



Environmental, social and governance (ESG) in Asia

Asset and Wealth Management



Asia has been gaining pace in its progress within the realm of ESG and sustainability, albeit slowly. The heterogeneous nature of different fund markets in Asia implies that the adoption of ESG in these markets has been quite diverse. The common positive thread, however, is the increasing awareness and importance of ESG in asset and wealth management over the past few years.

The People's Bank of China in its latest green bond standard consultation paper removed clean coal projects from the list of green bond financing targets, reversing its previous decision to categorise coal pollution mitigation enterprises as green assets. The removal has garnered positive responses from foreign investors given that China is the largest carbon emitter and the second largest green bond issuer after the U.S.

A range of factors have contributed to this increased ESG interest in Asia. Regulatory developments have been a key push to bolster the ongoing ESG momentum. These include stewardship codes, ESG risk management guidelines, forming of steering committee and cross-collaborations among industry players. Not only are regulations and asset and wealth managers driving the ESG agenda, so too are the investors themselves. Pressure of EU and US investors making investments into Asia markets has exerted influence in this area for many years. Institutional investors in Asia have also been forthcoming in increasing allocations to ESG assets and awarding ESG mandates. On the distribution front, questions on ESG are slowly becoming a part of the due diligence process for onboarding funds on distributors' platform. Increased information disclosures and availability of ESG analytics tools are other contributing factor as the data and methodologies for risk and opportunity assessment are available In Asia, while some asset managers have become UN PRI signatories, others are still in the process of setting up ESG teams and ramping up their talent pool in the form of sustainability or stewardship teams. There are also varied ESG adoption approaches observed with some managers having gone the 'process route' of broader ESG integration into their overall investment process as compared to the 'product route' of launching specific ESG labelled funds.

From an asset managers' perspective, challenges remain to increase the adoption of ESG investing in Asia. These include lack of data availability, lack of standardised regulations and absence of suitable benchmarks to measure fund performance.

Our clients have been reaching out to us, looking for guidance and education in this area - either in relation to the changing regulations and their disclosure obligations, or else in relation to how they can integrate ESG within their business. Here we outline ten of the most frequently asked questions.



1.

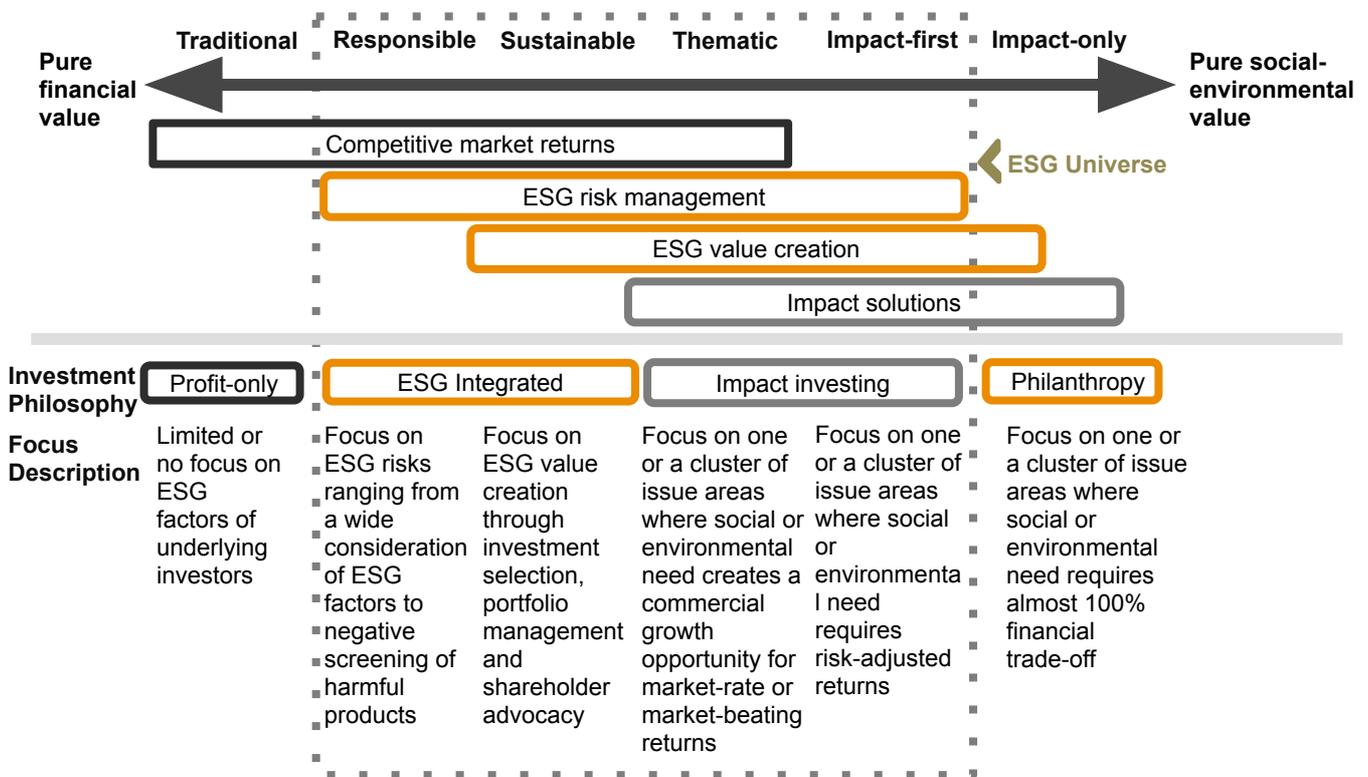
What is ESG and how do investors view ESG?

ESG refers to a wide range of environmental, social and governance topics. It is commonly used interchangeably with the term “sustainability”. ESG is embedded within the businesses itself and has great importance in terms of sustainability of the business. Investors are increasingly considering these ESG factors in their investment decisions.

For instance, under the environmental pillar, while greenhouse gas emissions (and their impact on climate change) are the most common metrics reported - and climate change was a major theme at the World Economic Forum this year, investors might also want to know about how much electronic waste or packaging and material waste a company produces and how the company plans on reducing that waste.

From a social perspective, an example includes a company’s workforce diversity and inclusion policies. Investors want to know the percentage of gender and racial/ethnic group representation for management and all other employees.

