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SPOTLIGHT

ESG – an Asian frontier market primer

Vietnam and Bangladesh – seeking greener pastures

We look at ESG trends in two Asian frontier markets; both countries face very real threats from climate change

Vietnam and Bangladesh need to develop their capital markets to sustain high levels of growth

Increasing foreign investment will force companies to put a greater emphasis on sustainability

This is an abridged version of a report by the same title published on 13 September 2021. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Why read this report?

- We present an ESG primer on two frontier markets – Vietnam and Bangladesh
- Both countries are highly vulnerable to the impact of climate change
- Foreign investment is needed to support growth – we look at how overseas capital will embed ESG practices in the corporate world

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This is the latest report in a series of reports HSBC Global Research has published that stress the importance of using an integrated approach for ESG analysis, rather than some form of simplistic scoring system. This report expands our coverage by providing an ESG primer on two Asian frontier markets – Vietnam and Bangladesh. We present a one-stop guide for investors, covering:

- Climate change challenges and the measures being taken to offset the threats
- Green financing landscape
- Corporate governance codes and their comparison with OECD practices
- Progress being made to meet the UN's 17 Sustainable Development Goals (SDGs)
- ESG indicators of companies in the VN30 Index and the DS30 Index

At the front line of climate change. According to the World Bank, Vietnam is one of the top five countries likely to be affected by climate change and Bangladesh is also extremely vulnerable. We assess the initiatives being taken in both countries to combat the threats, as well as their fledgling green financing programmes.

Foreign investment and corporate governance. Vietnam and Bangladesh are starting to get to grips with the governance and social elements of ESG. Many investors will be surprised to know that both countries have detailed corporate governance codes. Foreign investment is helping to embed ESG practices in the corporate world. To sustain strong economic growth, both countries will need to develop their respective capital markets and foreign capital has a key role to play. For example, Vietnam has the highest level of investment in renewable energy across ASEAN and its stock market already has a sustainability index.

Why these markets matter. We have long seen Vietnam as one of the region's best investment stories. The country is not only a growing base for supply chains, it is also assembling a home-grown economic growth engine that is making Vietnam an even more attractive destination in its own right. Vietnam is also the most liquid equity market in ASEAN after Thailand. Daily average trade turnover is now double that of both Singapore and Indonesia. Bangladesh's market, though smaller and less liquid, is on a similar growth trajectory to Vietnam but has a larger economy and population and is growing at a faster pace. In our view, Bangladesh is one of Asia's most exciting long-term demographic stories.

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Facts and figures

3.5%

The World Bank's estimate of how much Vietnam's national income could be reduced by climate change by 2050

79%

The percentage of investors in Asia Pacific that increased their ESG investments significantly in 2020 (according to MSCI)

Of the United Nation's 17 Sustainable Development Goals (SDGs), Vietnam is on track to achieve five and Bangladesh three, but both countries are close to hitting targets for another 6-7

51st and 109th

Where Vietnam and Bangladesh rank on the UN's Sustainability Development Index out of 165 countries

8%

Vietnam's target for reducing greenhouse gas (GHG) emissions by 2030

5%

Bangladesh's GHG emission reduction target for 2030 (base year 2011)

15%

The minimum target set for sustainable financing as a % of total loans in Bangladesh

USD128.3bn

Total proposed investment for Vietnam's National Power Development Plan (2021-30)

Of the USD128.3bn, USD95.4bn is for power generation and USD32.9bn for power grids; for 2031-45, proposed investment totals USD192.3bn

USD650bn

Total infrastructure investment needed in Bangladesh in 2016-40 to meet the SDGs; current investment amounts to only USD417bn, leaving a gap of USD233bn

USD30bn

How much the Global Green Growth Institute estimates Vietnam needs to implement a green growth strategy by 2030

ESG and frontier markets

- We look at ESG trends and landscape in Vietnam and Bangladesh
- Both countries face very real threats from climate change and also need to develop their capital markets to sustain high levels of growth
- The increase in foreign investment will lead to a greater emphasis on sustainability in these markets

A timely reminder

Investors will demand much more of businesses

HSBC's Wai-Shin Chan did not mince his words after the UN's climate change body released its latest report which stated that it was now "unequivocal" that human influence has warmed the atmosphere, ocean and land. Wai-Shin Chan, Head of the HSBC's Climate Change Centre of Excellence and Global Head of ESG Research, wrote that: "*Investors will demand much more of businesses. For those in high-carbon activities to rethink business models and strategies; for industries to be more innovative in lower carbon solutions; for all segments of the economy to prepare for the impacts of climate change."*.

