

Webinar: Climate Change Risk Issues: How does it affect business?

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affect business?*

Mr. Jonathan Drew

Vice President, Hong Kong Green Finance Association

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Climate Change Risk Issues: How does it affect business?

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Jonathan Drew, ESG Solutions
HSBC Global Banking



UN's Intergovernmental Panel on Climate Change (IPCC) Report

The Physical Science Basis

The first part of the Sixth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) was published on 9th Aug 2021.

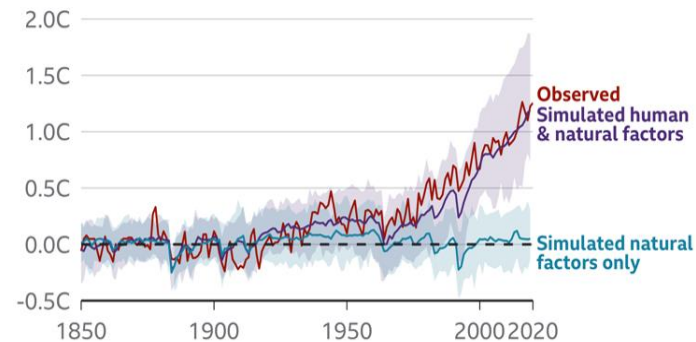
The IPCC used its **strongest terms yet to assert that humans are causing climate change**, with the first line of its report summary reading:

◆ *"It is unequivocal that human influence has warmed the atmosphere, ocean and land."*

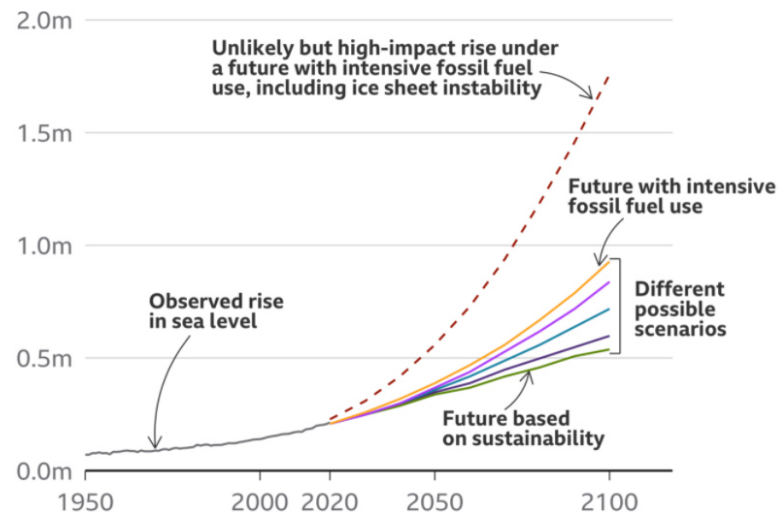
Key Points

1. We're **on course to reach 1.5C** of warming within the next two decades.
2. Limiting global warming to 1.5C by the end of the century is **still within reach, but requires transformational change**.
3. Our understanding of **climate science** — including the link to extreme weather — is stronger than ever.
4. The changes we are already seeing are unprecedented in recent history and **will affect every region of the globe**.
5. Every fraction of a degree of warming leads to more dangerous and **costly impacts**.

