

FINA 6910 Responsible Finance
Spring Term 2022
TENTATIVE

1. GENERAL INFORMATION

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Course Prerequisite(s):	FINA5120
Course Exclusion(s):	Not Applicable
Canvas course site:	https://canvas.ust.hk/courses/

2. COURSE DESCRIPTION

Environmental and social responsibility has become of first order importance to companies. This course covers how corporations may become socially responsible, and how this will change the corporate financing decisions of firms. Although the course will cover all aspects of environment, social, and governance (ESG), we will focus more on the social and governance sides. The first part of the course will cover fundamental topics related to ESG, such as what the leading theories of social responsibility are, what the objective of corporations are and how these objectives impact financial decisions, how investors may play an important role in enforcing these objectives, and how one may measure the social responsibility of corporations. To ensure that we cover all relevant material that is the most important to practitioners, we will cover relevant chapters in the CFA Institute's *Certificate in ESG Investing* curriculum.

Furthermore, the last part of the course will focus more on project and firm valuation with an ESG perspective. For instance, how would one be able to compare an ESG focused project with a non-ESG focused project? How does ESG impact the cost of capital or the cash flows of corporations? This part of the course will cover financial models that will allow one to understand how to incorporate ESG factors in financial decisions.

The course will follow the CFA Institute's *Certificate in ESG Investing* curriculum and cover the *Grow the Pie* material to ensure students are equipped with the most up to date information on responsible finance. At the end of the course, students should have a strong background to be able to study for this new certification that will give them a cutting edge when applying for jobs related to ESG or jobs that may need some ESG background. Overall, the course will cover both leading theoretical and practical cases related to ESG and responsible finance.

Guest Speakers: We will have guest speakers in this class. We will cover a Harvard Business School case study that was written on the CEO of Arabesque Asset Management, which is one of the leading ESG funds and indexer providers in the world. He will speak about the case study, share his insights on new trends, and offer students an opportunity to interact with him. As well, another Harvard Business School case study will be covered on BlackRock, which is the largest asset management company in the world. We will have the Chief Sustainability Officer of BlackRock speak about the case study and interact with students. We will also have the CFA Institute perform a "Game Show on Climate Change" with us. This "Game Show" is a very interactive learning experience that the CFA Institute has been performing recently with leading financial companies in Hong Kong. Hence, it will be a practical and informative experience for students taking this course.

3. COURSE OBJECTIVES

The course is designed to give students a thorough overview of responsible finance and ESG. Students should have learned the following outcomes by the end of the course:

- i. What forces make a corporation responsible.
- ii. What the implications of stakeholder theory and shareholder theory are.
- iii. Why firms engage in ESG activities.
- iv. How to measure the ESG activities of corporations.
- v. How asset managers may incorporate ESG into their investment decisions and monitoring activities.
- vi. How ESG activities impact the cost of equity and the cost of debt.
- vii. How responsible finance may impact project valuation and firm valuation.

4. COURSE INTENDED LEARNING OUTCOMES

Course Intended Learning Outcomes

By the end of the course, students should be able to:

Describe the fundamental driving forces of responsible finance.

CLO1

Compare and construct responsible finance and ESG in relation to corporate objectives.

CLO2

Explain how investors may engage with firms in effective manners.

CLO3

Work in teams on cases to be able to apply responsible finance theory to practice

CLO4

Utilize the tools and data sets used in evaluating ESG performance.

CLO5

Propose a novel corporate project that grows the pie.

CLO6

Broaden firm performance evaluation encompassing ESG methods.

CLO7

5. COURSE TEACHING AND LEARNING ACTIVITIES

Course Teaching and Learning Activities	Expected contact hours	Study Load (% of study)
Lectures, including in-class discussions using PRS or pooling	20	25%
Case studies	10	12.5%
Group case project (see below for more details on breakdown)	20	25%
Self-study and review	30	37.5%
Total	80	100%

Assessment Methods	Brief Description	Weight (%)	Aligned Course Learning Outcomes
Class Participation	Participation in class and online discussions and answering questions. Answering other students' questions on Canvas correctly also counts.	10%	ALL
Case Quizzes	Short quizzes related to each case	5%	ALL
Group Project and Peer Evaluation (see below for more details on breakdown)	Write and present a shareholder proposal on how a particular firm should implement an ESG strategy that enhances long-term firm value	35%	CLO 3, 4, 5, 6, 7
Final Exam	March 28, 2022; cumulative and closed book	50%	CLO 1, 2, 3, 5, 6, 7
Total		100%	

