of sustainability reporting

A 2011 global KPMG report showed that sustainability has moved up the corporate agenda over the past three years, with 62 percent of companies now having a sustainability strategy.

## Questions for the Audit Committee or senior management in considering how and what to report

1

What and how are you currently disclosing? What is being reported about you?

Many companies circulate large amounts of information about their environmental and social performance in an ad hoc manner, which carry varying degrees of consistency, reliability, and accuracy. Once consolidated, however, it does begin to create an impression of a company.

Inaccurate information and conclusions can spread quickly, so companies need to make sure that they are proactive in putting forward a consistent and credible summary of their performance.

2

What are the expectations of key stakeholders?

Companies face varying degrees of implicit and explicit expectations about business practices and transparency from stakeholders. Investors and employees are showing greater interest in ESG information alongside traditional stakeholders such as communities and NGOs. A company should assess the degree to which its current approach meets the expectations of key stakeholder groups as well as review the actions of its peers. With many companies aggressively moving to embrace reporting, companies must decide whether they want to be a leader in the area of sustainability or prefer to be part of the group of followers.

As part of assessing expectations, a company should also consider whether it needs to more systematically improve its sustainability performance. Many companies may undertake an ad hoc combination of environmental and social activities. However, this typically lacks strategy and therefore has limited added value. At a minimum, systematic improvement requires the company to establish clear targets, internal monitoring and controls. Improvement is often further driven by developing external reporting to drive annual review of progress and the efficacy of internal systems.

3

Are there significant changes in the company's external environment?

The company should consider the nature of its interactions with environmental and social issues. In particular:

- Do the company's operations create significant impacts on the natural environment or on stakeholders?
- Will environmental issues (e.g. new regulations, resource availability, customer requirements) have an impact on the company's ability to implement its strategy?
- Do they create new strategic opportunities for the company? If so, the company should assess whether these will become the focus of stakeholder interest.

4

Implementation

For companies that decide to produce a report, they need to consider the following points:

- What will the report format be? (e.g. digital, print)
- Which department will lead the production of the report
- What is the target audience?
- How strong is your existing strategy and related management systems?

Developing reliable reporting takes time for a large company and speed is heavily influenced by the maturity of your existing management system. Your company should consider developing a plan for starting and then improving its reporting over time.

**Note:** this document will be followed by further KPMG insights on the HKex ESG guidelines once they have been released.

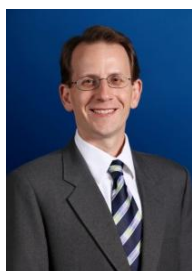
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