Change in average global temperature relative to 1850-1900



Average rise in sea level relative to 1900



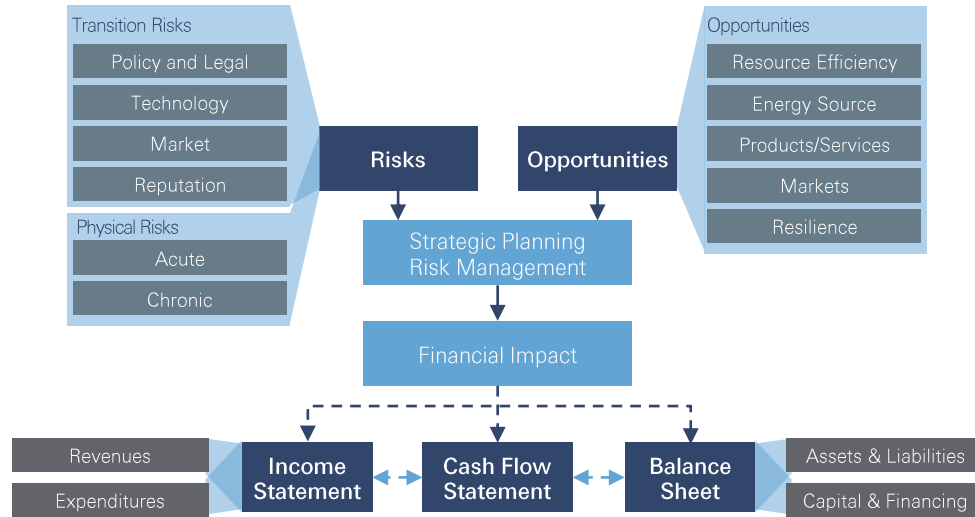
Extreme Weather Conditions



Source:

1. IPCC Report from IPCC Policymakers headline statements
2. Climate change: IPCC report is 'code red for humanity', BBC: <https://www.bbc.com/news/science-environment-58130705>

The Task Force on Climate Related Financial Disclosure (TCFD) and climate change scenarios



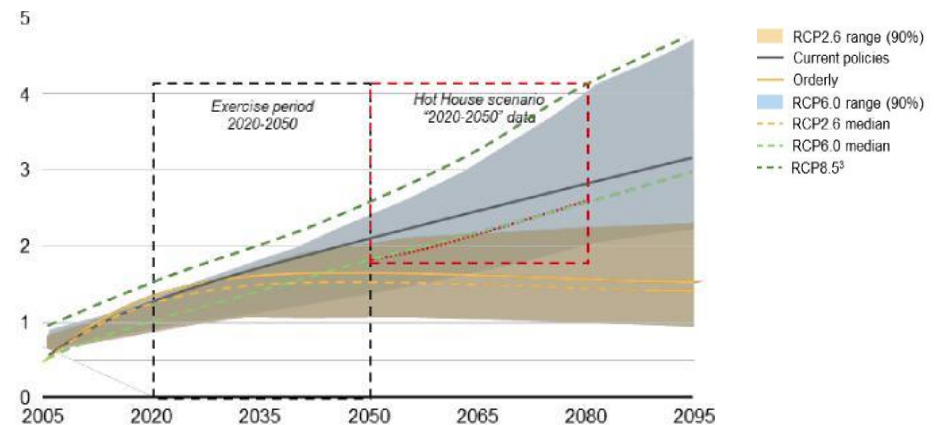
- **Governance:** The organization's governance around climate-related risks and opportunities
- **Strategy:** The actual and potential impacts of climate related risks and opportunities on the organization's businesses, strategy, and financial planning
- **Risk Management:** The processes used by the organization to identify, assess, and manage climate related risks
- **Metrics and Targets:** The metrics and targets used to assess and manage relevant climate related risks and opportunities

Climate-Related Metrics and Associated Risk Types

| | | |
|--------------------|--------------------------|--|
| Transitional Risks | GHG emissions | <ul style="list-style-type: none"> ▪ Emissions Level ▪ Emissions Intensity ▪ Embedded Emissions |
| | Energy/Fuel | <ul style="list-style-type: none"> ▪ Energy Usage ▪ Energy Intensity ▪ Energy Mix |
| | Water | <ul style="list-style-type: none"> ▪ Water Usage ▪ Water Intensity ▪ Water Source |
| Physical Risks | Location | <ul style="list-style-type: none"> ▪ Locations within a Coastal Zone ▪ Locations within a Flood Zone |
| | Land Use | <ul style="list-style-type: none"> ▪ Land Cover Type ▪ Land use Practices |
| | Risk Adaption/Mitigation | <ul style="list-style-type: none"> ▪ R&D into low carbon products, services, technology ▪ CapEx into deployment of low carbon products, services, technology |

Network of Central Banks and Supervisors for Greening the Financial System (NGFS)