With attention rapidly turning to the upcoming COP26 meeting in Glasgow in November, climate change will remain high on the agenda. Just ask Vietnam and Bangladesh. There is no doubt that the "E" in ESG is of prime importance to both countries, which are all too familiar with the threats from climate change: floods and storm damage. The World Bank believes Vietnam is one of the top five countries likely to be affected and estimates that climate change will reduce the country's national income by up to 3.5% by 2050[1]. Bangladesh is extremely vulnerable as well. We assess the initiatives to combat climate change that are being taken in both countries, as well as their fledgling green financing programmes.

Both countries already have detailed corporate governance codes

However, the "S" and "G" elements of ESG are also increasingly relevant to Vietnam and Bangladesh, frontier markets that are starting to get to grips with governance and social factors. Many investors will be surprised to know that both countries already have detailed corporate governance codes and are heading in the right direction in terms of meeting many of the UN's 17 SDGs.

This report looks at how foreign investment is likely to help embed ESG practices in the corporate world. To sustain strong economic growth, Vietnam and Bangladesh will need to develop their respective capital markets and foreign capital has a key role to play. For example, Vietnam has the highest level of investment in renewable energy across ASEAN. Using HSBC's ESG database, we look at leading companies in Vietnam's VN30 Index and Bangladesh's DS30 Index and gauge how they have made improvements in various ESG indicators over the past five years. Surprisingly, Vietnam's stock market already has a sustainability index.

1 "Climate Risk Country Profile Vietnam", World Bank, 2020

What ESG means for frontier equity markets

- Companies are facing greater pressure to conform to sustainability standards
- This will improve the pricing of risk
- Vietnam already has a sustainability index

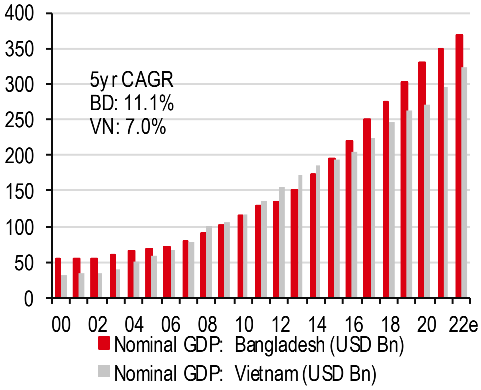
ESG and sustainability practices

Vietnam and Bangladesh provide fertile ground for investors looking for growth

The development of capital markets along the lines of ESG principles

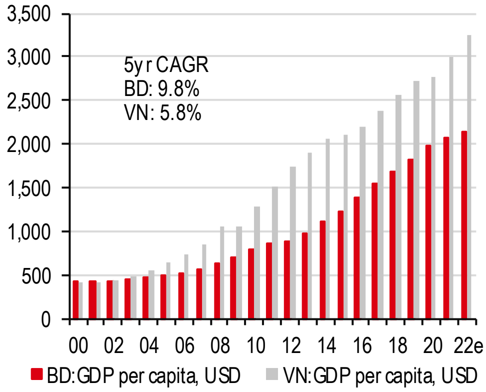
Vietnam and Bangladesh have seen their respective economies expand rapidly in the last decade, providing fertile ground to investors looking for growth. To sustain these levels of growth, both countries will need to develop their respective capital markets and foreign capital has a key role to play. With the growing importance of ESG investing, there will be greater pressure on companies in these markets to conform to ESG standards, focus on sustainable growth, and provide more disclosure on ESG issues.

Both countries have posted consistently high economic growth for a decade



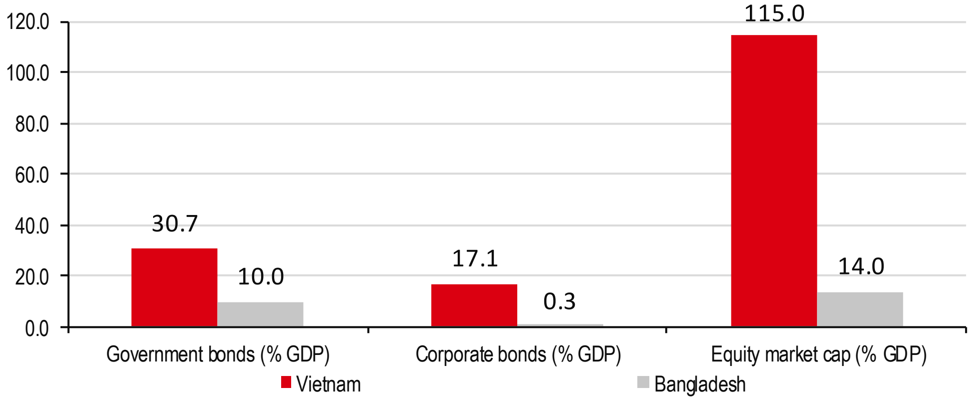
Source: CEIC, HSBC estimates. Note: BD – Bangladesh, VN – Vietnam.