In terms of governance, investors are paying greater attention to the risks and opportunities associated with business ethics, anti-corruption, systemic and regulatory risk management and data protection to name a few among other governance related facets.



Source: Inspired by Bridges Impact + and the Impact Management Project

2.

What is the difference between ESG, Impact and Shariah-compliant investing?

Gauging at the investing spectrum below from traditional investing with pure financial value to impact-only investing with pure social-environmental value, it can be seen that the ESG universe sits comfortably between the two extremes.

Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below market to market rate, depending on investors' strategic goals. The growing impact investment market provides capital to address pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance and affordable and accessible basic services including housing, healthcare and education. Impact investment can attract a wide variety of investors, both individual and institutional.

Shariah-compliant funds are investment funds governed by the requirements of Shariah law. Such funds are considered to be a type of socially responsible investments following negative screening of certain 'sin stocks' such as alcohol, tobacco, gambling etc. Shariah-compliant funds have a long history. They first appeared in the late 1960s in Malaysia and in the mid-1970s in the Middle East region. Their creation was driven mainly by individuals, who were attracted by the idea of faith-based investments associated with business ethics, anti-corruption, systemic and regulatory risk management and data protection to name a few among other governance related facets.

What are ESG factors?

Examples of ESG factors are numerous and ever-shifting. They include:



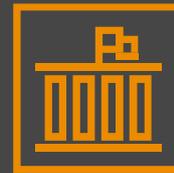
Environmental

- Climate change
- Greenhouse gas (GHG) emissions
- Resource depletion (including water)
- Waste and pollution



Social

- Working conditions (including slavery and child labour)
- Local communities (including indigenous communities)
- Health and safety
- Employee relations and diversity



Governance

- Executive pay
- Bribery and corruption
- Board diversity and structure
- Tax strategy

3.

What do investors want?

Investors want to know that companies are thinking about the appropriate material ESG risks and opportunities for their industry and incorporating those topics into the company's strategy. They also want companies to disclose their ESG efforts in a way that investors can gauge progress and use the information to compare companies within and across industries. They want disclosures to be based on commonly accepted standards and be investor-grade quality.



4.

What regulatory developments in Asia should managers and investors be aware of?

There is no doubt that in some of the markets within Asia, regulators and industry bodies have played key roles in progressing the ESG and sustainability agenda. Here's a closer look at some of the key regulatory developments that have occurred recently and those that investors and managers can watch out for:

North and East Asia

China

- China is committed to achieving a green economy. It's 14th five-year plan (covering 2021–25) focuses on sustainable development while in its 13th five-year plan, China had pledged to actively implement the 2030 Agenda for Sustainable Development and authorities are looking to increase their focus on Green Development in coming years.
- **First Green Investment Guidelines** – The Asset Management Association of China (AMAC) issued China's first systematic and comprehensive voluntary standard for China's asset management industry which include guides on approach to green investing. AMAC has also released a report on 'ESG Evaluation System of China's Listed Companies' building a core indicator system to measure the ESG performance of listed companies and opening a new chapter in China's ESG investment practice.
- **Annual self-assessment on Green Investing practices** – AMAC requested asset managers carry out a self-assessment on their green investing practices and submit their self-checking reports to the regulator every year. The focus areas include i) establishing green investing policies ii) operational aspects of green investment products, iii) examining risk controls for green investments and iv) relevant disclosure issues. The guidelines stipulate that fund houses must conduct company-wide self-assessments at least once a year, using either in-house experts or specialised institutions.

- **ESG disclosure requirement for listed companies** – In 2006, the Shenzhen stock exchange had introduced guidelines requiring a degree of ESG disclosure, with little specification on what should be disclosed. Two years later, the Shanghai exchange added guidelines about disclosing environmental information. This year's new measures are expected to involve the publication of more specific performance metrics for individual companies.
- In 2018, China initiated a global cooperative project called the **Green Investment Principles for the Belt and Road**, to enhance the level of infrastructure and economic development across Belt and Road countries, aiming to embed the principles of sustainable development in new investment projects in Belt and Road.

In September 2018, in the revised Corporate Governance for Listed Companies, the China Securities Regulatory Commission (CSRC) established the ESG information disclosure framework for listed companies and developed a standard template for listed companies' disclosure of ESG information to enhance the comparability of such information among enterprises. AMAC had also released a report in September 2019 that emphasised on the importance and necessity of growing the uptake of ESG in both the private and public fund markets, with private fund in the PE and VC space encouraged to promote ESG in their investment selection and incubation process. Private equity funds are also encouraged to explore how ESG can be promoted in their portfolio companies. AMAC plans to require ESG disclosures from listed companies in China in order to promote sustainable finance and governance in these corporations. This requirement comes six months after AMAC urged the industry in March 2019 to conduct a self-assessment of its green investing activities, following the issuance of China's first green investing guidelines in November 2018. The regulator also aims to develop more ESG indices to form market benchmarks. A set of guidelines on ESG ratings, investment strategies and instruments will then be constructed and practised based on these benchmarks.

Hong Kong

- **List of verified ESG funds** – Securities and Futures Commission (SFC) released a list of verified ESG funds in 2020 as a tool against greenwashing and mislabelling of investment strategies. The list is compiled based on confirmations and representations provided by the respective management companies that these SFC-authorized funds comply with the requirements set out in the circular, which include the name of the scheme, investment threshold, disclosure requirements and ongoing monitoring.
- **Green and Sustainable Finance Cross-Agency Steering Group (Steering Group)** – The Hong Kong Monetary Authority (HKMA) and the SFC initiated the establishment of the Steering Group. Other members are the Environment Bureau, the Financial Services and the Treasury Bureau (FSTB), Hong Kong Exchanges and Clearing Limited (HKEX), the Insurance Authority (IA) and the Mandatory Provident Fund Schemes Authority (MPFA). The Steering Group aims to coordinate the management of climate and environmental risks to the financial sector, accelerate the growth of green and sustainable finance in Hong Kong and support the Government's climate strategies through.
 - examining policy and regulatory issues in green and sustainable finance, particularly those which may have a cross-sectoral impact;
 - facilitating policy direction and coordination to ensure Hong Kong has a cohesive and comprehensive green and sustainable finance strategy;
 - addressing technical cross-sectoral issues by, for example, forming technical working groups and consulting with different experts and stakeholders;
 - tracking international and regional trends, issues and developments in green and sustainable finance and considering how Hong Kong should better position itself and provide leadership in the region and globally;
 - identifying areas where Hong Kong can promote its strengths and thought leadership on green and sustainable finance regionally and globally. Announced partnership with the HKM to address environmental and climate risk to the finance sector.