6. STANDARDS FOR ASSESSMENT

Course Grade Descriptors

A+, A, A-	Excellent Performance
B+, B, B-	Good Performance
C+, C, C-	Marginal Performance
D	Marginal Pass
F	Failure

- i. **Class Participation:** Both quality and quantity of class participation will determine the final participation grade. If you answer other students' questions on Canvas correctly, then that will also count.
- ii. **Case Quizzes:** These are short quizzes taken before each case to make sure students have read the given case. In particular, the quiz will take place during the lecture in which we will cover the given case study.
- iii. **Group Project and Peer Evaluation:** The group project will involve analyzing a specific firm that the team needs to pick and inform the instructor one week after the add drop date. The team will need to analyze a specific firm regarding its ESG activities and determine whether there is room for improvement to "grow the pie". In particular, the team needs to find a specific area or areas where the firm may implement more ESG friendly decisions that will likely increase the size of the pie. These decisions, therefore, need to lead to an enhancement in long-term firm value as well as have a positive impact on other stakeholders' welfare. In other words, the group needs to analyze a specific company's ESG practices, determine what other activities may enhance both long-term firm value as well as stakeholder welfare, and then calculate the impact of the new ESG activities on long-term firm value (and proxy for stakeholder welfare growth). Following that, the group needs to write a report that includes both calculations and a rigorous discussion using concepts that we cover in class to demonstrate how the firm can implement these new ESG activities, how these activities will impact overall stakeholder welfare, and determine how much of an impact it will have. Finally, the group will do a presentation of their findings to the class. Each group member will rate each other to ensure that no one is free riding. The peer evaluation will be worth 4.5% as well as the presentation will be worth 4.5%, whereas the final report will be worth 26%. So, in total, the group project will be worth 35% of the final score.
- iv. **Final Exam:** Scores will be allocated based on the accuracy of the answers as well as the details supporting the work. The final exam is cumulative and closed book although a calculator will be needed.

7. COURSE CONTENT AND TENTATIVE TEACHING SCHEDULE

Week/Session	Course Content
Week 1	Introduction to Responsible Finance: Implications to Corporate Finance – CFA Institute ESG Investing Textbook, Chapter 1 – Grow the Pie, Introduction
Week 2	The ESG Market: History, Present, and Main Drivers of Responsible Finance – CFA Institute ESG Investing Textbook, Chapter 2 – Grow the Pie, Chapter 1 – HBS Case Study "ESG Metrics: Reshaping Capitalism?"
Week 3 and 4	"Environment", "Social", "Governance" and Corporate Finance Decisions – CFA Institute ESG Investing Textbook, Chapters 3, 4, 5 – Grow the Pie, Chapters 5, Chapter 6 (p151-164), Chapter 9 (p230-235) – HBS Case Study "SOGO Department, Store, Hong Kong: Integrating Environmental Sustainability into a Retail Store's Operations" – Week 3: CFA Institute Climate Change Game Show
Week 5	Engagement, Stewardship, and the Role of Owners in Responsible Finance – CFA Institute ESG Investing Textbook, Chapter 6 – Grow the Pie, Chapter 6 (p135-151), Chapter 9 (p225-230 and p235-245) – HBS Case Study "Omar Selim: Building a Values-Based Asset Management Firm" – Guest Speaker: CEO of Arabesque Asset Management (ESG Fund) and Former CEO of Barclays Germany

Week 6	Corporate Finance Project Evaluation Decisions with ESG Analysis – CFA Institute ESG Investing Textbook, Chapter 7 – Grow the Pie, Chapters 2, 3, and 4 – Guest Speaker: Chief Sustainability Officer of BlackRock Inc. – HBS Case Study “ <i>BlackRock: Linking Purpose to Profit</i> ”
Week 7	Group Presentations and Final Review – HBS Case Study “ <i>Morgan Stanley: Building Long-Term Sustainability</i> ” – Each group will present their proposal – Review for the final exam
Week 8	Final Exam

8. TEACHING MATERIALS

Required Materials:

1. ***Certificate in ESG Investing Curriculum: ESG Investing Official Training Manual***
 - I. Publisher: CFA Institute
 - II. ISBN-10: 1953337414
 - III. ISBN-13: 978-1953337412
 - IV. Amazon Link: <https://www.amazon.com/Certificate-ESG-Investing-Curriculum-Official/dp/1953337414/>
 - V. Note: We are currently working with the CFA Institute to ensure students can purchase the book. If we run into some logistical complications, we will find an alternative solution with the CFA Institute. Also, please note that purchasing this book will further allow you to study for the CFA ESG Investing exam. It will be a worthwhile investment into your future! More on this in class!
2. ***Grow the Pie, Alex Edmans***
 - I. Publisher: Cambridge University Press
 - II. ISBN-10: 1009054678
 - III. ISBN-13: 978-1009054676
 - IV. Amazon Link: <https://www.amazon.com/Grow-Pie-Companies-Deliver-Purpose/dp/1108494854>
 - V. Note: To be environmentally mindful, please purchase the e-version of the book.
3. **Academic studies:** Each paper covered during a given week will be uploaded to Canvas. You are only required to read the introduction, which are relatively short, of each uploaded paper.

Note: Please read each assigned material prior to class.

Further optional references (not assessed):

1. **What Social Classes Owe to Each Other, William Graham Sumner**
 - Publisher: Caxton Press
 - ISBN-10: 0870041665
 - ISBN-13: 978-0870041662
2. **Finance and the Good Society, Robert J. Shiller**
 - Publisher: Princeton University Press
 - ISBN-10: 0691158096
 - ISBN-13: 978-0691158099
3. **Real Impact: The New Economics of Social Change, Morgan Simon**
 - Publisher: Bold Type Books
 - ISBN-10: 1568589808
 - ISBN-13: 978-1568589800

Note: Links to all other optional articles will be posted on Canvas. You will not be tested on this material.

9. MEANS/PROCESSES FOR STUDENT FEEDBACK ON COURSE

Complete online Student Feedback Questionnaires (SFQ) Survey during two weeks before the course end at:

- Canvas website (<https://canvas.ust.hk>) or
- SFQ Mobile website (<http://sfq.ust.hk/mobile/>) or
- HKUST iLearn app at smartphones / tablets

10. COURSE POLICY

Attendance and Participation

- We will follow the policy provided by the Master of Finance (MFIN) program.

Calculator

- Financial calculator or a regular scientific calculator is required in the final exam.

Course website

- <https://canvas.ust.hk>
- You should visit the website regularly because a lot of important information will be available on the course website including Announcements, Syllabus, Lecture Notes and Grades.

Examinations

- There will be a final examination in this course.
- Questions are designed to test your understanding of stakeholder theory, shareholder theory, basic ESG concepts, ESG factors, core finance concepts and principles as well as your ability to solve numerical problems using the core principles and techniques. Furthermore, questions related to concepts covered in class, discussed online on Canvas, and material from the required readings and chapters may be asked.

Class Conduct

To foster the best learning environment, you should abide by the following codes of conduct: Punctuality You are expected to arrive and leave the class venue on time as late arrival and early departure are rude and will be very disruptive to the class. If you need to come in late or leave early for various reasons, please do so quietly and sit in the rows closest to the exit of the classroom.

- Please do not use electronic devices unless you have permission by the instructor.
- Please do not talk with other students unless we are engaging in a class activity.
- Please do not create disturbances in the classroom.

Failure to obey the class conduct may result in a zero score in class participation and may lead to further disciplinary action.

Academic Integrity

Academic integrity and honesty are critical values in upholding HKUST's reputation as a community of scholars and its claim to the "intellectual property" created by staff and students. As a student of HKUST, you must commit to the Academic Honor Code. Cheating will not be tolerated. If you are caught cheating during the exams, at minimum you will receive zero credit and will face further disciplinary action.

11. ADDITIONAL COURSE INFORMATION

How to succeed in this course:

- Read assigned textbook chapter and other readings prior to each class
- Read assigned cases prior to each class
- Attend classes and take notes
- Practice end-of-chapter problems
- Ask when you do not understand and attend the TA office hours
- Spend at least several hours per week to study outside classroom

Penalty for late assignments:

- A deduction of 10% per day will be given to assignments that are submitted late (e.g., 20% for two days delay, 30% for three days delay).