

Sustainable financing and investing survey 2021

Asia report

Rapid sustainability drive brings growth challenges



HSBC

Opening up a world of opportunity

Introduction

Asian issuers show global and regional leadership in embrace of sustainability agenda

Asian issuers are assigning high levels of importance to environmental and social issues this year, putting them ahead of their global peers and investors in the region.

Some 58% of Asian issuers say that these issues are very important to their organisation, which is the highest percentage among issuers of any region and a slight increase (56%) on the those who said the same last year (Fig 1). By comparison, 32% of Asian investors said these issues are very important to them.

What’s more, almost all Asian issuers (96%) say they have increased their focus and attention on environmental issues, social issues or both in the past 12 months, with 60% of them – a regional high – focusing on environmental issues. For their part, some 72% of Asian investors have also increased their attention to these issues from last year, indicating the strength of momentum supporting sustainable economic change in the region.

Yet this year, issuers in particular seem to be driving Asia’s sustainability agenda, and leading investors on some key measures. For example, some 12% of Asian issuers have already made a net zero commitment and 76% (notably higher than the global average of 67%) say they are working towards making one. In contrast, some 9% and 25% of the region’s investors, respectively, say the same.

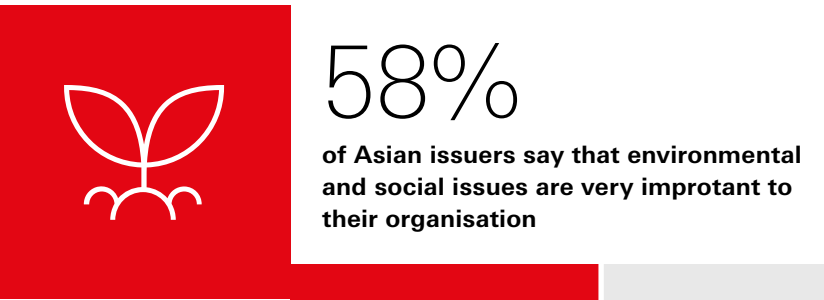
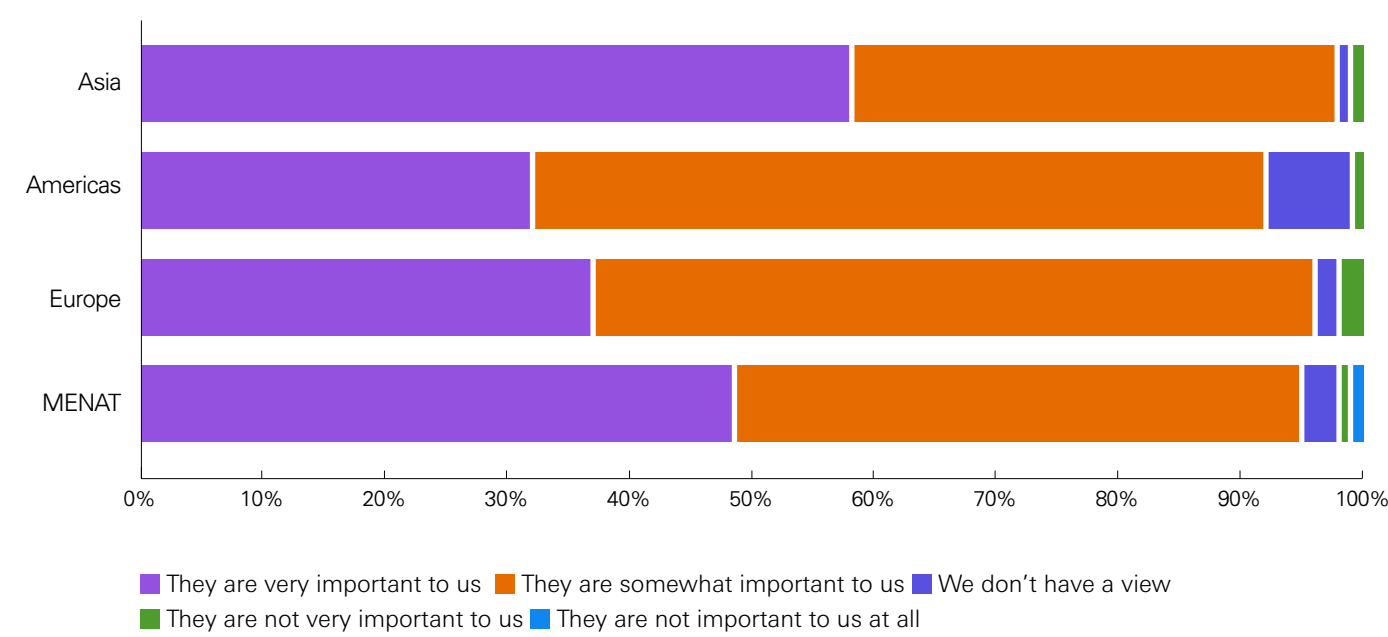
By country, some 13% of China issuers, and 10% and 6% of issuers in Singapore and Hong Kong SAR, respectively, say they have already made commitments. By comparison, 8% of Singapore investors, 6% of China investors and 4% of investors in Hong Kong SAR say the same.

Together with this, more than three quarters of Asian issuers (led by 79% of China issuers) say they expect their company to actively seek advice on green, social or sustainability issues in relation to capital markets transactions in the next 12 months – the highest percentage of any region.

So what’s driving issuers’ embrace of these issues? China’s powerful policy push on developing a greener more sustainable economy has been an important catalyst, influencing activity across the region. But especially important this year for issuers has been key stakeholder groups.

Indeed, pressure from employees (55% - up from 13% last year) and customers (48% - up from 28%) are the top two reasons why Asian issuers care about these issues. In stark contrast, less than 5% of Americas issuers see these issues as important reasons to care, significantly lower than the percentages last year. (Fig 2 – see next page).

Figure 1: Asian issuers assign high levels of importance
What is your organisation’s attitude to environmental and social issues?



2021 Key Findings:

- ♦ **Strategic importance** – 58% of Asian issuers say **environmental and social issues are very important to their organisation**, which is a slight increase on last year (57%) and the highest percentage among issuers globally.
- ♦ **Reasons to care** – Three clear factors underpin **why Asian issuers care about environmental and social issues**: Pressure from employees (53%); pressure from customers (48%); and regulatory requirement (45%).
- ♦ **Reasons to care** – Three clear factors underpin **why Asian investors care** about these issues: Regulatory requirement (46%); belief that its right to care about the world and society (41%); recognition that paying attention to these issues can improve returns or reduce risk (42%).
- ♦ **Net zero progress – Asian investors and issuers** are making progress on setting carbon neutral or ‘net zero’ commitments but trail other regions; 9% of investors and 12% of issuers have already made a commitment, among the lowest percentages globally.
- ♦ **ESG investing opportunity – Asian investors are trailing investors in other regions** on having a firm-wide policy on responsible investing or ESG issues – 40% of them say they have such a policy, the second lowest percentage after MENAT.
- ♦ **ESG skills gap** – Of those Asian investors who say they are being held back from pursuing ESG investing more fully and broadly, most (41%) **say the main reason is a shortage of expertise or qualified staff**, the second highest percentage globally.
- ♦ **Disclosure drive** – Some 61% of Asian issuers say **the level of disclosure** they currently make on environmental and social issues is about right, with 34% saying they expect it to increase and consider that a good development
- ♦ **Issuers examined** – Most Asia investors say the information disclosed by companies on their **environmental performance** is inadequate (48%). Some 36% say it is adequate, and 16% excellent.
- ♦ **Issuers examined** – Most Asia investors say the information disclosed by companies they invest in on their **social performance** is inadequate (42%). Some 37% say it is adequate, and 21% excellent.
- ♦ **Green and sustainable finance** – Some 73% of Asia issuers say they expect their company to actively seek advice on green, social or sustainability issues in relation to **capital markets transactions** in the next 12 months – the highest percentage of any region.