- **ESG disclosure guidelines for listed companies** – HKEX issued new guidelines around mandatory disclosure on ESG reporting in December 2019. The changes to the ESG reporting guide and required disclosures include:
 - statements from boards laying out their considerations on ESG issues;
 - application of reporting principles’ “materiality”, “quantitative” and “consistency”;
 - explanation for reporting parameters of ESG reports;
 - significant climate-related concerns that have affected or could affect the issuer; changing the “environmental” key performance indicators to mandate disclosure of important targets;
 - changing the disclosure requirement for all “social” KPIs to “comply or explain”; and
 - decreasing ESG report publication deadlines to within five months after the end of the financial year.



Taiwan

- **Corporate Governance Roadmap (2018-2020)** – Financial Supervisory Commission (FSC) launched Corporate Governance Roadmap in 2018 after promoting the first 5-year “**Corporate Governance Roadmap 2013**”. The new 2018 Roadmap aimed to have corporate governance (CG) culture rooted, create an investment-friendly environment and improve international competitiveness. The new Roadmap intends to achieve the aims through the following five actions:
 - Promote shareholder activism
 - Deepen CG and CSR culture
 - Enhance board functions
 - Strengthen information transparency
 - Augment regulatory enforcement
- **Stewardship Principles for Institutional Investors** – Taiwan Stock Exchange (TWSE) published “Stewardship Principles for Institutional Investors” in 2016 with the goal of enhancing long-term value for both institutional investors and capital providers. The TWSE is encouraging institutional investors to publicly endorse the Principles and apply them on a “comply or explain” basis. The document is based on six stewardship principles:
 - Establish and disclose stewardship policies
 - Establish and disclose policies on managing conflicts of interest
 - Regularly monitor investee companies
 - Maintain an appropriate dialogue and interaction with investee companies
 - Establish clear voting policies and disclose voting results
 - Periodically disclose to clients or beneficiaries about the status of fulfilment of stewardship responsibilities
- **2020 Corporate Governance Evaluation System** – The System has been introduced since 2014 to compare CG performance among all listed companies so that investors and companies can better understand how well specific companies are implementing CG relative to other TW listed companies. The System uplifted overall TW CG standards and corporates’ voluntary efforts to improve CG. The System conducted annually has been introducing CSR measurements for corporates to incorporate into CG practices.

- **CSR reporting advocated to include climate risk** – Since Sep 2014, TW has been requiring listed companies of financial insurance industry, food industry, chemical industry and listed companies whose paid-in-capital reaches NTD 5 billion or more to release CSR reports in compliance with GRI Standards. FSC has been continuing the improvement of the quality of non-financial information for investors. In Jan 2020, FSC amended “Rules of Governing the Preparation and Filing of CSR Reports by TWSE Listed Companies” to include elements of TCFD in response to investors interests on TCFD disclosures.
- **ESG related Indices and ETFs** – TWSE compiled and launched Asia’s first ESG Index futures “**FTSE4Good TIP Taiwan ESG Index Futures**” in 2017 to encourage TWSE listed companies to better understand the merits of corporate sustainable development. “TWSE CG 100 Index” and “Taipei Exchange (TPEX) CG Index”, was compiled and released in 2015 to encourage investors to invest in companies with better CG practices. TWSE also released “TWSE RA Taiwan Employment Creation 99 Index and “TWSE High Salary 100 Index” to encourage enterprises to improve employment opportunities and employee wage.
- **Green Finance Action Plan 2.0 on the way** – Green Finance Action Plan 1.0 approved by Executive Bureau (Yuan) in 2017 focused on persuading banks to voluntarily adopt Equator Principles in credit assessment, developing green bonds market, allowing foreign banks to issue Taiwan dollar bonds, relaxing regulations and rules for investors/ insurers to invest capital towards green energy and opening investment channels such as private equity funds and venture capital funds to complement the government’s commitments to generate 20% of homeland electricity through renewable energy by 2025. Green Finance Action Plan 2.0 will broaden the focus from green finance to sustainable finance adding social and governance elements.
- From Green Bonds to Social and Sustainability Bonds by year end – The Green Bonds Operation Guidelines was introduced in 2017 to issue green bonds on the over-the-counter market, TPEX Bond Market. Green Bonds Operation Guidelines provide details on green bonds eligibility, green investment evaluation criteria, green bond utilisation scope and issuance procedures. FSC would ask TPEX, which operates the over-the-counter market to establish guidelines for issuing social and sustainability bonds by year end.

South Korea

- **Adoption of Stewardship Code by NPS** – National Pension Service (NPS) adopted the Stewardship Code in July 2018, established a new department dedicated to fulfilling its stewardship responsibilities in December 2018, and by the start of 2019 said it would actively exercise the code for the first time. The code sets out principles, or guidelines, aimed at encouraging institutional investors to be more active and engaged in corporate governance in the interests of their beneficiaries. Furthermore, NPS has revised its official investment management principles to reflect the fact that ESG issues are a part of its fiduciary duties.
- **Korea Exchange set up ESG team** in 2020 to review and report on ESG practices of firms. The team will also provide investors with information on the sustainability and social impact of listed firms in the country. The operator will also create a committee with third-party experts on ESG factors that will provide consultation on sustainability matters.
- **Potential amendment of disclosure rules** – Korea Exchange wants to amend disclosure rules and recommend listed firms to disclose changes to ESG-related information such as governance structure. The disclosure is not mandatory and is aimed at promoting awareness on ESG information. Previously, investors could only find relevant ESG information related to the largest firms on market, such as those included in the Kospi 200 index. Wider access to corporate ESG information plus the increased transparency in corporate governance could spur more investment opportunities for the locally listed firms.



- **NPS Fund’s guidelines for Responsible Investment of Domestic Stock (Amendments)**
 - In July 2020, the Special Committee on Responsible Investment & Governance, a sub-committee of the Fund Management Committee, will select companies subject to ‘Confidential Dialogue’ and ‘Non-disclosure Focus Management’ on key management and controversies issues to promote trustee responsibility activities. There are a total of 5 key management points.
 - Company’s dividend policy
 - Adequacy of executive remuneration
 - Infringement of corporate value or shareholder’s rights due to concerns of violation of statutes
 - No improvement in the exercise of continuous dissenting rights
 - Decline in regular ESG evaluation results

South Asia and Southeast Asia

India

Adoption of a stewardship code - All Mutual Funds and all categories of alternative investment funds shall mandatorily follow the Stewardship Code in relation to their investment in listed equities beginning April 2020.

