

AVISTA INSIGHTS

IPO Journey:

The Importance of ESG in IPO Process

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The initial public offering (“IPO”) journey has never been straightforward. In addition to business-related financial metrics, evolving stakeholder expectations and heightening regulatory demands for resilient growth supported by well-articulated Environmental, Social and Governance (“ESG”) strategy and performance have indicated that ESG and climate-related corporate mandates growingly tip the scales when it comes to a company’s successful IPO and overall performance. Against the backdrop that regulatory authorities and capital markets around the world are demanding transparent ESG disclosures from companies looking to go public, while IPO-ready companies align themselves with enhanced regulatory frameworks, some of them even make ESG practices front and center in their IPO roadshow phase to gain access to the pool of capital from international ESG-focused investors.

The ESG reporting landscape is moving toward globally standardized disclosure frameworks on climate and sustainability-related matters through closer and multilateral economic cooperations. But that as it may, the existing disclosure requirements among global stock exchanges still vary. The Hong Kong Stock Exchange (“HKEX”) has imposed mandatory ESG reporting and disclosure requirements on IPO applicants and listed issuers to provide investors and other capital market participants with information about their ESG-related risks and opportunities to help them make informed decisions. The China Securities Regulatory Commission (“CSRC”) has also published new rules and guidelines to put emphasis on ESG contents and risk management as a part of the updated communication content. Meanwhile, the U.S. Securities and Exchange Commission (“SEC”) has proposed new climate disclosure rules to strengthen and standardize climate disclosure requirements for registrants with an aim of providing consistent, comparable, and useful information for investors. It is a sine quo non for companies seeking to go listed to satisfy increasingly stringent regulatory regimes on ESG and climate-related disclosure.

Overview of Latest ESG Disclosure Requirements in Hong Kong, China and the U.S.

Region	Latest Development of Regulatory Requirements
Hong Kong	<ul style="list-style-type: none"> ◆ In December 2019, the HKEX ESG Reporting Guide was enhanced and social key performance indicators (“KPIs”) were upgraded to “comply or explain” provisions ◆ In July 2020, the HKEX added additional ESG disclosure requirements for new IPO applicants, requiring board’s involvement in formulating ESG management mechanisms and policies ◆ In November 2021, the HKEX published an analysis of IPO applicants’ corporate governance and ESG practice disclosure in 2020/21 ◆ In November 2021, the HKEX published the Guidance on Climate Disclosures to direct towards mandatory Task Force on Climate-Related Financial Disclosures (“TCFD”)-aligned climate-related disclosures by 2025
China	<ul style="list-style-type: none"> ◆ In June 2021, the CSRC updated the annual report requirements for listed companies with specific ESG-related disclosure standard and format ◆ In May 2022, the State-owned Assets Supervision and Administration Commission of the State Council (“SASAC”) announced its target to have all listed companies controlled by central enterprises publishing ESG reports by 2023
The U.S.	<ul style="list-style-type: none"> ◆ In March 2022, the SEC proposed climate-risk disclosure for registrants to include in their periodic reports ◆ Issuers will also be required to include climate-related disclosures in their registration statements for IPO purpose

SOURCE: AVISTA Research, HKEX, CSRC, SASAC, SEC

The HKEX ESG Requirements for IPO Applicants and Future Developments

Current Requirements

Further to the amendment to the HKEX Guidance Letter GL86-16 for new IPO applicants made in May 2019 to require disclosure on environmental policies, the process used to identify, evaluate and manage significant ESG risks and gender diversity of the board, additional ESG disclosures were subsequently added to the updated Guidance Letter in 2020, requiring directors’ involvement in the formulation of ESG management mechanisms and policies. The HKEX also reviewed IPO applicants’ practices on ESG in 2020/21 and stressed the importance of conducting ESG risk assessment and management before listing.

Key Observations and Upcoming Trends

The regulatory review process for IPOs in Hong Kong has a strong focus on the quality and accuracy of prospectus disclosures. Apart from the increased concerns over ESG policies, procedures, risks, and disclosed metrics, regulators may challenge the level of due diligence conducted by management and sponsors and the basis of ESG-related information and data. Therefore, it is important for IPO applicants to perform due diligence of ESG disclosures and conduct assurance of ESG-related information. This could require the collection of large number of documents and the adjustment of prospectus disclosure statement which may result in increased effort and prolonged time for the review process.