Vietnam has higher per capita income, while Bangladesh is growing faster



Source: CEIC, HSBC estimates. Note: BD – Bangladesh, VN – Vietnam.

Capital market penetration remains low (2020)

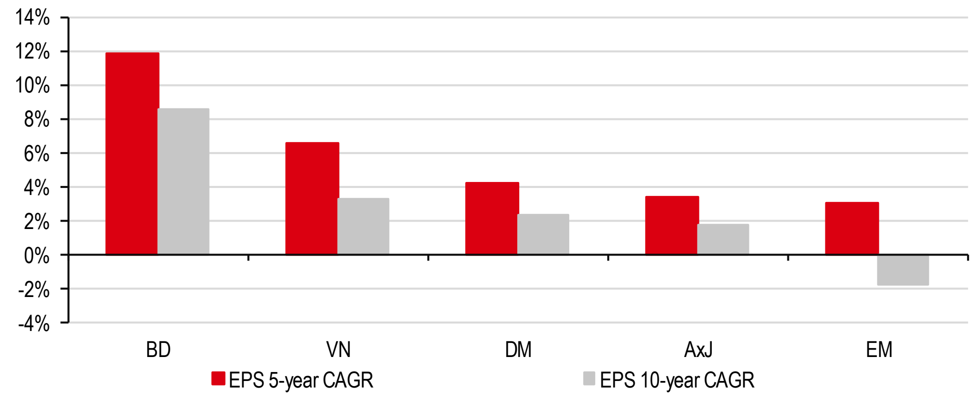


Source: AsianBondsOnline, Vietnam Ministry of Finance, Bangladesh Bank, Bloomberg

Better risk pricing, reduction in uncertainty risk premium

Equity markets in Vietnam and Bangladesh generally generate higher earnings growth than most emerging and developed market peers; however, investors often shy away due to concerns about sub-standard financial reporting and what they perceive to be conflicting regulations, an investment risk often associated with frontier markets. Investors ascribe a higher risk premium to account for this uncertainty but as corporate disclosure improves, so should investor sentiment.

Higher growth but foreign investors shy away due to concerns about governance issues



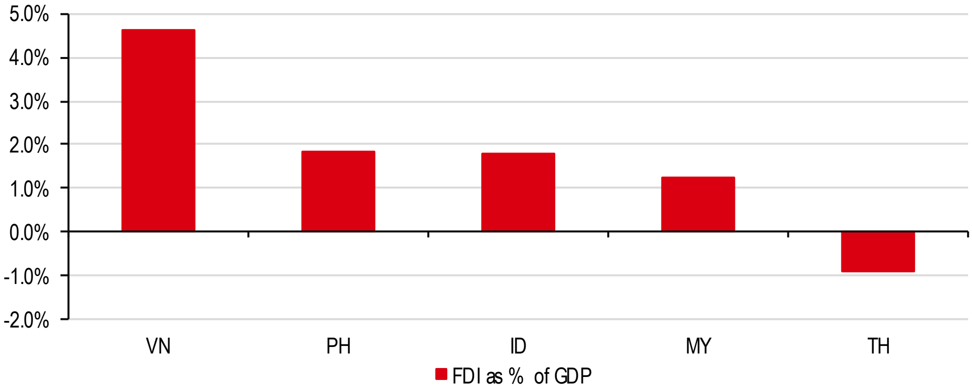
Source: Bloomberg, FactSet, Refinitiv Datastream, HSBC. Note: BD – Bangladesh, VN – Vietnam, DM – Developed Markets, AxJ – Asia ex Japan, EM – Emerging Markets.

Multinational domino effect on sustainability practices of listed companies

Foreign direct investment (FDI) and exports are key drivers of Vietnam's economic growth. For example, the country is one of the major beneficiaries of the reshuffling of Asia's supply chains and also receives the most FDI in ASEAN as measured by the percentage of GDP. Given the increasing focus of global companies on ESG and sustainability, they are demanding more and better quality sustainable resources in the countries where they operate.