Guidance Document on ESG Disclosures - Bombay Stock Exchange published a guidance document on ESG disclosures, a comprehensive set of voluntary ESG reporting recommendations, informed by global sustainability reporting frameworks. It underscored the importance of ESG disclosures to investors and provided 33 specific issues and metrics on which companies should focus.

Singapore

- Monetary Authority of Singapore (MAS) has released a Consultation Paper on **Environment Risk Management Guidelines for Asset Managers**.
- MAS’ **Sustainable Bond Grant Scheme** encourages the issuance of green, social and sustainability bonds in Singapore and is open to first-time and repeat issuers.
- SGX published the **Sustainability Reporting Guide**, in 2016 which mandates annual sustainability reporting by all listed companies on a comply-or-explain basis. The guide does not prescribe a reporting framework or list recommended KPIs. Instead, it refers to globally recognised ESG reporting frameworks, such as the GRI Sustainability Reporting Guidelines, the International Integrated Reporting Council’s Framework and the Sustainability Accounting Standards Board’s (SASB) standards. **Corporate governance reporting** is mandated by the Code of Corporate Governance, which is published by the MAS and most recently revised in 2018. Under the comply-or-explain obligation, listed companies need to address issues of board independence and diversity of thought and background, division of responsibilities between the leadership of the board and the company management, transparency of the appointment of directors, assessment of the board’s effectiveness, remuneration policies, risk management and internal controls, audit, shareholder rights, engagement with shareholders and interests of other stakeholders.
- **Singapore Stewardship Principles For Responsible Investors 2016** – aims to enable investors to be active and responsible shareholders. They provide a view on the activities and functions that stewards should carry out and how these should relate to the boards and management if investee companies.



Malaysia

Hub for shariah-compliant investments in the region, In 2019, Securities Commission Malaysia released the Sustainable and Responsible Investment (SRI) Roadmap for the Malaysian capital markets, aimed at creating an SRI ecosystem and charting the role of the capital markets in driving sustainable development.

Bursa Malaysia, has written guidance on ESG reporting and has ESG reporting requirement as a listing rule.

Indonesia

The Financial Services Authority (OJK) published the Roadmap for Sustainable Finance in Indonesia 2015-2019, which defines sustainable financing as efforts, including in financial services, to mitigate the impact of climate change, among other things.

The OJK also issued OJK Regulation (POJK) No. 60/POJK.04/2017 that lays out the standards for green bonds issuance and POJK No. 51/POJK.03/2017 that requires corporations to prove their sustainability credentials every year to the authority.

Philippines

The Philippine Securities and Exchange Commission (SEC) issued the Sustainability Reporting Guidelines for Publicly Listed Companies through SEC Memorandum Circular No. 4, series of 2019, outlining information that covered companies will have to disclose in relation to their non-financial performance across the economic, environmental and social aspects of their organisations. SEC will require, on a “comply or explain” basis, publicly listed companies to submit sustainability reports starting 2020, as part of efforts to help them assess and manage their economic, environmental and social impacts.

Thailand

The Securities and Exchange Commission (SEC) issued a Corporate Governance Code in 2017, which replaced the 2012 Principles of Good Corporate Governance for listed companies issued by the SET. It requires that company boards ensure sustainability reporting using a framework that is appropriate and “proportionate to the company’s size and complexity.” As per the SET’s guidelines, many companies choose to use GRI as their reporting framework. SET publishes annually a list of companies that meet their ESG performance criteria.





Pacific

Australia

- In January 2019, the **Modern Slavery Act 2018 (Cth)** came into effect introducing statutory modern slavery reporting requirements for Australian entities or entities that have undertaken business in Australia in the reporting year, which have an annual consolidated revenue of more than \$100 million. Their reports must include the assessed Modern Slavery risks within their operations and supply chain and actions taken to address these.
- The Australian Auditing and Accounting Standards Boards (AuASB and AASB) issued a joint bulletin stating that as per Practice Statement 2 Making Material Judgements entities should consider external factors, such as climate-related risk that may influence investor expectations in the preparation of financial statements.
- The Australian Prudential Regulation Authority (APRA) have contacted all APRA-regulated institutions outlining plans to develop a prudential practice guide focused on climate-related financial risks, as well as a climate change vulnerability assessment, including climate change in stress testing in 2021, beginning with Authorised Deposit-taking Institutions, followed by superannuation funds and insurers.
- APRA has also indicated that it will update its Prudential Practice Guide on Investment Governance (SPG 530) to assist superannuation funds in complying with requirements in relation to the formulation and implementation of an investment strategy, including in relation to ESG considerations.
- The Australian Securities Exchange (ASX)'s updated Corporate Governance Principles (V4) have included updates to principles, encouraging companies to ensure all publicly stated information is verified, boards to ensure their risk management strategy includes sustainability and climate change. and enhanced climate and other non-financial risk disclosure, with specific reference to the TCFD.



Japan

Stewardship Code and Revision of the Code

2020 – Japan’s Financial Services Agency (FSA) finalised and published the second revised version of Japan’s Stewardship Code in March 2020. The Code was first released by the FSA in February 2014. It sets out the principles for institutional investors to fulfil their responsibilities for sustainable growth of investee companies and enhancing the medium- to long-term investment return, for their clients and beneficiaries, through constructive engagement or purposeful dialogue. The Code was revised in 2017 to specify the role of asset owners, such as pension funds and to encourage asset managers to strengthen their governance and management of conflicts of interest. The Revision Code 2020 has some similarities with the revised UK Stewardship Code which took effect on January 2020. The Code has continued to adopt the following approaches

Soft law approach – although the Code is not legally binding, the FSA encourages institutional investors to voluntarily adopt the principles by disclosing a list of institutional investors who have become signatories.

Principles-based approach – is adopted by the Code (instead of a rules-based approach) so that the manner in which the Code’s eight principles are applied in practice, can differ depending on factors such as the investor’s size and investment policies, as long as the purpose and spirit of these principles are followed.