The NGFS have outlined 3 scenarios (Orderly, Disorderly and Hot House World) – mapped to RCP scenarios¹ below














Source for NGFS / RCP overlap diagram: IIASA NGFS Climate Scenarios Database. 90% uncertainty range based on the MAGICC6 model for each Representative Concentration Pathway (RCP)

Climate Change Issues for Businesses

Risks and Opportunities

Challenges:

| Operation | | Consumer & Customer Attitudes and Behaviour | | Investor Demands from | | Regulatory, Policy and Legal | |
|------------------------------------|--|---|--|---|---|---|---|
| Supply chain disruption |  | Sector stigmatisation & consumer feedback |  | Green investors |  | Stricter and more demanding regulatory controls |  |
| Location of operations or services |  | Consumer Behaviour |  | Institutional investors: scenario analysis and disclosures |  | Carbon pricing: Wider reaching remit with greater impact |  |
| Insurance |  | | | | | Risk of litigation for breaches/ lack of progress |  |
| Employee view |  | | | | | | |

Opportunities:

| | | | | | |
|---|--|---|--|---|---|
|  Resource efficiency |  New energy sources |  Access to government incentives |  Better competitive positioning |  New markets |  New products and services |
|---|--|---|--|---|---|

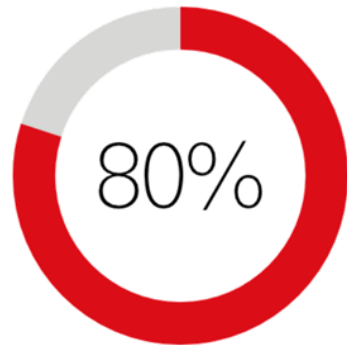
HSBC Sustainable Financing and Investing Survey 2021 – Asia Report

Key findings

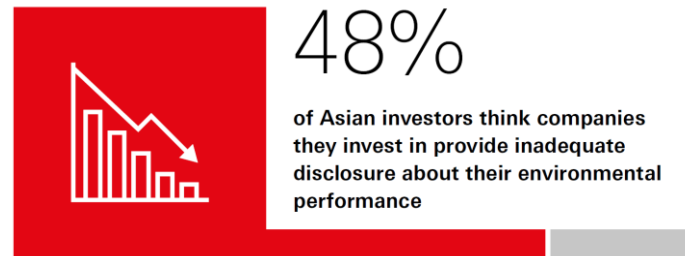
- Responded by:
 - ✓ **1,000 issuers** from across 19 industries, held senior positions in the CFO office, and in finance, treasury, risk and investments
 - ✓ **1,000 institutional investors** including asset allocators and asset owners, held senior positions in the CIO and CFO office, in portfolio and fund management and investment
- Conducted during May and June 2021, executed by Euromoney Institutional Investor PLC

Rapid transformation is defining Asia's capital markets landscape

Over 80% of Asian issuers expect changes to both their business models and the way capital is allocated over the next five years – more than anywhere else in the world



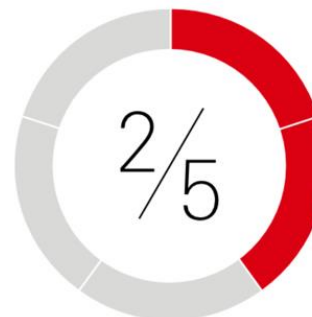
64% of issuers show high awareness of the impact of climate change, saying that it is already affecting their business activity



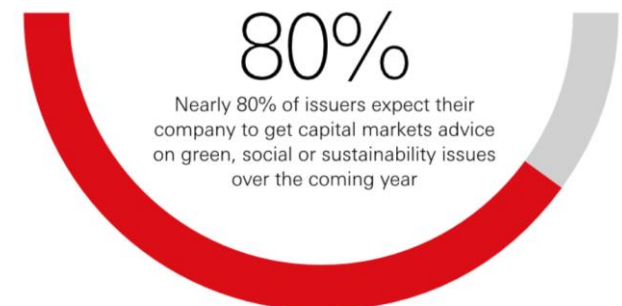
40% That said, nearly 40% of investors have a company-wide policy for responsible investing and ESG, with 36% declaring an intention to put one in place