Key drivers

Motivations to drive ESG change

Across industries globally, employees and customers are putting increasing pressure on companies to commit to and engage with environmental and social issues. Evidently Asian issuers are feeling that pressure – and responding to it – more than most.

Issuers also say regulatory requirements are one of the main reasons to care about environmental and social issues, but it is more prominent for their investor peers. In fact, some 46% of investors - up from 30% last year – say regulation is most important in shaping their attitudes to these issues, followed by their belief that paying attention to these issues can help improve returns or reduce risk (42% - slightly down on 45%), and that it is right to care about the world and society (41% - up from 33%).

ESG investment regulation is evolving across regions. Perhaps the most significant advances have been made in Asia – China particularly – and in Europe. Interestingly, European investors are the only other investors to give regulatory requirement as the leading reason to care.

Values and the financial benefits of focusing on these issues are also clearly important to Asian investors, so too is responding to pressure from customers and employees. Yet Asian investors see these stakeholders as less of a driver for them than their issuer peers.

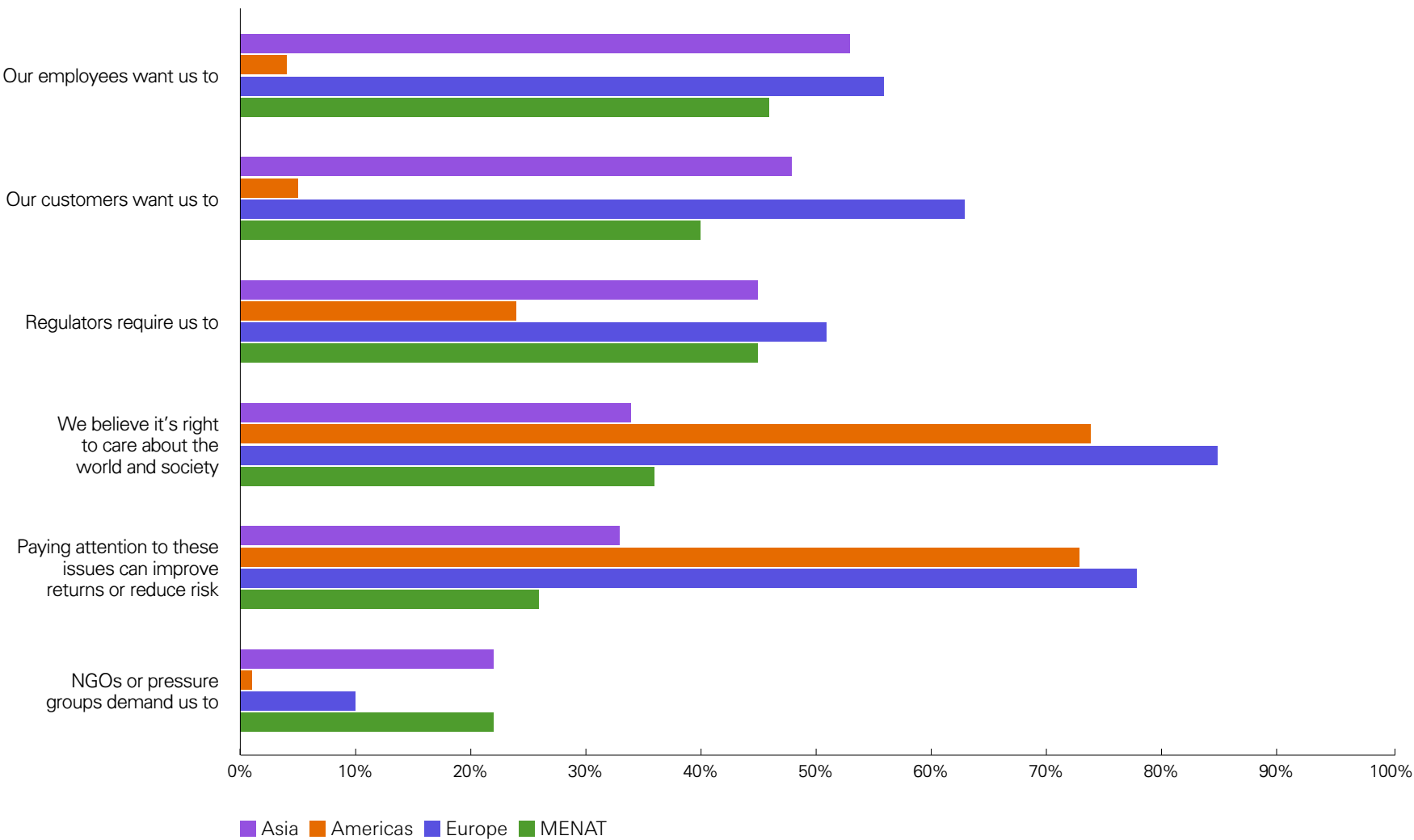
Differences in view between issuers and investors are to be expected; different institutions are impacted in different ways. Yet, there is alignment between them across areas, too, and particularly in demonstrating how they are thinking and responding to environmental and social issues in their business and activities.

For instance, some 75% of issuers say they expect to change their business model and allocation of capital - noticeably or substantially - away from activities challenged by environmental and social issues in the next two years. For investors, some 40% say they have a firm-wide policy on responsible investing or environmental, social and governance (ESG) issues, and 35% intend put one in place.

While this may be low compared to other regions, it still demonstrates progress and commitment. One reason perhaps, which is restricting a more widespread adoption, is a relative lack of ESG talent.

Of those investors who say they are being held back from pursuing ESG investing more fully and broadly, some 41% of them – up from 26% last year and the second highest percentage regionally behind MENAT – say that a shortage of expertise or qualified staff is a key reason why.

Figure 2: Employees and customers influential for Asian issuers
Why does your organisation care about social and environmental issues?



“Across industries globally, employees and customers are putting increasing pressure on companies to commit to and engage with environmental and social issues. Evidently Asian issuers are feeling that pressure – and responding to it – more than most.”



53%
of Asian Issuers care about social and environmental issues because their employees want them too

Environmental and social impact

Changing and transformative models

Change can happen fast in Asia. For the region’s issuers, they are expecting rapid and more significant transformation of their business models and capital allocation than their peers over the next two and five years.

This transformation is happening in two directions – away from activities challenged by environmental and social issues, and towards activities that promote positive environmental and social outcomes (Fig 3).