Key highlights of the Revision Code

- Focus on sustainability including ESG factors
- Disclosure of reasons for votes on agenda items
- Application of the Code to asset classes other than listed shares
- Stewardship activities of asset owners such as corporate pension funds
- Principles applied to service providers for institutional investors

Comply or explain” approach – the Code adopts a “comply or explain” approach under which an institutional investor can either disclose its intention to comply with a principle or provide sufficient explanation for non-adoption.

- Japan’s Ministry of Economy, Trade and Industry (METI) has created a label to identify companies that are reporting on ESG performance, as part of efforts to improve corporate disclosure and improve the long-term investing landscape.
- Japan Exchange Group and Tokyo Stock Exchange published **ESG disclosure handbook 2020**. The Handbook was created in consultation with various institutional investors and focuses on linking ESG issues to corporate value and disclosing those links. It is not prescriptive or absolute; rather, it brings together issues that companies will come across when beginning voluntary ESG disclosure and suggests points to consider and processes that companies may wish to follow to tackle these issues.



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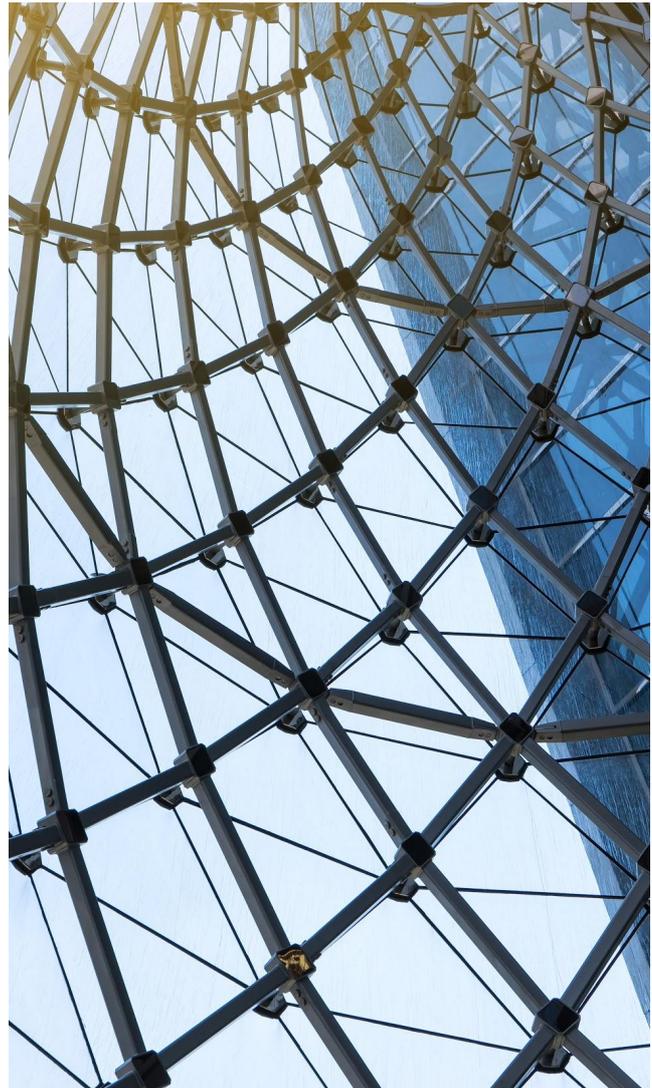
What are the major ESG standards and frameworks and what is its purpose?

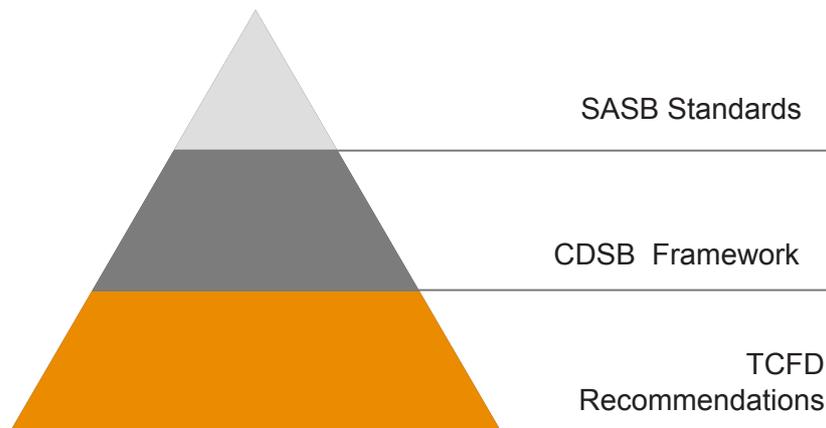
A number of organisations have developed frameworks to help companies disclose material ESG information and in turn, disclose comparable information

- **UN Sustainable Development Goals (SDGs)**
 - Investing with SDG outcomes constitutes five part high level framework for investors looking to shape real-world outcomes in line with the SDGs. The five parts of the framework includes: i) identifying the outcomes, ii) setting policies and targets, iii) investors shape outcomes, iv) financial system shapes collective outcomes and v) global stakeholders collaborate to achieve outcomes in line with the SDGs
- **Sustainability Accounting Standards Board (SASB)** – The SASB framework is broad-based and recommends topics and metrics for 77 different industries across all three pillars of ESG. These frameworks provide guidance on how organisations can align their reporting with investors’ needs and gather standardised data. SASB is company-level but investor-focused For reference, here is a link to the SASB’s materiality map: **SASB Materiality Map®**. The map identifies sustainability issues that are likely to affect the financial condition or operating performance of companies within an industry.
- **Task Force on Climate-related Financial Disclosures TCFD** – The TCFD framework provides recommendations for transition (policy, technology, market) risks and physical risks associated with climate change across industries. The four core elements in TCFD guidance are governance, strategy, risk management, metrics and targets.

- **Climate Disclosure Standards Board (CDSB)**
 - The CDSB Framework sets out an approach for reporting environmental and climate change information in mainstream reports, such as annual reports, 10-K filing, or integrated report.

To summarise, the TCFD recommendations serve as a global foundation for effective climate-related disclosures. The CDSB Framework helps organisations integrate and disclose financially material climate and natural capital-related information into their annual reports. The SASB standards help organisations to collect, structure and effectively disclose related performance data for the material, climate-related risks and opportunities they have identified.