Expertise and responsible investing in focus

Over two fifths of Asian investors say that a lack of expertise and qualified staff is slowing their progress to embrace ESG in their investments



Asia showing record interest in sustainability



Growing ESG Risks: increasing scrutiny

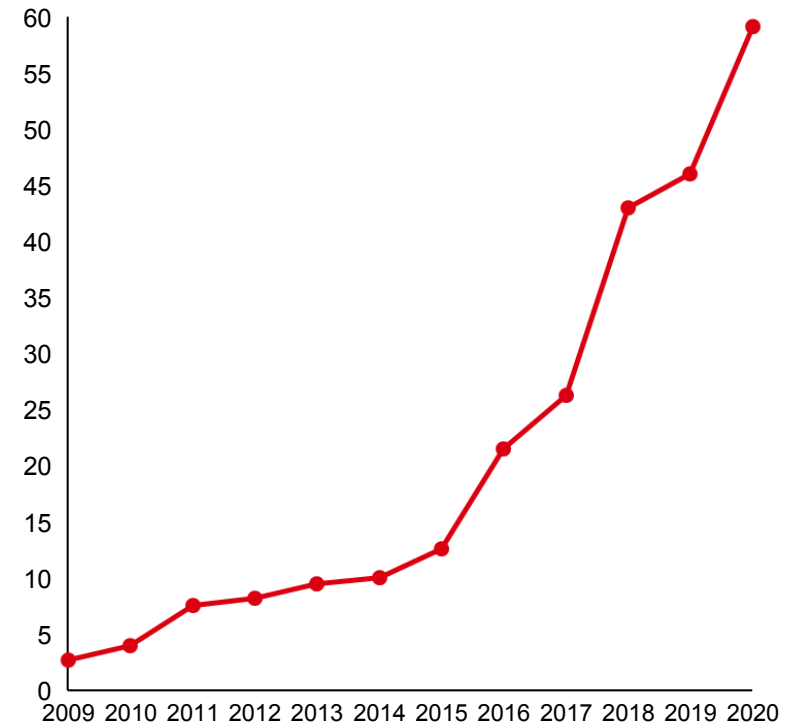
Increasing expectations from regulators and governments

Examples of catalysts

| Regulators | Examples of catalysts |
|---|--|
|  Regulators | <ul style="list-style-type: none"> Financial Stability Board (FSB) by G20 established TCFD (2015) Network for Greening the Financial System (NGFS) (2017) |
| | <ul style="list-style-type: none"> Green and sustainable banking including establishment of a Common Assessment Framework (2019) Published White Paper on Green and Sustainable Banking (2020) |
| | <ul style="list-style-type: none"> The Taxonomy Regulation entered into force (2020) |
| | <ul style="list-style-type: none"> Climate Stress test announced (2019) |
| | <ul style="list-style-type: none"> PRA sets timeline for banks and insurers to fully embed climate related financial risks by 2021 (2020) |
| | <ul style="list-style-type: none"> Abu Dhabi Global Markets, along with the Dubai Financial Markets and other financial regulatory bodies in the UAE launched the Guiding Principles of Sustainable Finance for the UAE (2019) |
| Governments | Examples of catalysts |
|  Governments | <ul style="list-style-type: none"> Legislated "Net Zero" by 2050 (2019) Hosting COP26 (2020) |
| | <ul style="list-style-type: none"> Sustainable Finance Action Plan (2018) European Green Deal (2019) |
| | <ul style="list-style-type: none"> Energy Transition Law, Article 173 (2015) French Strategy for Green Finance (2017) |
| | <ul style="list-style-type: none"> Issued Principles for Financial Action towards a Sustainable Society (2012) Published second version of Japan's Stewardship Code (2020) |
| | <ul style="list-style-type: none"> National guidelines for green financial system; green investment; green bonds; green Belt and Road (2014-2017) Consultation on Green Bond Endorsed Projects Catalogue excluding fossil fuel (2020) Pledged to be carbon neutral by 2060 (2020) |
| | <ul style="list-style-type: none"> Green Bond Grant Scheme (2019) Issued government green bond under a HK\$100 billion programme (2019) Established Green and Sustainable Finance Cross-Agency Steering Group (2020) |
| | <ul style="list-style-type: none"> MAS Green Bond Grant Scheme (2017) Launched Singapore Green Finance Centre (2020) |
| | <ul style="list-style-type: none"> ASEAN Green Bonds Standards (2017) ASEAN Social Bond Standards and ASEAN Sustainability Bond Standards (2018) |