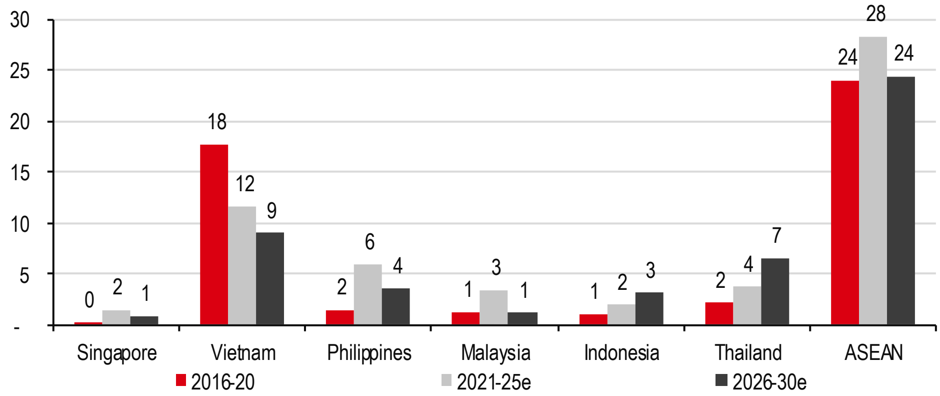
Look no further than renewable energy. Vietnam has seen the highest level of investment in renewable energy across ASEAN. To attract more FDI and provide overseas companies with more sustainable energy, Vietnam has demonstrated a strong commitment to renewables. HSBC Global Research analyst Rahul Bhatia argues that Vietnam offers the best potential for renewable capacity addition across ASEAN, with foreign investments driving growth.

Vietnam receives the most FDI in ASEAN (after Singapore) as a percentage of GDP (2020)



Source: CEIC, HSBC. Note: VN – Vietnam, MY – Malaysia, ID – Indonesia, PH – Philippines, TH – Thailand.

Renewable* capacity addition by ASEAN economy (in GW) – highest in Vietnam



Source: Regulatory websites, HSBC estimates. Note: *Renewables here include Solar, Wind, Waste-to-Energy, Biomass and Geothermal. Hydro Power is excluded.

Something similar is happening in Bangladesh

Something similar is happening in Bangladesh, where economic growth is led by household consumption. This consumption is driven by employment in garment factories, as well as remittances sent home by Bangladeshi nationals working overseas. With the garment sector playing a major role in the economy, the Rana Plaza tragedy in 2013 – where more than 1,100 workers died after a building housing several garment factories collapsed – was a major turning point. Global buyers have since increased the safety and labour standards they require from suppliers. As such, we believe Bangladesh can continue to gain market share in the global exports of garments.

The country is also starting to make its mark in other industries. Domestic consumer goods companies are beginning to export overseas, foreign automobile and mobile phone manufacturers have built production facilities in the country, and Bangladesh's pharmaceuticals companies have received approval to export to developed markets. All this will mean increasing foreign participation in Bangladesh's growth story, which we believe will, in turn, put greater focus on ESG and sustainability.

Sustainability indices in Vietnam

Vietnam's business community has made steady progress in the area of sustainability.

- The Vietnam Business Council for Sustainable Development, established by the Vietnam Chamber of Commerce and Industry, annually recognises companies from 1,500 firms across different sectors based on a Corporate Sustainability Index (CSI).
- Separately, the Ho Chi Minh Stock Exchange (HOSE) launched the Vietnam Sustainability Index (VNSI) in 2017. The VNSI is a market capitalisation-weighted, free float-adjusted index comprising listed companies with the highest scores on sustainability based on more than 100 criteria. The constituents of the VNSI are selected from the VN100 Index, a market capitalisation-weighted, free float-adjusted index of the 100 largest companies listed on the HOSE. The VNSI was launched by the HOSE, the German Cooperation Agency (GIZ) and the State Securities Commission of Vietnam[2]. Companies need to fulfil criteria based on the OECD principles of corporate governance and Global Standards for Sustainability Reporting (GRI) to be included in the index.

3 "Climate Risk Country Profile Vietnam", World Bank, 2020

Climate change, responses, and green financing

- Vietnam is one of the top five countries likely to be affected by climate change; Bangladesh is vulnerable as well
- We look at what both countries are doing to offset the threats
- Some progress has been made, but large amounts of investment are still required

Investors will demand more from businesses

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

The UN's climate science body, the Intergovernmental Panel on Climate Change (IPCC), has released the first of a series of reports as part of its sixth assessment cycle (AR6). The report finds that: "It is unequivocal that human influence has warmed the atmosphere, ocean and land".

Wai-Shin Chan, Head of HSBC's Climate Change Centre of Excellence and Global Head of ESG Research, argues that investors will demand more from businesses: for companies in high-carbon activities to rethink their business models and strategies, for industries to be more innovative in low-carbon solutions, and for all segments of the economy to prepare for the impacts of climate change. With attention rapidly turning to COP26 in November, climate change will remain high on the agenda as 'make-or-break' discussions occur before the next AR6 reports in early 2022.