- **Global Reporting Initiative (GRI) Standards** – a company-level framework for a very broad audience. Sustainability reporting based on the Standards provides information about an organisation’s positive or negative contributions to sustainable development.
- **International Integrated Reporting Council (IIRC)** – An integrated report is a concise communication about how an organisation’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term. The purpose of this Framework is to establish Guiding Principles and Content Elements that govern the overall content of an integrated report and to explain the fundamental concepts that underpin them. This Framework is written primarily in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organisations.
- **Carbon Disclosure Project (CDP)** – By completing CDP’s questionnaires on climate change, forests and water security, companies will identify ways to help them manage their own environmental risks and opportunities as well as providing vital information back to their customers and investors and to the market through research, insights and financial products and services.

A number of industry or trade associations have also developed their own recommendations to help members standardise ESG disclosures within the industry. For example, The National Association of Real Estate Investment Trusts (NAREIT) produced a guide to help members better understand and navigate the ESG reporting frameworks. While Edison Electric Institute (EEI) launched an ESG template to help EEI member electric companies provide uniform ESG/sustainability information.





The CFA institute has also released a 'Consultation Paper on the development of the CFA Institute Disclosure Standards for Investment Products' in August 2020. The initial version of the Standard is expected to be issued in May 2021. The purpose of the Standard is to provide greater transparency and comparability for investors by enabling asset managers to clearly communicate the ESG-related features of their investment products. The Standard will establish fundamental requirements and disclosure requirements for investment products with ESG-related features, procedures for independent examination of disclosures and a classification of ESG-related features by ESG-related needs.

The table below shows how the Standard will fit within the landscape of existing and developing ESG related regulations, standards, labels and initiatives. The table is not meant to be exhaustive – the industry is changing rapidly and many other regulations, standards, labels and initiatives exist or are in development.

Type and scope	Examples
Specifications for investment product disclosures	<ul style="list-style-type: none"> • CFA Institute ESG Disclosure Standards for Investment Products • Regulation EU 2019/2088 Sustainable Finance Disclosure Regulation (SFDR) • Eurosif European SRI Transparency Code
Specifications for measurement or reporting	<ul style="list-style-type: none"> • Principles for Responsible Investment (PRI) Reporting Framework • Impact Management Project
Specifications for investment products	<ul style="list-style-type: none"> • Febelfin Quality Assurance Standard and Towards Sustainability label • SRI Label (Label ISR; French Ministry for the Economy and Finance) • Luxembourg Finance Labelling Agency (LuxFLAG) ables • EU Ecolabel (und development)
Specifications for investment approaches	<ul style="list-style-type: none"> • British Standards Institution (BSI) PAS 7341: Responsible and Sustainable Investment Management • International Finance Corporation (IFC) Operating Principles for Impact Management
Definitions of investment approaches	<ul style="list-style-type: none"> • The Investment Association (IA) Responsible Investment Framework • Global Sustainable Investment Alliance (GSIA) definitions • Institute of International Finance (IIF) Sustainable Finance Working Group Report: "The Case for Simplifying Sustainable Investment Terminology" • Investment Company Institute (ICI) report: "Funds' Use of ESG Integration and Sustainable Investing Strategies: An Introduction"
Codes and Principles (of investing)	<ul style="list-style-type: none"> • The UK Stewardship Code 2020 • Principles for Responsible Investment (PRI)
Specifications for benchmarks	<ul style="list-style-type: none"> • Regulation EU 2019/2089 Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks
Specifications for issuer disclosures	<ul style="list-style-type: none"> • Sustainability Accounting Standards Board (SASB) Standards • Global Reporting Initiative (GRI) Standards • Task Force on Climate-Related Financial Disclosures (TCFD) recommendations • Directive 2014/95/EU Non-Financial Reporting Directive (NFRD)
Specifications for bonds	<ul style="list-style-type: none"> • Climate Bonds Initiative (CBI) Climate Bonds Standard and Certification Scheme • EU Green Bond Standard
Classification of economic activities	<ul style="list-style-type: none"> • EU Taxonomy

Source: The CFA institute 'Consultation Paper on the development of the CFA Institute Disclosure Standards for Investment Products', August 2020.

6.

What does signing up and complying with UN Principles for Responsible Investment (PRI) mean?

Among different international initiatives, the PRI is the world's largest voluntary corporate sustainability initiative with over 7,000 corporate signatories in 135 countries. Founded in 2006, the PRI is a United Nations-supported international network of investors working together to implement its six aspirational principles. PRI allows an organisation to publicly demonstrate its commitment to responsible investment and places it at the heart of a global community.

Who can sign the Principles?

Asset Owners, Investment Managers and Service Providers Investment managers that are still raising funds, rather than actively managing assets, can sign pre-emptively as provisional signatories.

What is an organisation required to do after signing?

The six UN Principles themselves are voluntary and aspirational. For most signatories, the commitments are a work-in-progress and provide direction for their responsible investment efforts, rather than a checklist with which to comply. Signatories are required to publicly report on their responsible investment activity through the **Reporting Framework**. For the first full reporting cycle in which an organisation is a signatory, reporting is voluntary but encouraged. UN PRI provides a detailed investor and service provider reporting framework and assessment resources that signatories can refer to.