On the first, some 75% and 81% of Asian issuers say they expect noticeable or substantial change to their models and capital allocation over the next two and five years – the highest percentages of any region. On the second direction – towards activities that promote better outcomes – Asian issuers expect just as much change. In fact, some 78% say noticeable or substantial change is likely to happen in the next two years, while 77% say they expect the same in the next five years.

There is greater alignment with other regions on this area, such as with Europe over a five year period. But it is striking the extent to which Asian issuers expect such a huge transformation in their business models and capital allocation.

One key contributor to this is the increasing pressure on companies to cut emissions. Committing to achieving carbon neutrality or net zero by a certain date, such as 2050, is a new imperative for governments, companies and investors the world over. For their part, Asian issuers are making progress on setting



targets – some 12% of them have already made commitments, just behind issuers in the Americas (17%) and Europe (24%). Progress is also being made by Asian investors – some 9% say they have made a commitment, which is similar to their Americas peers but far behind European investors (39%).

Reducing emissions is paramount to slowing global warming and better managing climate change, which for 41% of Asian issuers and investors, is the most urgent threat to humanity and biggest challenge of our times.

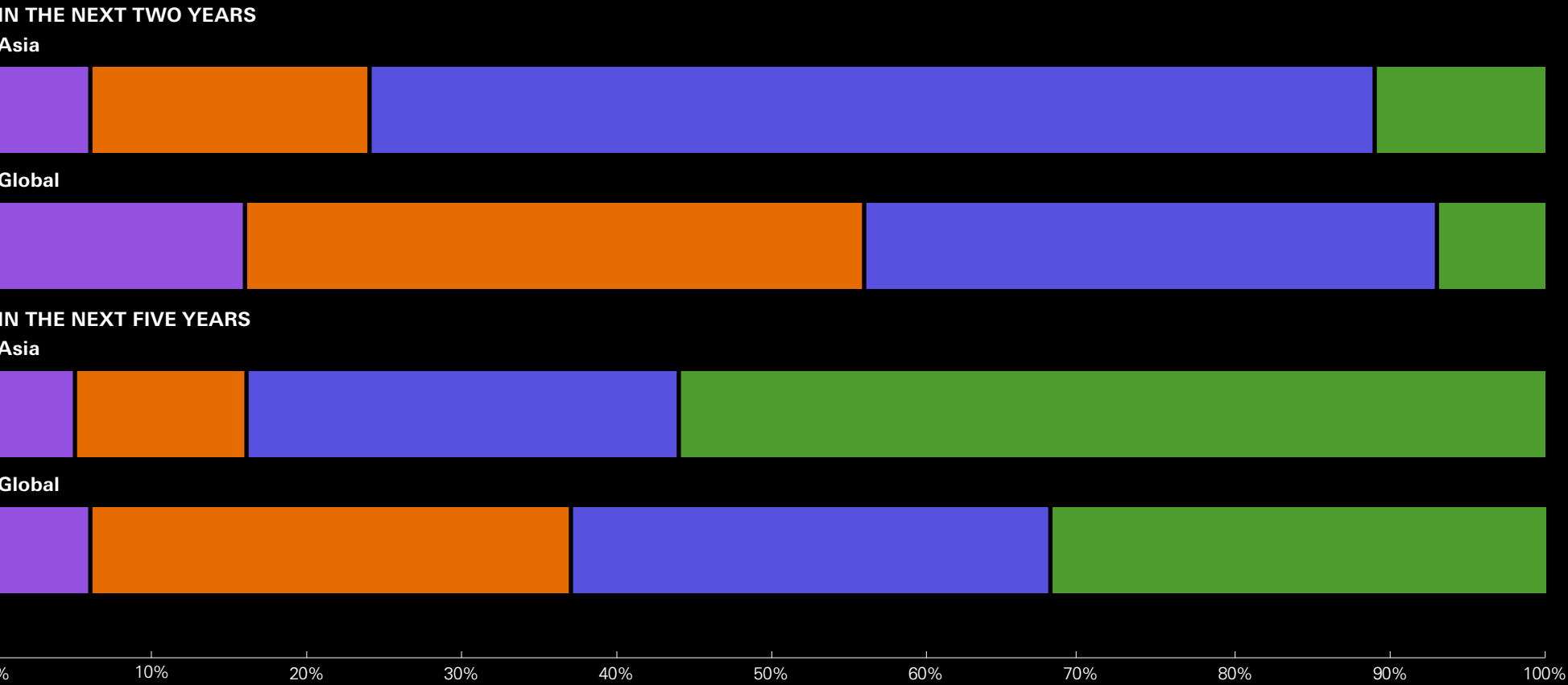
Asian companies are acutely aware of this; some 61% of issuers say climate change is already affecting their business or activities – the second highest regional percentage after issuers in the Americas (66%). By country, more Singapore issuers (68%) say they are being affected than any other country in Asia.

Asked what they are doing to prepare for or lessen the impact of climate change, most (75%) issuers said they are being proactive and seeing an opportunity to increase some business activities or start new ones that could benefit from the economic changes climate change will bring about.

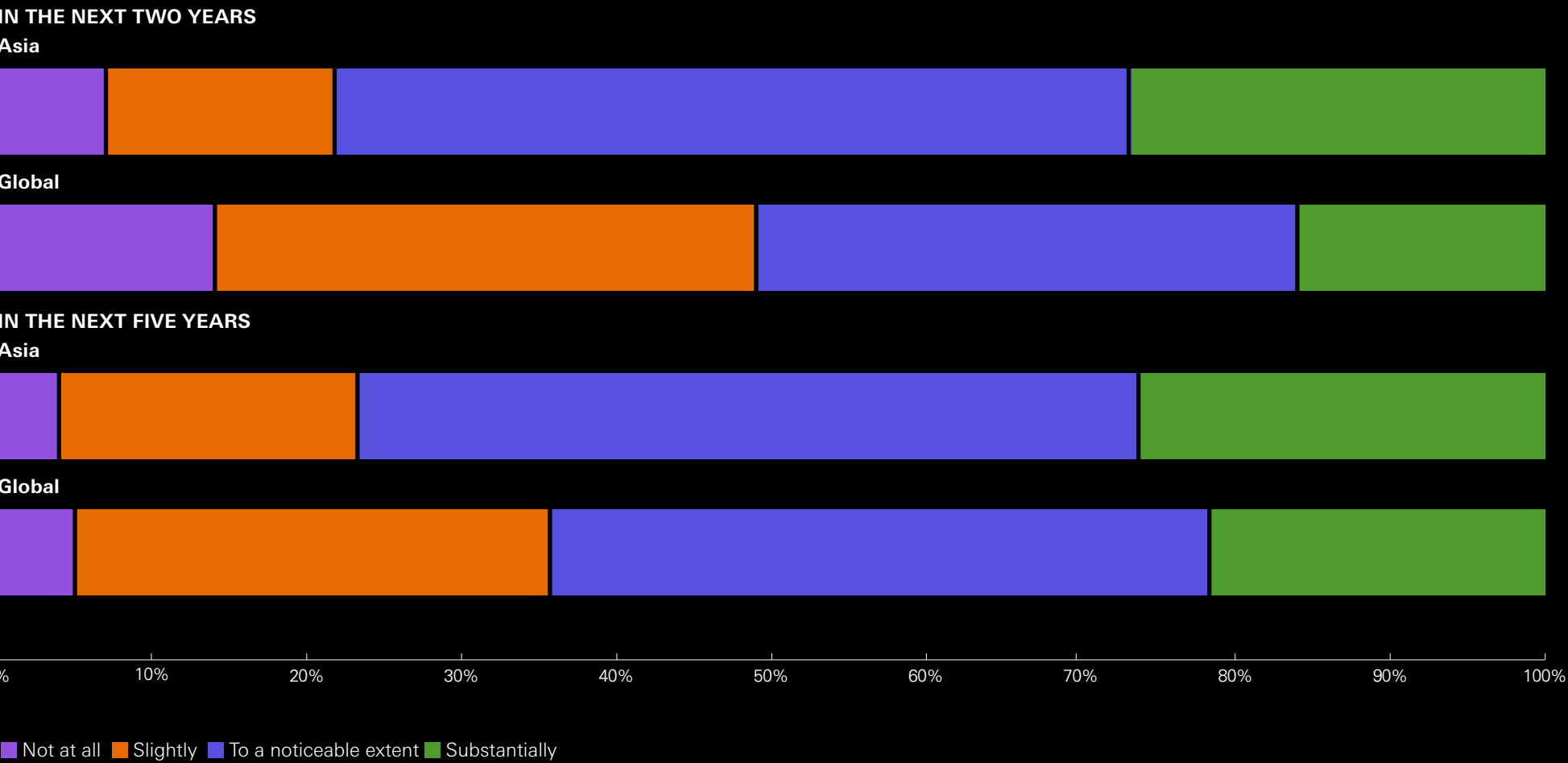
By comparison, only 27% of issuers said they would reduce or get out of some businesses vulnerable to climate change, which may suggest they have already made substantial re-adjustments to their asset portfolios.