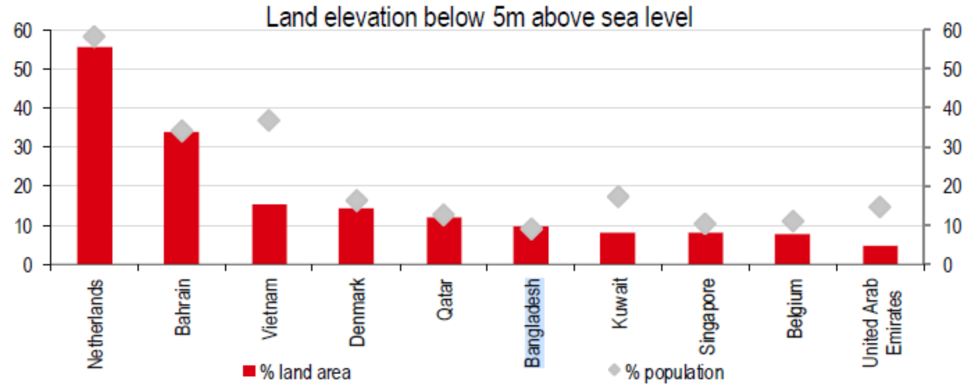
The World Bank believes Vietnam is one of the top five countries likely to be affected by climate change

The World Bank believes Vietnam is one of the top five countries likely to be affected by climate change as the majority of its population lives in coastal lowlands. The World Bank also estimates that climate change will reduce the country's national income by up to 3.5% by 2050[3]; 37% of the population live in low-lying areas, which make up only 15% of the country's land area.

Climate change is also a key risk for Bangladesh. It is one of the most vulnerable countries in Southeast Asia as it is surrounded by three rivers – the Ganges River (Ganga), the Brahmaputra River and the Meghna River – with a large population living in coastal areas. The agriculture sector is most impacted and is expected to face 45significant yield reduction. Bangladesh is prone to river flooding, river bank erosion, forest fires, landslides and tropical cyclones.

3 "Climate Risk Country Profile Vietnam", World Bank, 2020

Vietnam and Bangladesh are both exposed to threats of rising sea levels



Source: World Bank

Vietnam and Bangladesh: Tracking sustainable development goals

The United Nations (UN) has laid down 17 SDGs aimed at achieving better and long-term social and environmental development around the world. Vietnam and Bangladesh have both set goals for each of the 17 SDGs. Vietnam is currently ranked 51st out of 165 countries with a SDG index score of 72.8; Bangladesh is ranked 109th with a score of 63.5 (according to The Decade of Action for the Sustainable Development Goals: Sustainable Development Report 2021; Cambridge University Press; Sachs, J., Kroll, C., Lafortune, G., Fuller, G., Woelm, F.).

Based on the above analysis of the 17 SDGs, Vietnam is on track to achieve five goals and Bangladesh three goals; however, both countries are close to hitting the targets of another 6-7 goals. We acknowledge the limitations of the data. For some categories, the latest data points go back to only 2017 or 2018. Clearly, much has changed in both countries since then; still, we think these numbers do help to identify clear trends and support our conclusion that, based on most indicators, Vietnam and Bangladesh are both heading in the right direction.

HSBC ESG analysts have done a detailed analysis of more than 50 indicators in 77 countries across developed, emerging and frontier markets. These indicators capture trends in energy transition, climate risks, climate governance and green opportunities. Vietnam is ranked 53rd and Bangladesh 76th.

Please contact *AskResearch@hsbc.com.hk* for the data or more details about Vietnam, Bangladesh and the UN's 17 SDGs.

Vietnam – climate challenges and responses

Vietnam has an extensive coastline with a warm climate and the country's geographical location and topography are both factors that contribute to the occurrence of natural disasters.

Steps taken by Vietnam to address climate change
Rapid growth and industrialisation have made it more difficult for Vietnam to control the impact of climate change, given the growing demand for land and water. However, the country is taking action to minimise the effects.

For example, Vietnam signed the Paris Agreement in 2016, committing to focus on reducing GHG emissions by at least 8% by 2030[4] and achieve the UN's SDGs by 2030. An updated

4 "For Vietnam, Greener Growth Can Reduce Climate Change Risks", IMF News, 9 January 2018

version of the 2014 Law on Environmental Protection is expected to be implemented by the Ministry of Natural Resources and Environment of Vietnam (MONRE) from 1 January 2022. The MONRE has also announced plans for mitigating GHG emissions. The proposals include:

Key national policies and strategies

Policy/Strategy/Plan	Status
Nationally Determined Contribution to UNFCCC	Submitted
Financing Vietnam's Response to Climate Change (Vietnam's Climate Public Expenditure and Investment Review)	Completed
Law on Natural Disaster Prevention and Control	Enacted
Technology Needs Assessment for Climate Change Adaptation	Completed
National Strategy on Climate Change	Enacted
National Communications to the UNFCCC	Three submitted

Source: World Bank

New draft proposal for the National Power Development Plan

Changes to the draft law for 2021-30 were made in February 2021. A total investment of USD128.3bn will be required – USD95.4bn for power generation and USD32.9bn for power grids. For 2031-45, the investment proposed will amount to USD192.3bn – USD140.2bn for power generation and USD52.1bn for power grids. For more details, see the tables below.

