



Bulletin on Regtech Use Case ESG and Sustainability Assessment

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Background

The Bulletin on Regtech Use Case series showcases innovative Regtech solutions implemented by banks. It aims to promote the adoption of Regtech among financial institutions in Hong Kong, enhance their risk management and compliance effectiveness, and facilitate knowledge sharing within the Regtech ecosystem.

This bulletin outlines an Environmental, Social, and Governance (ESG) assessment solution from Seneca ESG. The solution helps banks to evaluate and monitor the ESG performance of their corporate clients by integrating data from a wide range of third party sources, benchmarking against customisable references, and visualising the trend of ESG performance of the portfolio companies.

Stimulating Sustainable Finance

- ESG and sustainability disclosures, often referred to as “non-financial reporting”, have evolved into a robust risk-management framework to gain better insight into companies’ management efficacy, long-term planning capabilities, and operational stability.
- Banks have increasingly emphasised ESG and sustainability practices as factors for consideration when issuing and underwriting corporate loans and bonds. These factors influence the underwriting decision as well as the terms of the debt.
- The ESG assessment solution enables banks to create customised ESG scorecards and assessment frameworks with a simplified data analysis and reporting workflow. This customisable solution allows banks to generate sustainability profiles for each borrower and perform benchmarking comparisons.

Use Case

Challenges

- **Sustainable and green investment**
Banks are offering green products to meet the demands of investors and stakeholders who are seeking positive societal impacts from their investments.
- **Meeting regulatory requirements for green financing**
To be approved for green bonds or sustainability linked loans, corporate borrowers must meet certain requirements on how the company operates from a sustainability perspective, in addition to how the capital will be allocated.
- **Need for third party data to demonstrate ESG practices**
Banks may require corporates seeking to raise debt capital to demonstrate their ESG and sustainability practices, using a combination of available third party data and proprietary data collected from the corporate clients.

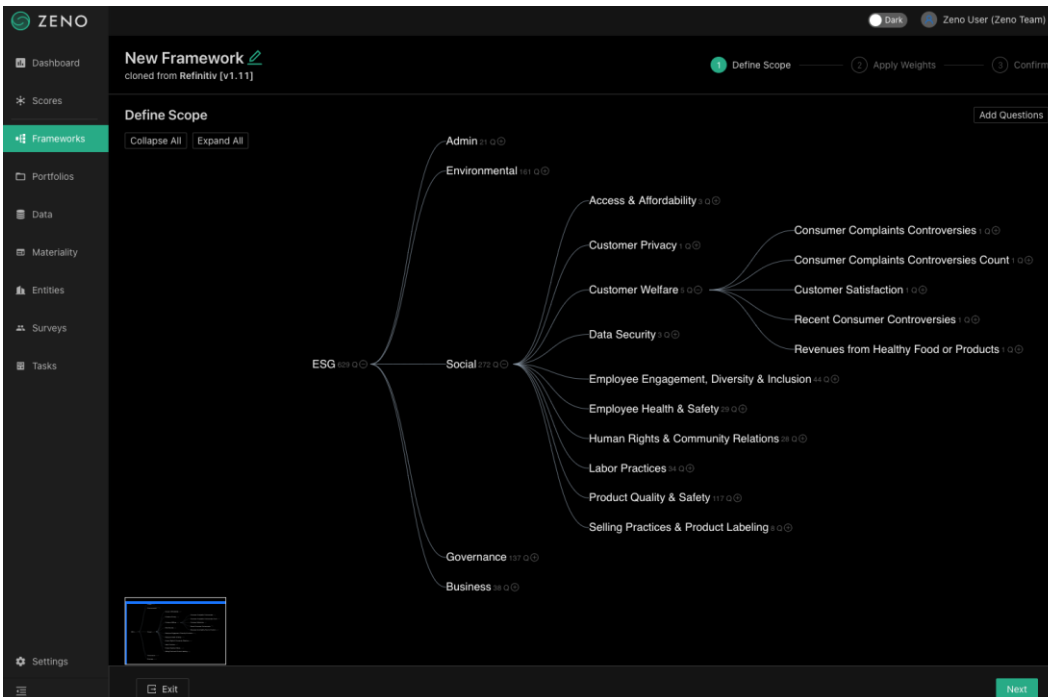
Solution

Seneca ESG's ZENO platform enables banks to create assessment questionnaires, collect and analyse responses, and monitor borrowers' profiles on an ongoing basis. ZENO integrates third party data where available, such as for major listed corporates that have already voluntarily disclosed ESG data.

Key Implementation Success Factors

- Integration with major ESG datasets such as Bloomberg, S&P, and Refinitiv
- Creation of customised surveys and scoring frameworks
- Automated collection of proprietary data
- Cloud-based software with API and datafile import/export
- Built-in data visualisations and management reporting tools

Benefits



How Regtech Helps

- **Streamlined assessment**
Banks can standardise and simplify their ESG and sustainability assessment and monitoring workflows for prospective and existing corporate loan clients.
- **Helping borrowers improve sustainability profiles**
Banks can efficiently identify corporate borrowers that have better sustainability records and set the stage for ongoing conversations to help them improve their sustainability profiles.
- **Improved loan terms**
With improved sustainability profiles, corporate borrowers can enjoy improved loan terms and attract greater interest from institutional investors seeking positive impact investments.

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