“More than 75% of Asian issuers say they expect noticeable or substantial change to their models and capital allocation over the next two and five years – the highest percentages of any region.”

Figure 3: Asian issuers expecting big transformation over the next few years
Do you expect your organisation to change its business model and allocation of capital away from activities challenged by environmental and social issues?



Do you expect your organisation to change its business model and allocation of capital towards activities that promote positive environmental or social outcomes?



ESG investment

Asian ESG investing experiences growth challenges

Institutional investors across Asia are embracing ESG and more responsible investing, and this commitment is likely to grow even stronger – about half (49%) of the investors we surveyed say there is nothing holding them back from pursuing this type of investing more fully and broadly.

Yet, as with all developing financial markets, investors will encounter challenges. For the other half (51%) of investors who said they are being held back by certain issues, most of them (41% - up from 26% last year and the second highest regional percentage) said the shortage of expertise and qualified staff was the main reason why (**Fig 4**).

By country or territory, this issue seems to be less of an issue in Hong Kong SAR (27% of issuers there say the shortage is a problem) than it is in China (43%) and Singapore (41%).

In general, this is a global and cross-industry issue as soaring demand for ESG talent has outstripped supply. But clearly some regions, especially Asia and MENAT, are seemingly more adversely impacted than others such as Europe and the Americas, according to our survey.

It is difficult to pinpoint exactly why this is. It could be that ESG adoption in Asia has been slower than other regions, and a shortage of experienced talent is symptomatic of that.

Other issues holding Asian investors back include a lack of comparability of ESG data across issuers (32% - down from 46%), regulatory or legal constraints (30% - up from 28%), and a lack of attractive investment opportunities (30% - up from 11% last year). These are some of the same issues encountered by investors elsewhere.



Such challenges may frustrate progression, but they do not prevent it. Asian investors are continuing to embrace ESG investing, albeit at their own, slower pace; some 40% of them this year say their organisation has a firm-wide policy on responsible investing or ESG issues – the second lowest percentage regionally after MENAT – while a further 35% say they intend to have one in place in the future (**Fig 5**).

Interestingly, across the Asian countries we surveyed, Chinese investors seem to trail their peers elsewhere in the region. While a third of them have a policy in place – lower than the regional average of 40% – this is notably fewer than investors in Hong Kong SAR (42%) and Singapore (48%). Of the key components composing their policies, or that are expected to compose their policies, most Asian investors (48% - up from 40% last year) say an approach for identifying material ESG issues for investments – the leading response in most other regions except for MENAT. Other key areas include stewardship principles (36% - up from 26%), disclosure on the ESG characteristics of selected portfolios (35% - up from 33%), and impact goals or metrics used as part of investment decision-making (37% - up from 33%).

All this points to ESG becoming increasingly core to the investment decision making of Asian investors, but there is still some way to go before it is; 18% say they always take into account the issuer’s ESG credentials and performance when making an investment.

This is higher than for investors in MENAT (16%), but lower than European capital providers (26%) and the Americas (44%).

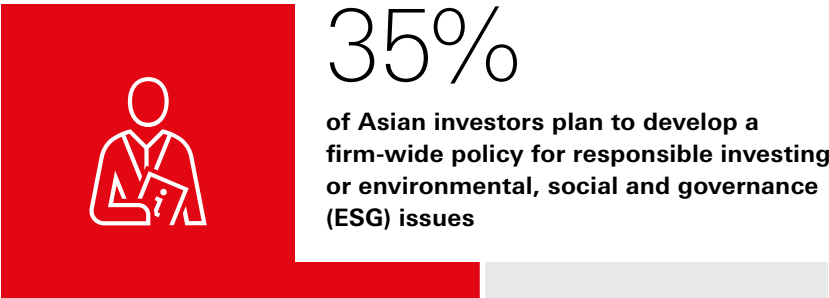


Figure 4: Shortage of ESG skills hindering Asian investors
What is holding back your organisation from pursuing ESG investing more fully and broadly?