Gearing Up for ESG before IPO

The requirements in ESG disclosure have inevitably created challenges to IPO applicants. Rather than “nice-to-have”, it is crucial for IPO applicants to incorporate ESG into their business before listing. IPO applicants should establish their sustainability governance structure of which the board should shoulder the ultimate responsibility for overseeing ESG matters. An ESG-ready company should develop a holistic and robust ESG strategy with areas of focus to guide actions, drive performance, engage stakeholders and create impact. By adopting a systematic management approach to identify, assess, and mitigate ESG-related risks in business operations, companies will be well positioned for better resilience. A set of metrics and KPIs with targets and goals will enable companies to measure, monitor and evaluate their ESG performance to advance sustainability. Companies looking to go public should get prepared early to ensure compliance with regulatory requirements.

ESG Essentials for IPO Applicants

Aspects	Disclosure Requirements	How to Get Prepared
Governance and Strategy	<ul style="list-style-type: none"> ◆ The Board’s oversight of ESG issues, and ESG management approach and strategy 	<ul style="list-style-type: none"> ◆ Establish a robust ESG governance structure to facilitate the decision making and risk management process ◆ Conduct a materiality assessment to prioritize the key concerns of stakeholders
Risk Management	<ul style="list-style-type: none"> ◆ Process used to identify, evaluate, prioritize and manage significant ESG (including climate-related) risks 	<ul style="list-style-type: none"> ◆ Incorporate ESG risks into the corporate risk management process, including climate-related risks (both physical and transitional risks)
Policy	<ul style="list-style-type: none"> ◆ Environmental policies (including climate-related policies) ◆ Social policies (including employment practices and health and safety policies) 	<ul style="list-style-type: none"> ◆ Perform a compliance gap analysis on ESG policies ◆ Formulate related policies with action plan and measures to manage the key ESG issues
Targets and Metrics	<ul style="list-style-type: none"> ◆ How the group assess and manage ESG (including climate-related) risks (e.g. metrics and targets used to assess and manage identified risks) 	<ul style="list-style-type: none"> ◆ Establish quantitative and qualitative ESG metrics and targets to assess and manage material ESG risks ◆ Establish a data collection mechanism

SOURCE: AVISTA Research

How AVISTA Can Help

Resiliently powered and incentivized by a robust ESG strategy and roadmap, companies would gain benefits from top-line growth, employee productivity, cost reduction and risk mitigation. AVISTA provides integrated ESG services throughout the Pre-IPO, IPO and Post-IPO stages to ensure that our clients meet regulatory requirements and the expectations from capital markets for long-term value creation.

IPO ESG Integration Services

Pre-IPO	IPO Planning and Execution	Post-IPO
<ul style="list-style-type: none">Provide management and staff training on regulatory requirements and latest ESG trends	<ul style="list-style-type: none">Assist in the establishment of ESG governance structureConduct due diligence to identify information gapsAssist in conducting ESG and climate-related risk assessmentAssist in setting up tailor-made ESG-related policies and targetsConduct stakeholder engagement and materiality assessmentCollect and analyze ESG data and informationPerform data checking and assuranceConduct KPI calculation and draft ESG disclosuresAssist in preparing for Pre-IPO ESG questions	<ul style="list-style-type: none">Prepare ESG reports in accordance with HKEX's and international ESG standardsProvide independent assurance on ESG report and data

Contact Us



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About AVISTA

AVISTA Group ("AVISTA") is a leading professional advisory firm. We are experienced in performing a full range of Valuation Advisory, ESG Advisory and Risk Management Advisory for various purposes.

With a strong presence in the Asia-Pacific region, we are headquartered in Hong Kong, and have offices in Shanghai, Beijing and Shenzhen.

The AVISTA professional team comprises professional consultants with different areas of expertise and detailed familiarity of financial reporting standards and regulatory standards. Our team of experienced professionals come from globally-renowned valuation firms, consulting firms and international accounting firms with global qualifications such as CFA, CPA, CPV, FRM, MRICS, FCCA, and so on.



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