Example: Stock exchanges with guidance on ESG disclosure¹

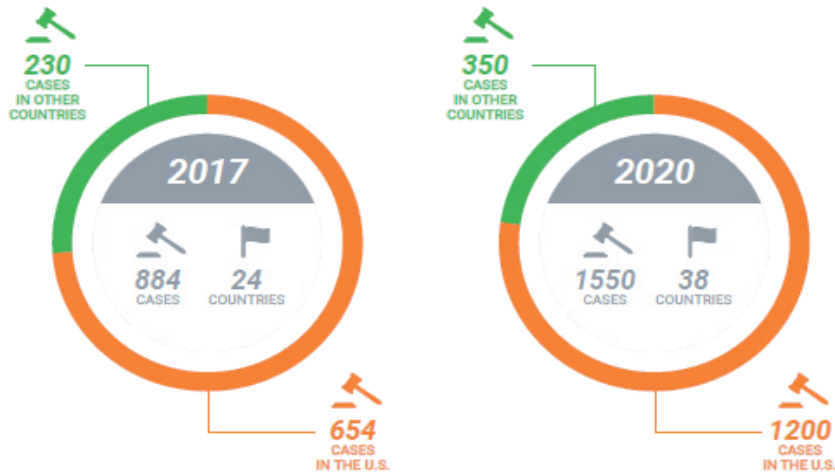
Sharp increase in guidance after SSE launches Model Guidance (number of exchanges)



Growing ESG Risks: increasing scrutiny

The Rise of Litigation

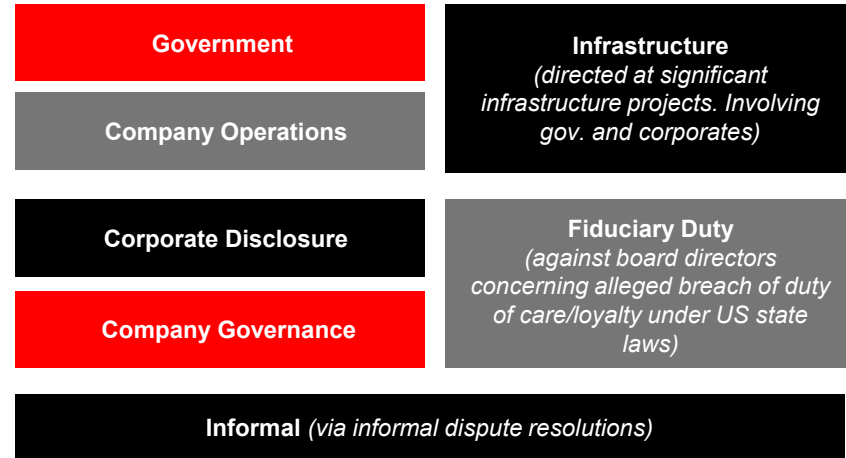
Increasing number of cases brought globally



Key Trends

- Workers' rights and human rights:** modern slavery diligence, companies' human rights policies, claims against large companies for poor health and safety conditions in their supply chain
- Diversification of ESG Matters:** COVID-19, racial equality, social justice (e.g. supply chain management; relationships with employees, contractors, and stakeholders; and risk issues governance)
- Global Brands:** Majors carbon emitters
- ESG Disclosure:** a failure / inadequate of disclosure of ESG information, allegations of greenwashing, etc.