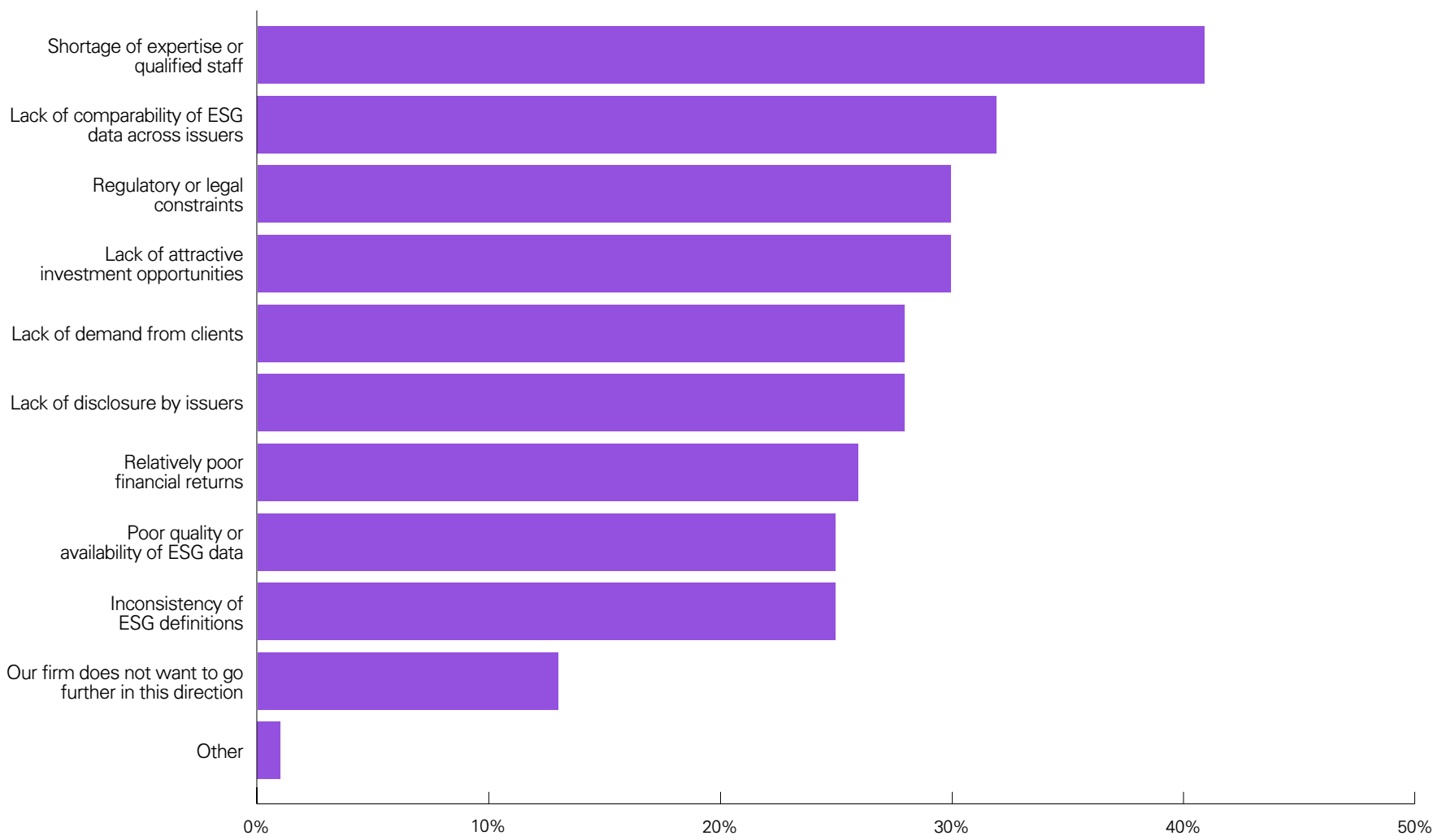
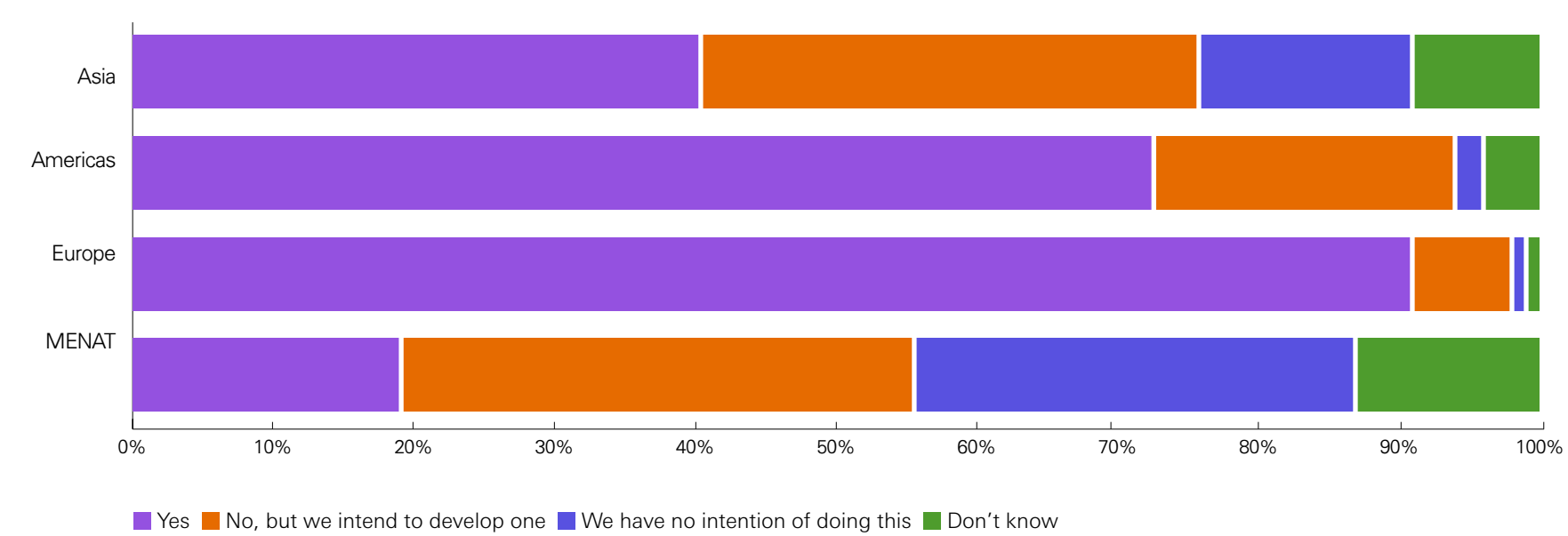


Figure 5: Asian investors trail their European and Americas peers
Does your organisation have a firm-wide policy on responsible investing or environmental, social and governance (ESG) issues?



Disclosure

Asian investors call for more

Similar to their peers elsewhere, most Asian issuers (57%) feel that the level of disclosure they make on environmental and social issues is about right and they do not feel there is any pressure to increase it.

Asian issuers do, however, stand out in their acceptance that the level of disclosure is likely to increase and that this is ultimately a good thing – some 34% (up from 18% last year) of them think this, which is notably higher than their peers in Europe (20%) and the Americas (15%).

In particular, some 40% of Singapore issuers give this response – the highest percentage across the region. By comparison, 37% of issuers in China and 28% of issuers in Hong Kong SAR say the same.

Part of this obviously reflects a view among these issuers that they are not disclosing enough information, whether voluntarily or under legal requirement.

Importantly, Asian investors think that companies being legally obliged to make disclosures would be most helpful to them in trying to invest sustainably. Also important are accounting rules being reformed so company accounts include sustainability data, and companies improving their disclosure voluntarily.

These are some of the same needs of investors in other regions. There are differences in view, too, and especially in how investors assess the quality of information issuers currently provide.

Indeed, Asian investors, together with their peers in MENAT, most clearly judge environmental disclosures provided by companies they invest in as inadequate. (**Fig 6**).

In fact, about half of investors in these two regions say this, compared to about a fifth of investors in the Americas and 38% of investors in Europe. Some issuers in the region are, however, clearly doing a better job: 36% of Asian investors think companies’ environmental disclosures are adequate and 16% say they are excellent.

On social disclosures, Asian companies receive marginally better marks from investors. While 43% judge the information is inadequate, some 37% say it is adequate, and 21% excellent.