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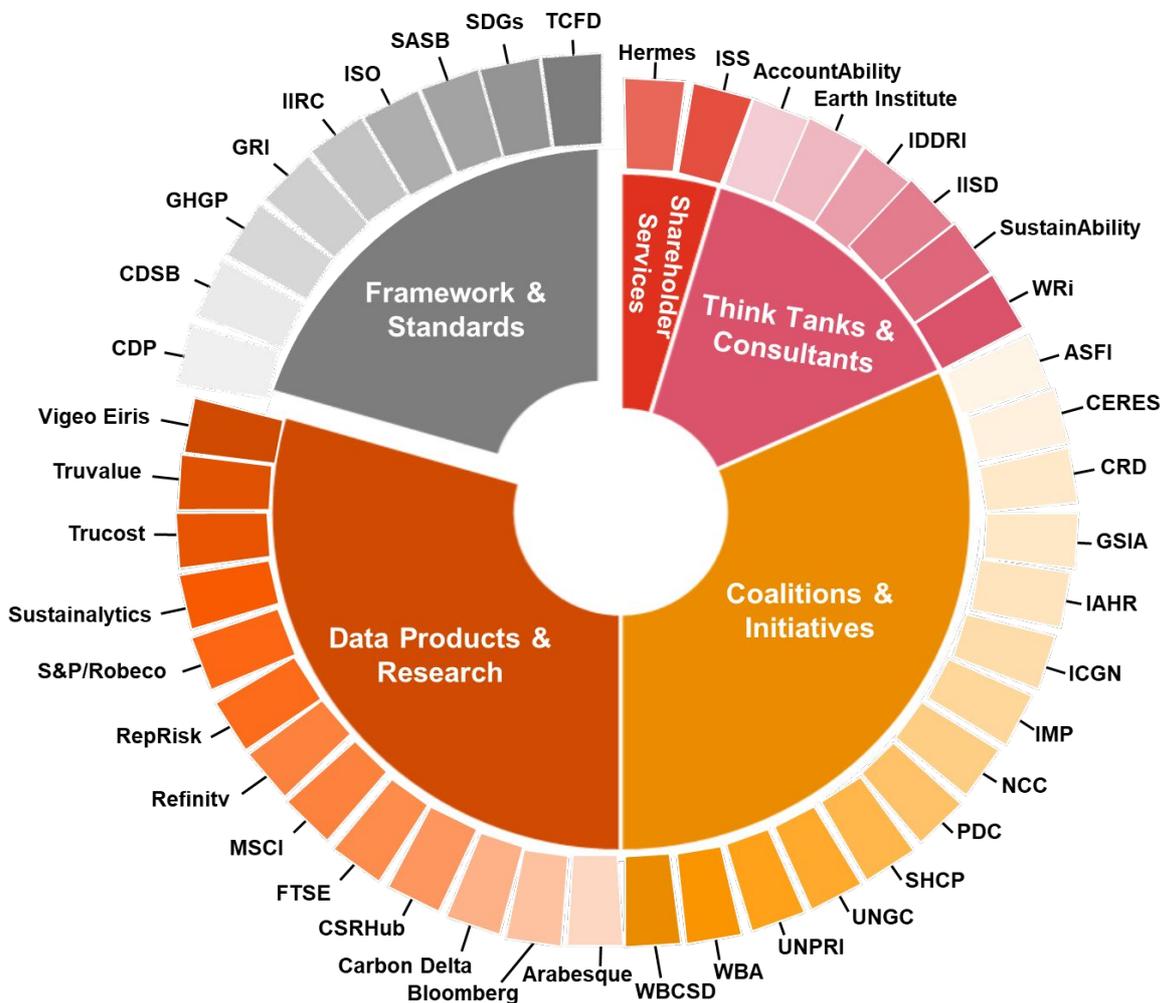
What are third-party rating agencies and who are the major players?

Rating agencies scan public ESG disclosures and score companies based on their view of the risk exposure to various ESG issues and the quality of programs against industry peers. The rating agencies also create indices with benchmarking data to guide investors in their investment decisions. These ESG indices are then licensed to institutional investors who use them to create new ESG ETF products that have become a major factor in the shift to passive investing.

Rating agencies use both qualitative and quantitative data to inform their ratings; for instance, a company's carbon emissions, cyber-security readiness and instances of questionable social conduct all factor into their overall score. MSCI, Institutional Shareholder Services (ISS), Sustainalytics and S&P are among the most prominent third-party ESG rating agencies. Companies should be aware that these third-party rating agencies use different methodologies to come up with their ratings and therefore a company's rating can vary between rating agencies. What's even more challenging, is that these ratings are also not aligned with the disclosure frameworks being promoted by institutional investors (i.e. SASB and TCFD).

Some investors may use these ratings in their decision-making, while others use it as a base and perform their own independent analysis as well.

Finally, Moody's and Fitch have also announced that they will rate companies on ESG metrics.





8.

Types of ESG adoption – product vs process

ESG adoption can be done either at the product level, process level or both. Ways of ESG adoption can be broadly classified as screening or integration. Some of the ESG screening strategies are:

- Negative/exclusionary screening – explicit exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria
- Positive/best-in-class screening – investment in sectors, companies or projects selected for positive ESG performance relative to industry peers
- Norms-based screening - screening of investments against minimum standards of business practice based on international norms (such as OECD Guidelines, UN Global Compact, etc.).

ESG integration requires a systematic approach to inclusion of ESG factors through a robust strategy and governance structure with clear roles and responsibilities and decision making processes.

	Integration	Screening
Investment universe	Not impacted	Potentially reduced (due to exclusions)
Impact on investment process	Embedded in security selection and portfolio construction → no major change	Before investment analysis
Materiality	Assessment of material factors	Strict process to follow → no impact
Process versus product	At process level	Usually at product level

9.

What are the key challenges asset managers will face?

Given the evolving **regulatory landscape**, it is essential that we and our clients update ourselves when it comes to the regulations. Frameworks, standards and reporting and disclosure requirements are constantly evolving in the region. Our clients must ensure that they are aware of and fully understand the implications of various ESG regulations developing in not only their country but in Asia Pacific, in general, as well. Moreover, ESG extends beyond regulatory compliance with portfolio analysts, managers etc taking the lead, particularly on “product” level. Given that ESG potentially leads to value creation, clients must be aware of the different ways in which they can integrate ESG in their investment processes.

Data is fundamental to not only the external reporting landscape, but also to internal risk management, investment decisions and internal reporting. Therefore one of the key challenges which our clients will face is sourcing this data, vetting it and ensuring that it is fit for purpose. Whilst there are numerous third party data suppliers in the market, it is important to understand the differences between each of their offerings and how these differences might impact our client and our client’s business.

One cannot bring **change to an organisation** in overnight. Therefore it is essential that discussions are ongoing with our clients in terms of their views and plans to adopt ESG within their business and also what level of upskilling will be required – within the business and also within their Boards/C-suite.

Distribution and investor demand within the ESG space are some of the other challenges that clients in Asia Pacific may face. It is essential that the product manufacturer and the distributor are ensuring that they have the appropriate information and data available. This is fundamental to the target market identification as going forward, financial products should only be being sold to those with matching preferences.