Changing power mix

Power mix	2021-30 target
Coal-fired power	Reduction of usage from 34% in 2020 to 27% in 2030; no additional development of new coal-fired thermal power plants.
Gas power	Gas power resources to rise from about 7 GW in 2020 to 13.5 GW in 2025 and 28-33 GW in 2030; the ratio of gas-to-power sources to increase from 15% in 2020 to 21-23% in 2030.
Wind power	Capacity to rise from about 600 MW in 2020 to over 11-12 GW in 2025 and over 18-19 GW in 2030; the ratio of wind power capacity is to account for 12% of the total installed capacity in 2025 and 13% in 2030 (compared to 0.9% in 2020).
Solar power	Capacity of about 17 GW in 2020-25 to rise to about 19-20 GW in 2030; the ratio of solar power-to-total capacity to account for 17% in 2025 and 14% in 2030.
Other	Total capacity, including battery energy and pumped storage, to reach 2.6-2.8 GW in 2030, accounting for nearly 2% of total installed capacity.

Source: Baker McKenzie, HSBC

Scale of power sources in Vietnam

Total installed capacity (MW)	2020	Draft 2025	Draft 2030
Thermal and LNG	29,461	43,578	66,194
Hydropower	20,685	24,497	25,992
Wind power	630	11,320	18,010
Solar power	16,640	17,240	18,640
Biomass and other renewables	570	2,050	3,150
Other	1,272	3,508	5,677

Source: Baker McKenzie, HSBC

Bangladesh – climate change challenges and actions taken

Bangladesh had per capita GDP of USD1,970 in 2020. According to the World Bank, economic losses over the past 40 years were at an estimated USD12bn as of 2016, depressing GDP by 0.5-1% annually. Between 1947 and 2015, around 20 severe cyclones hit Bangladesh, causing significant loss of life and property damage. The estimated impact from disasters was:

- 2007: Cyclone Sidr – damage estimated at USD1.7bn (2.6% of GDP); monsoon flooding caused losses of USD1.1bn[5].

5 "Bangladesh: Building Resilience to Climate Change", World Bank, 9 October 2016

- May 2009: Cyclone Alia – impacted close to 3.9m Bangladeshis, causing damage estimated at USD270m[6].

For the period until 2100, the IPCC finds that an increase in the sea level of 9-88 cm is possible. Also, a 45cm rise in the sea level is projected to swamp 75% of the Sundarbans – a mangrove area in the delta formed by the confluence of the Ganges River, the Brahmaputra River and the Meghna Rivers in the Bay of Bengal. And a one-metre rise in the sea level would flood 18% of the total land, impacting 11% of the population.

As part of the Paris Agreement, Bangladesh has proposed unconditional reductions in GHG emission of 12m tons (5%) in business-as-usual (BAU) and 24m tons (10%), conditional on international support by 2030 (base year: 2011).

One of the major goals is to eradicate poverty. However, Bangladesh cannot achieve this without making climate change an inherent part of its development strategy. As of 2016, Bangladesh has invested more than USD10bn in measures to embed resilience, including strengthening river banks, building emergency cyclone shelters, improving farming systems, and reducing saline water intrusion. The World Bank, the International Finance Corporation (IFC) and the 2030 Water Resources Group have collaborated to put forward an investment strategy for the Bangladesh Delta Plan 2100.

Green financing

The UN has been working with banks and financial regulators in different countries to direct financial flows to support SDGs. The main areas of green financing focus on: 1) helping the public sector to create an enabling environment; 2) promoting public-private partnerships via financing mechanisms; and 3) building micro-credit capacity among community enterprises. Green bonds are a common form of green financing for climate and environmental projects.

Vietnam is one of the most carbon-intensive economies in Asia

Vietnam is one of the most carbon-intensive economies in Asia, after China and Mongolia. The country issued its first green bonds in 2019 through the Government's Decree 163. This created more channels to mobilise capital for environmental protection instead of relying solely on traditional financing from banks. In 2020, Vietnam received its first green loan for developing the largest solar plant in Southeast Asia. The plant is forecast to decrease carbon emissions by c100,000 tons every year.