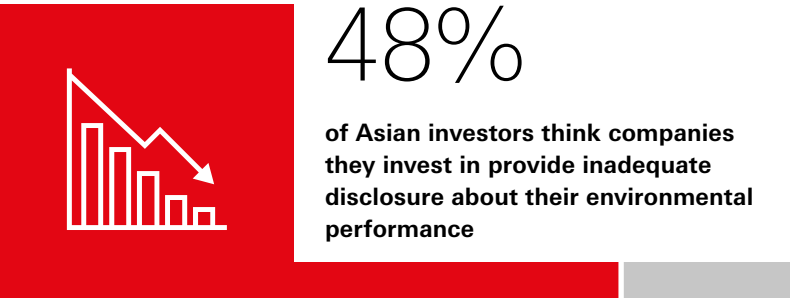
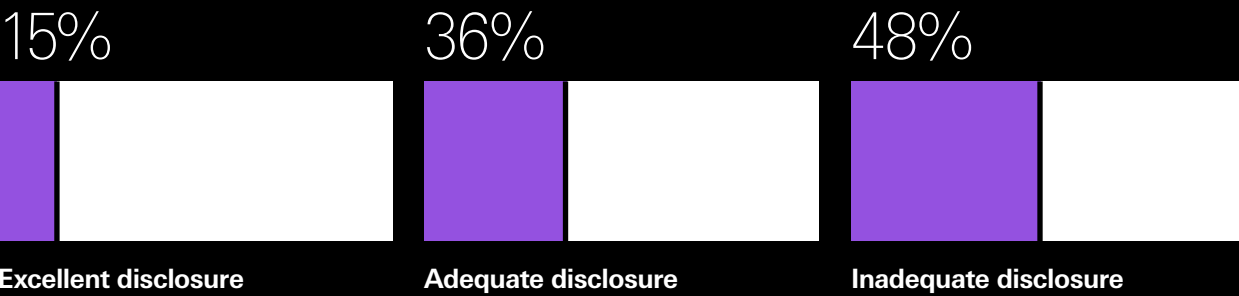
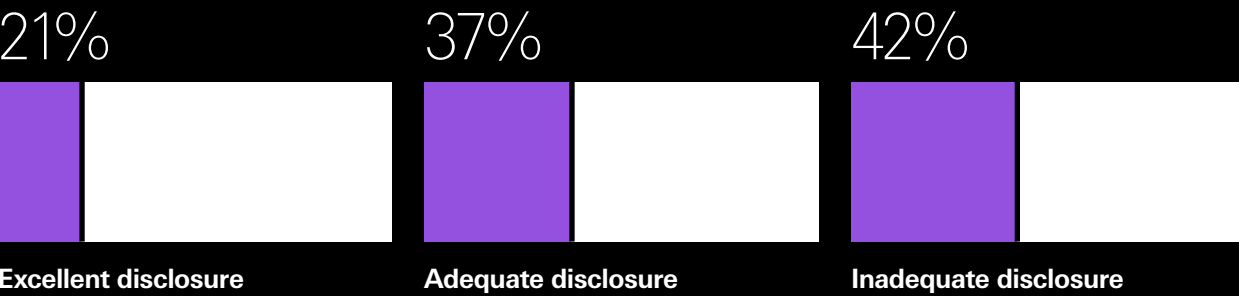


Figure 6: Asian investors judge environmental disclosure
How good is the information companies you invest in disclose about their environmental performance?



How good is the information companies you invest in disclose about their social performance?

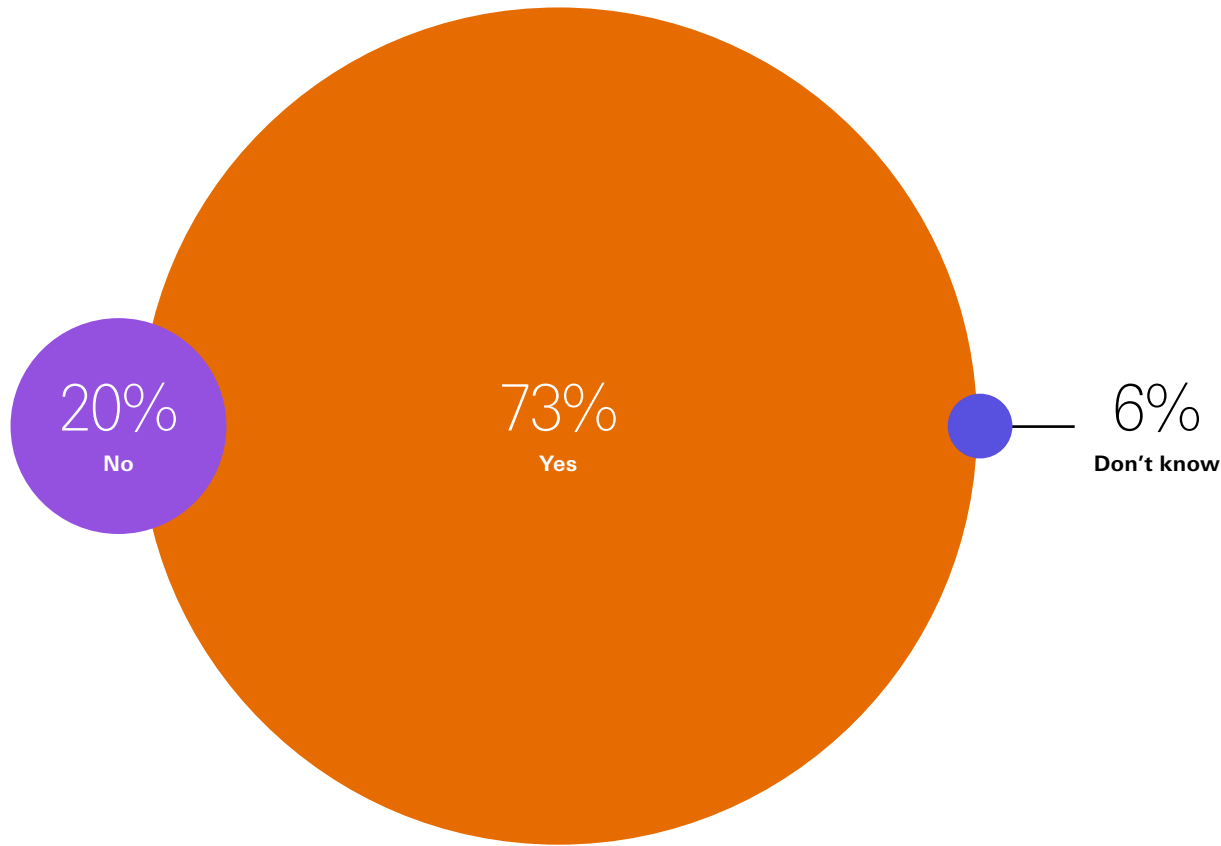


“Asian investors think that companies being legally obliged to make disclosures would be most helpful to them in trying to invest sustainably.”

Sustainable finance

Issuers and investors target sustainable debt and infrastructure projects

Figure 7: Asian issuers show the strongest appetite for sustainable finance
In the next 12 months, do you expect that your company will actively seek advice on green, social or sustainability issues in relation to capital markets transactions?



Asian issuers have been increasingly attracted to the green and sustainable debt markets in the past few years, providing some propulsion to record year-on-year issuance growth globally.

Indeed, to the beginning of June, Asian issuers – led by Chinese and South Korean public and private sector borrowers – had issued a record \$69 billion of green and sustainability-linked bonds. Our survey indicates that such strong interest in sustainable finance looks set to continue.