Key Categories of ESG litigations



Recent climate litigations

MARKETPLACE
EUROPE

Court orders Shell to slash CO2 emissions in landmark climate ruling

By *Hanna Ziady, CNN Business*

Updated 2000 GMT (0400 HKT) May 26, 2021

August 26, 2021
8:36 AM CST
Last Updated 7 days ago

Finance

U.S. probes Deutsche Bank's DWS over sustainability claims - WSJ

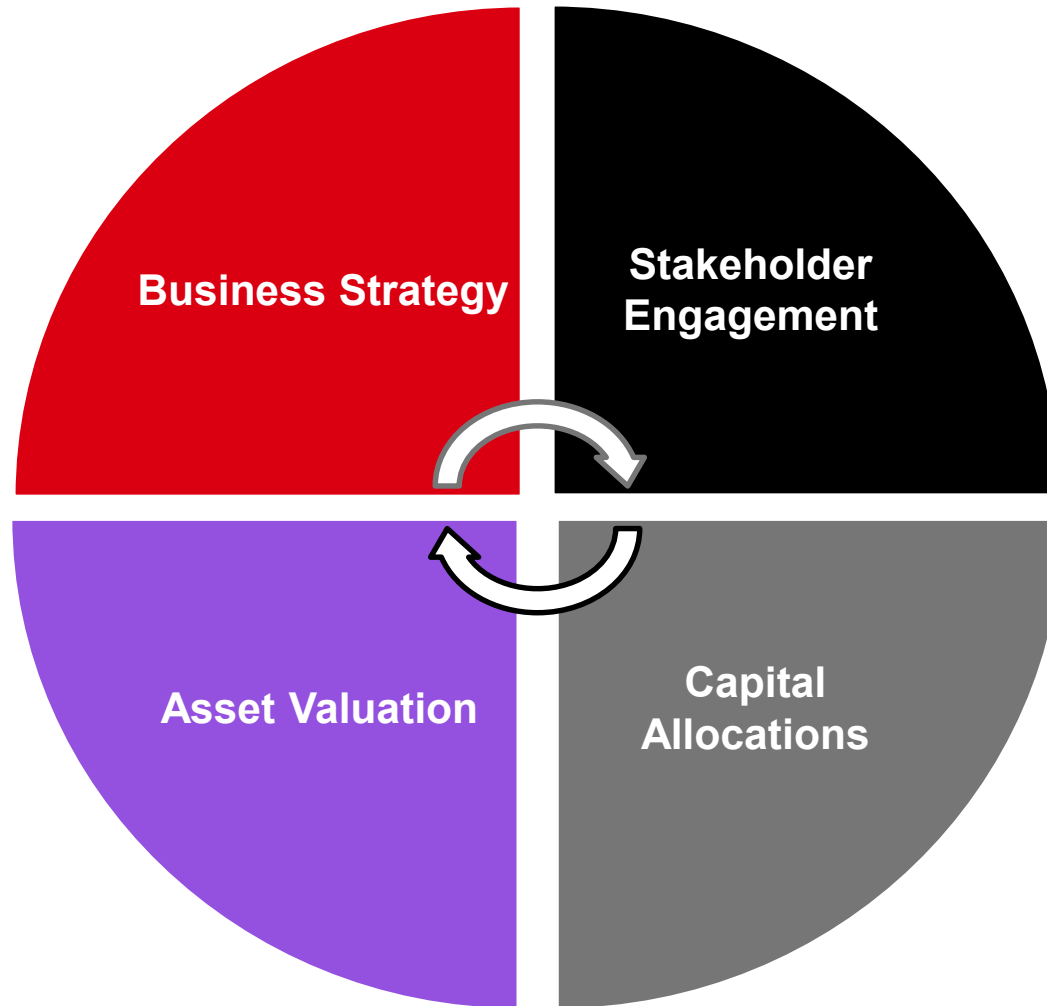
2 minute read

Reuters

Sources:

- ESG Litigation Roadmap, Latham & Watkins: <https://www.lw.com/thoughtLeadership/ESG-litigation-roadmap>
- Global trends in climate change litigation: 2020 snapshot, CCCEP, July 2020: https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2020/07/Global-trends-in-climate-change-litigation_2020-snapshot.pdf

Critical Impact of Climate Change



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Level 16 HSBC Main Building, 1 Queens Road Central, Hong Kong

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