Green financing in Vietnam

Financial partnership	Purpose of loan	Loan amount
Vietcom Bank/Japan International Cooperation Bank	Financing capital for solar and wind power projects in Vietnam	USD200m
Agribank/Central Power Cooperation	Construction of Central Power Solar Project in Khanh Hoa province	VND1.3trn
TP Bank/Global Climate Partnership Fund	Long-term green credit loan	USD20m

Source: HSBC

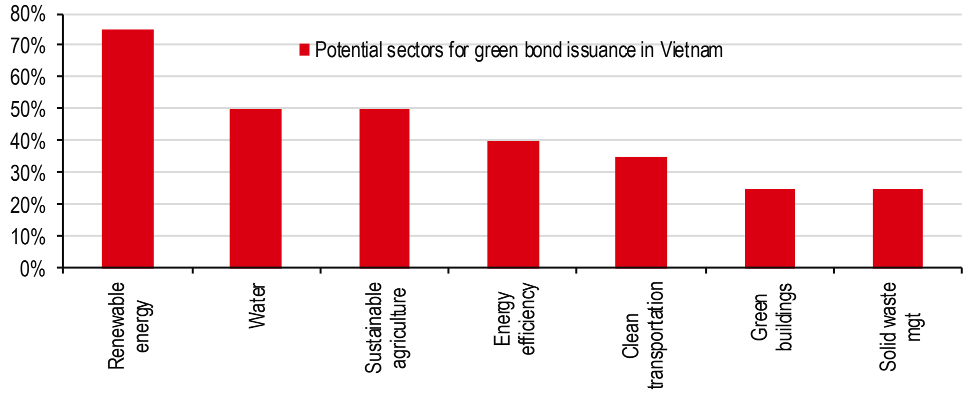
According to the 2017 Global Infrastructure Outlook (from Green Infrastructure Investment Opportunities (GIIO) Vietnam, 2019, by the Climate Bond Initiatives and the European Climate Foundation), Vietnam requires infrastructure investment of USD605bn in 2016-40, leaving a gap of USD102bn after adjusting for current investment estimates.

The Global Green Growth Institute (GGGI), in partnership with Luxembourg and the Ministry of Finance, signed the "VN10 Viet Nam Green Bond Readiness" programme in October 2020. This proposal aims to enhance institutional capacity and the regulatory framework, combined with practical experience in piloting of green bond issuance. The focus is on: 1) green bond development for both corporate and government/municipal bonds; 2) two provinces/cities and

6 (ibid)

corporates will be selected for piloting the issuance of green bonds to finance their green investment projects; and 3) global experience will be shared and knowledge of products developed. The GGGI estimates implementing a green growth strategy in Vietnam will require cUSD30bn by 2030.

There is great scope for green financing in Vietnam's renewable energy projects



Source: Global Green Growth Institute, HSBC

Green financing in Bangladesh

According to Bangladesh Bank (BA), the central bank, the country needs a total of USD650bn in infrastructure investment in 2016-40 to meet its sustainability agenda. However, current total investment amounts to only USD417bn, leaving a gap of USD233bn (see table below).

Mind the gap

2016-40, USDbn, 2015 prices and exchange rates	Road	Rail	Airports	Ports	Telecoms	Electricity	Water	Total
Business-as-usual investment (current trends)	139	16	7	3	60	150	42	417
Investment needed to meet best performing peers	139	26	8	3	101	250	82	609
Gap to meet best performing peers	0	10	1	0	41	100	40	192
Investment needed to meet the SDGs	**139**	**26**	**8**	**3**	**101**	**280**	**93**	**650**
Gap to meet the SDGs	**0**	**10**	**1**	**0**	**41**	**130**	**51**	**233**

Source: "Green Bonds Development in Bangladesh – A Market Landscape", Bangladesh Bank, IFC, HSBC

The government has created two flagship green funds – the Bangladesh Climate Change Trust Fund (BCCTF) and the Bangladesh Climate Change Resilience Fund (BCCRF). The BCCTF is a donor-aided fund that receive donations from various countries.

Bangladesh's energy consumption has been increasing in line with the rise in population and industrial and agricultural production. Since 2000, per capita energy consumption has almost doubled to 222.2kg. In 2018, the energy mix was natural gas (56%), biofuels (24%), oil products and crude oil (13%), coal (6%), and renewable energy (1%). Given the reliance on natural gas, the government wants to shift the focus to renewable energy.

Bangladesh's green financing increased to about BDT33,421m (USD394m) by December 2019, up 58.5% y-o-y[7]. There are 59 scheduled banks and 33 non-bank financial institutions (NBFIs) that are currently involved in green financing or investment activities. The IFC estimates climate-smart investment has the potential to grow to USD172bn in 2018-30. In April 2020, BA increased the size of its refinancing scheme from USD23m to USD47m for environmental-friendly projects.

7 "Bangladesh among top three Asian nations promoting green financing", The Daily Star, 24 June 2020

Since 2016, BA has set a minimum target of 5% of direct green finance as a percentage of total loans[8]. The central bank has revised this limit in January 2021 by issuing a circular to all commercial banks and NBFCs to disburse a minimum of 15% of their loans for sustainable financing, of which 2% should be green financing[9].