Asked if they expect their company to actively seek advice on green, social or sustainability issues in relation to capital markets transactions in the next 12 months, and a striking 73% of Asian issuers said they expected this to happen – the highest percentage of any region. (Fig 7)

Appetite in Asia is clearly high, driven by government and regulatory support, and a desire among issuers to diversify their funding and demonstrate their commitment to sustainability.

On the investor side, this interest extends to sustainable energy projects, in which an emphatic 63% of Asian investors say they are interested in investing in, and of them some 18% are already doing so. Of multiple investment opportunities, investors say the most interesting projects for them to invest in are: Solar power (30%); water and wastewater infrastructure (27%); wind power (21%); smart cities and grids (20%); and electric vehicles and transport (20%). (Fig 8)

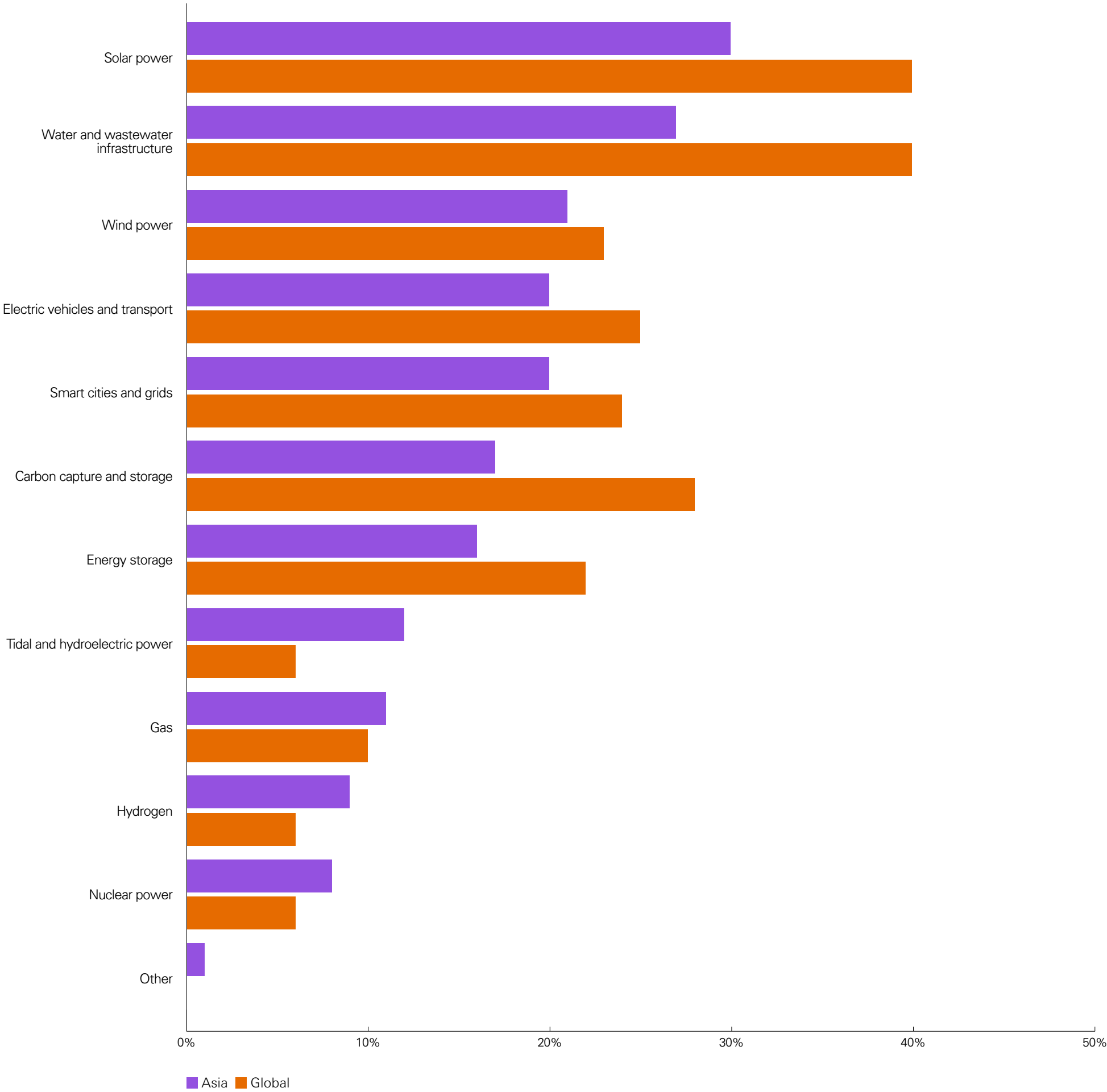
Asian investors were similarly keen on renewable power generation last year – wind, solar, tidal and hydroelectric power were the second most attractive opportunity after lower carbon forms of hydrocarbon energy – but this year smart cities and grids have risen notably, essentially replacing carbon capture and storage as one of the top opportunities.

Across the regions there is variation in the results, but solar power is also the leading opportunity in Americas and MENAT. Interestingly, European investors are most interested in carbon capture and storage, though solar power generation is in the top three. Asian investors clearly see the opportunity to invest in clean energy and electric transportation, as well as the smart and more sustainable cities of the future.

More broadly, Asian investors are seeing and increasingly embracing the opportunity to invest sustainably and are catching up to their global peers. A shortage of experienced talent in the region may be hindering their progress, but it is not preventing it.

On the issuer side, they are leading the sustainable charge, increasingly positioning environmental and social issues at the core of their corporate growth and development strategies. In turn, this is providing investors with greater ESG-focused investment opportunities, which will likely continue to expand.

Figure 8: Asian investors’ interest in solar shines through
Which of the following types of sustainable infrastructure projects would you be most interested in investing in?