Transparency is key to the sustainable finance and ESG agenda. Efforts must be made to also ensure **prevention of greenwashing**. Trust is essential to the relationship between us and our clients and our clients and their clients. Therefore it is essential that clear and transparent information is being provided by us and by our clients. Without transparency there can be no trust and without data there can be no transparency. Data is a fundamental lynchpin upon which not only the investor relies upon, but which is needed by asset managers when it comes to meeting their reporting (internal and external) and operational objectives.



10.

What actions should you be considering now?

There is a need to recognise that ESG adoption of asset managers and asset owners in APAC can be different across various countries within APAC and also among their peers. Accordingly, here are some actions that you can consider:

Not begun your ESG journey yet –

- Recognise the need for ESG adoption with respect to their existing business and processes
- Gain an understanding of ESG and different standards, frameworks and regulations
- Understand how key ESG rating agencies view the company and which topics you believe are important.
- Conduct an ESG assessment to establish the top priorities for the company and analysis to identify the topics most important to your stakeholders.

Early/mid stages –

- Identifying the ESG adoption approach that is most-suited for your business/industry (including becoming signatories of up for relevant standards and reporting frameworks)
- Conduct a current state assessment to identify gaps with relevant standards and reporting frameworks
- Inventory current ESG/Sustainability efforts and understand what data/metrics are available today – and importantly, how those efforts align to the results of your materiality assessment
- Conduct a readiness assessment of processes, procedures and internal controls to see what investments are needed to make reporting “investment grade.”
- Assess whether the asset manager has the right governance and operating model to ensure ESG strategy is executed with accountability
- Review your portfolio, prospectus and website current disclosures and look to see what updates can be made

Questions you should ask yourselves

1. Are you getting the credit you deserve from investors on your ESG programs?
2. How aligned are your disclosures with standards supported by institutional investors?
3. Does your data collection and reporting processes meet industry standards?
4. How are you driving accountability and governance to execute your business strategy?
5. What is your strategic vision for ESG investment business? How do you assess sustainability macro trends and their impact on your business risks and opportunities?

Mature stages/frontrunners –

- Obtaining an independent ESG assurance
- Collaboration and engagement with industry associations, regulatory authorities and other financial institutions to facilitate knowledge sharing, improving the state of ESG disclosures and regulations and furthering the overall ESG agenda.



How PwC can help

Globally PwC offers a full suite of services to help our clients, from forming their initial ESG strategy to helping them establish good governance practices. The nature and specifics of the services for our clients are subject to compliance with independence standards and restrictions.

ESG framework and strategy development support

- **ESG framework, strategy and vision setting**
Conduct an ESG assessment to establish the top priorities for the company and analysis to identify the topics most important to stakeholders Impact investing (KPI management) and impact measurement.
- **Current state assessment**
Assess the current state of ESG disclosures, compared to frameworks, ratings agencies and best practices.
- **Gap analysis**
Standard readiness assessment for various regulations and reporting - Identify and analyse the gaps between the current state and accepted standards
- **Operating model development**
Develop a recommended ESG operating model based on leading practice (i.e. governance, accountability, etc). ESG policy and process reviews and support.
- **Product strategy support**
Design and implement governance, processes and controls to monitor and report on ESG risk and performance. Implementation of ESG strategy, processes, portfolio analysis and risk management.
- **Execution roadmap development and project management**
Strategic guidance provided to achieve ESG goals. Facilitate a working session to align on ESG disclosure milestones and a high level roadmap
- **Opportunity identification**
Identify positive social and environmental opportunities that also deliver positive financial returns. New financial product development following the opportunity identification

Risk & compliance assessment

- **Risk Management and controls**
Assistance in managing risks relating to key issues ranging from climate change to modern slavery; Risk management process relating to implementation of ESG strategy, processes, portfolio analysis; Suitability testing.

Risk monitoring and reporting

Review of design and implementation governance, processes and controls to monitor and report on ESG risk and performance; Monitoring of third party data provider quality; Monitoring of ESG risks (inc. climate change); PwC to support companies' disclosure to align with frameworks such as TCFD

Disclosures and Data

- **Successfully navigate the changes**
Respond to regulatory change and monitor regulatory compliance.
- **Ensure compliance with disclosure requirements**
Assess the current state of ESG disclosures, compared to frameworks, ratings agencies and best practice; Assistance for clients in areas of GRI, TCFD, scenario analysis and reporting, IORP II reporting, reporting to sustainability agencies.
- **Collation of publicly available data**
Collect targeted activity data to support publicly disclosed metrics.
- **ESG Dashboard**
Development of a prototype ESG portfolio analysis dashboard which combine with the ESG performance data, peer analysis and benchmarking.

Assurance & Reporting

- **Assurance readiness**
Perform detailed walkthroughs to assess the data collection process and applicable controls to provide a report of any gaps towards assurance or opportunities for enhancement
- **Provide assurance reporting in key areas**
Provide assurance to key stakeholders over their financial and non-financial reporting and ESG activities; Non-financial assurance - review of selected data using assurance procedures.
- **Internal audit support and reporting**
Coordinate with Internal Audit teams to support ESG integration efforts.

Available resources

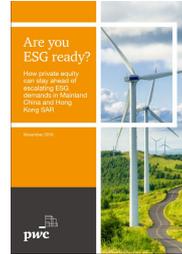
Below are some of PwC's latest publications on ESG which are publicly available.



Responsible Investing in Asia-Pacific



<https://pwc.to/3el8fIU>



Are you ESG ready?



<https://pwc.to/3jREg6y>



Twelve trends of Asia's AWM industry



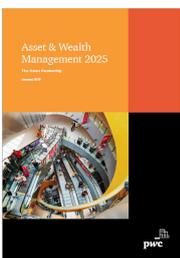
<https://pwc.to/3jSd6fJ>



ESG considerations for private equity firms



<https://pwc.to/3mR13Rx>



Asset & Wealth Management 2025



<https://pwc.to/34QRxHY>



Asset and wealth management revolution: Investor perspectives



<https://pwc.to/2HVyNhN>



Toward Common Metrics and Consistent Reporting of Sustainable Value Creation



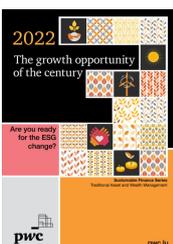
<https://bit.ly/3jPlamX>



Shariah-compliant funds: A whole new world of investment



<https://pwc.to/3mK7mqc>



2022: the growth opportunity of the century Are you ready for the ESG change?



<https://pwc.to/2GxFtCe>

#RiskandRegs

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