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Corporate governance codes

- We look at corporate governance codes in Vietnam and Bangladesh and compare them with OECD practices
- Bangladesh's code of governance is mandatory…
- …while Vietnam follows a guidance approach, although certain parts are covered by various laws

Making progress

Corporate governance is an integral part of the ESG framework, defining rules, practices and processes through which a company is controlled and directed to balance the interests of its stakeholders. Both Vietnam and Bangladesh have laid down policies and regulations that set out the minimum required by companies. While every country defines its own corporate governance code, the overall approach remains somewhat similar for each country.

Vietnam and Bangladesh have made progress in upgrading their respective governance practices

Vietnam and Bangladesh have made progress in upgrading their respective governance practices to meet international standards. In Vietnam, the 'Enterprise and Securities Law' reform in 2005 provided a basic corporate governance mechanism for owners and managers of privately owned companies. In 2019, the State Securities Commission modified the Code of Corporate Governance in line with international practice to reach global standards in the medium term[10]. This code takes a guidance approach, although certain parts are covered under various laws and decrees.

Bangladesh first issued corporate governance guidelines in 2006, which were revised in 2012 and the latest Corporate Governance Code (CGC) was published in 2018. The CGC is mandatory and failure to comply is punishable under the penal provisions of the Securities and Exchange Ordinance, 1969, including delisting or suspension from trading.

We now compare the corporate governance principles of Vietnam and Bangladesh with those of the OECD:

- Bangladesh follows a "mandatory compliance" approach, while Vietnam's approach is "voluntary". According to the OECD, 94% of all countries follow a "comply or explain" approach.
- Boards in Bangladesh can consist of 5-20 directors, while Vietnam recommends 5-11 directors (in odd-number increments). In our analysis of large companies, on average, companies comply with these ranges.
- One fifth of all board members should be independent directors in Bangladesh vs one third in Vietnam. In the OECD, most countries recommend that 50% of all board members should be independent.
- The maximum cumulative tenure of a director is six years in Bangladesh vs nine years in Vietnam. An average of 8-10 years is the most common tenure in OECD countries.

10 "Time to upgrade corporate governance in Vietnam", East Asia Forum, 27 May 2021

- Vietnam requires at least two members (or 30%) of the board to be female. Bangladesh has no such policy that we could find. Among OECD countries, female members constitute 20-40% of a board.
- It is mandatory to have audit, risk management, nomination and remuneration committees in Vietnam, while a risk management committee is not mandatory in Bangladesh. In the OECD, 90% of all countries require an audit committee, 24% require a nomination committee, and 32% require a remuneration committee.
- Companies in both countries need to disclose their corporate governance policies on their relevant corporate website.
- In Bangladesh, notice of board meetings should be circulated at least seven days in advance. Companies also need to meet at least once every quarter of a calendar year. In Vietnam, a 21-day notice is required and the results of votes should be disclosed within a day of the meeting. Most OECD countries have a notice period of 15-21 days.
- Both countries need to disclose the remuneration of company directors, including independent directors. In the OECD, 92% of all jurisdictions have introduced general criteria on the structure of remuneration.
- In OECD countries, 80% of all jurisdictions require immediate disclosure of related party transactions, with 82% requiring the use of International Accounting Standards, while an additional 8% allow flexibility to follow IAS 24 or the local standard. Bangladesh and Vietnam also follow a policy of disclosing related party transactions.

ESG indicators for major companies

- HSBC Global Research has an in-house ESG proprietary database of key ESG metrics for companies under HSBC Global Research coverage
- The database uses 10 metrics to give a broad indication of the status of ESG information disclosure
- We look at ESG indicators in the annual reports of companies in the VN30 Index for Vietnam and the DS30 Index for Bangladesh

Analysing trends using the HSBC ESG Database

HSBC Global Research has an in-house ESG proprietary database of key ESG metrics for companies under HSBC Global Research coverage. There are around 1,900 companies under coverage globally, with around half of them in Asia Pacific, and the data are based on publicly available information. The database uses 10 metrics to give a broad indication of the status of ESG information disclosure. They are:

1. Greenhouse gas emissions intensity
2. Total energy intensity
3. Carbon reduction policy
4. Employee turnover
5. Employee cost as a percentage of sales
6. Diversity policy
7. Board size
8. Average board tenure
9. Female representation on the board
10. Board independence

We looked at the annual reports of companies in Vietnam's VN30 Index and Bangladesh's DS30 Index to find data on the 10 metrics. This helped us gauge how the companies have made improvements in various environmental, social and governance indicators over the last five years. Please contact *AskResearch@hsbc.com* for the data.

Disclosure appendix

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Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

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*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

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