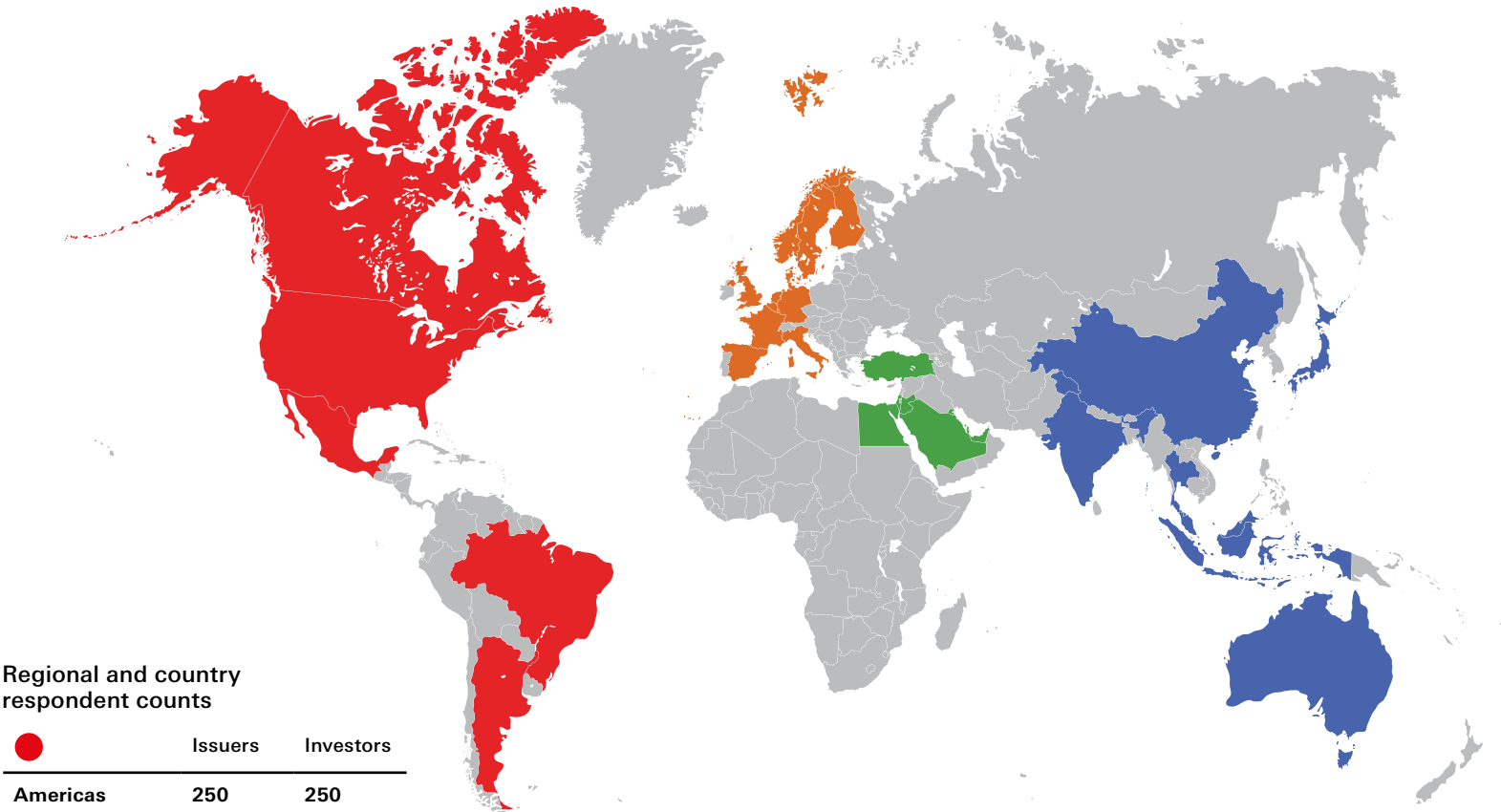


Methodology

The HSBC Sustainable Financing and Investing Survey 2021 is an annual global survey of 2,000 capital market issuers and institutional investors. The survey was run during May and June and was designed and executed by Euromoney Institutional Investor PLC.

Respondents were split evenly between 1,000 issuers, from across 19 industries, and 1,000 institutional investors, including asset allocators and asset owners. In total, respondents were based in 34 territories across the regions of Americas, Europe, MENAT and Asia.

Issuer respondents held senior positions in the CFO office, and in finance, treasury, risk and investments. Investor respondents held senior positions in the CIO and CFO office, in portfolio and fund management and investment.



Regional and country respondent counts

●	Issuers	Investors
Americas	250	250
US	126	126
Canada	50	50
Argentina	21	23
Brazil	30	30
Mexico	23	21
●	Issuers	Investors
MENAT	150	150
Saudi Arabia	50	50
United Arab Emirates	50	50
Bahrain	5	12
Egypt	15	11
Kuwait	12	11
Qatar	10	11
Turkey	8	5

●	Issuers	Investors
Europe	276	276
United Kingdom	76	76
France	50	50
Germany	50	50
Italy	20	19
Spain	24	26
Denmark, Sweden, Norway, Finland	27	30
Belgium, Netherlands, Luxembourg	29	25

●	Issuers	Investors
Asia	324	324
Mainland China	100	100
Hong Kong SAR	50	50
Singapore	50	50
Malaysia	22	21
India	20	21
Indonesia	20	22
Thailand	21	17
Japan	22	20
Australia	19	23
TOTAL	1,000	1,000

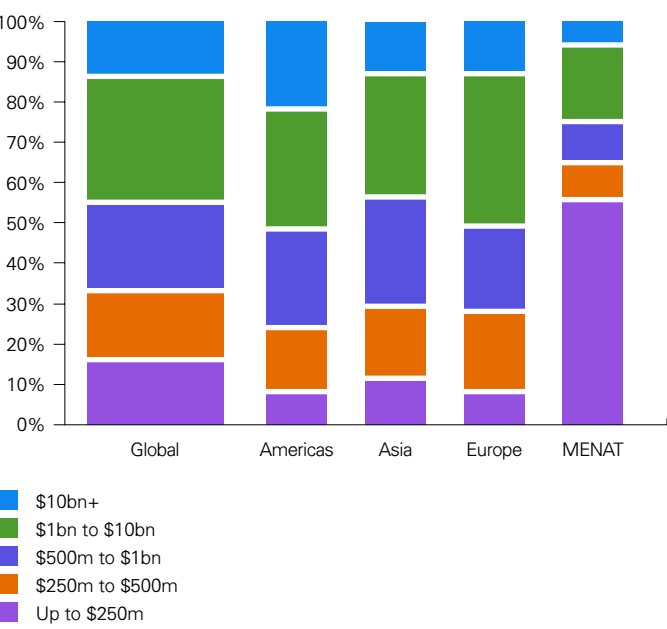
Issuers by industry/sector

Banking	90	Transport	60	Metals and mining	40
Retail and consumer services	90	Consumer goods	60	Building materials	30
Real estate	80	Industrial goods	50	Electricity and water	30
Information technology	80	Agriculture, food, beverages, tobacco	50	Local government	10
Healthcare	70	Insurance	50	Supranational organisation	0
Telecoms	70	Other	40	Central government	0
Oil, gas, coal and chemicals	60	Business services	40		

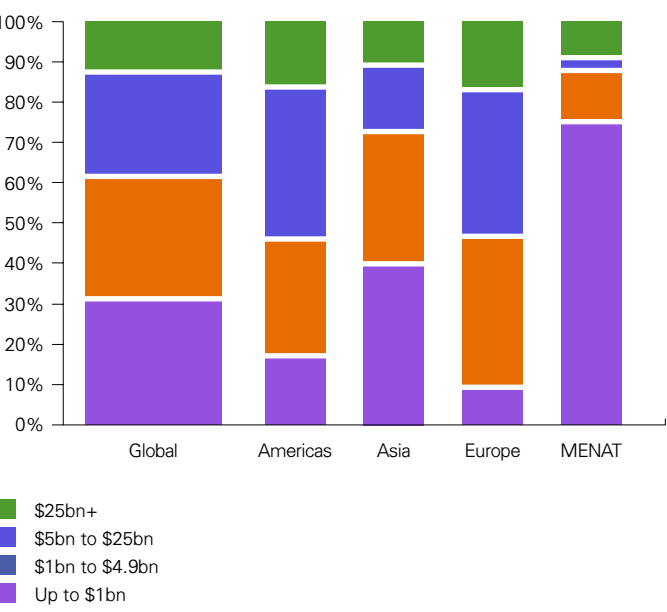
Investors by institution type



Issuers by annual revenue



Investors by AUM



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