HSBC

News Release

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ESG MOVES MAINSTREAM

******61% of investors and 48% of issuers around the world now have an ESG strategy in place******

******48% of investors cite financial returns as the top driver of their ESG decision making******

******Inconsistency of ESG definitions remain a barrier, but few issuers (8%) and investors (10%) are aware of the Task Force on Climate-related Financial Disclosures******

Research commissioned by HSBC shows that 61% of investors and 48% of issuers around the world have an Environment, Social and Governance (ESG) strategy in place – yet wide geographical differences exist. Among issuers, Europe (87%) and the UK (87%) set the pace, particularly among corporates with over USD$10 billion turnover. Hong Kong registers 13%, followed by the US at 21%. For investors, the widest disparity exists between Europe (85%) and Asia (40%).

ESG Decision Drivers

Discussion with 1,731 companies and institutional investors reveals that financial returns and tax incentives are the top two ESG decision drivers across all issuers and the majority of investors. Pension funds and sovereign wealth investors (SWFs) state regulation as their number two driver, behind financial returns. Clear geographical differences again exist. Companies with USD$10 billion turnover in mainland China and Hong Kong list supply chain initiatives as their number two driver for ESG financing. In Europe, the UK and Canada company policy, strategy, ESG goals and stakeholder pressure top the list.

Daniel Klier, HSBC's Group Head of Strategy and Global Head of Sustainable Finance, said:

"It's notable that the driver of increased disclosure has changed since 2017, where 83% of corporate issuers cited investor pressure first, followed by regulation then risk of negative publicity. This shift towards prioritising financial returns illustrates investor engagement has improved and that market forces are encouraging behavioural change. Put simply, ESG, climate finance and risk management are moving mainstream."

Allocation of Funds

Companies are consistent in their use of proceeds raised, with 66% citing internal investments to make their business greener such as new plant and machinery, or new renewable power sources. One outlier is mainland China, with almost 9% stating green M&A.

Perceived Barriers

Encouragingly, 67% of issuers and 57% of investors see no barriers to increasing their ESG commitments. Fewer than 10% of investors currently have dedicated ESG investment funds, but they expect these will grow 22% over the next year. Of those who do see barriers, 58% cite inconsistency of ESG definitions as the inhibitor. This is the number one barrier for issuers globally and the highest for investors across Europe and the UK. Investors also cite lack of investment opportunities, exacerbated by low data quality.

Low TCFD Awareness

While international regulation is cited as the number one reason to increase disclosure levels globally, only 8% of issuers and 10% of investors are aware of the TCFD's existence. The TCFD is the task force that has worked to develop a set of clear and consistent global recommendations for corporate disclosure around climate risk. For issuers specifically, only the UK (20%) and Canada (11%) have double digit levels of awareness. This is led largely by companies with USD$10 billion turnover.

Mr Klier added:

"The market is now looking to regulation to provide clarity and definition, especially as inconsistency of definitions is an issue for all. With the providers of capital looking for enhanced disclosure, and TCFD providing a framework for doing so, implementing the recommendations is now a pressing global priority."

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Note to editors:

About the report

The reporting is based on direct interviews with 1,731 global entities, including 863 issuers and 868 investors, conducted by East & Partners over a five-week period ending 29 June 2018 Group Treasurers, CFOs, CIOs and heads of investments strategy included in the sample frame were located across Europe, North America, Asia and the Middle East. Demographic breakdowns are provided in the methodology section of the analysis report, broken down by interviewee, assets under management (AUM), annual revenue and industry distribution for the two respective segments.

HSBC Holdings plc

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