SUSTAINABLE FINANCE IN SINGAPORE AND HONG KONG

The financial sector has a key role to play in tackling the climate crisis. As environmental, social and governance (ESG) issues sit high on the agenda of governments and financial institutions (FIs) globally, we take a look at the ESG developments unfolding in Singapore and Hong Kong which impact the financial sector.

GREENING THE FINANCIAL SYSTEM

Since the Paris Agreement, global efforts to combat climate change have intensified. Government initiatives have accelerated the awareness of climate related financial risks and the need to mobilize capital for green investments.

The Monetary Authority of Singapore (MAS) and the Hong Kong Monetary Authority (HKMA), together with several other central banks and supervisors, form part of the Network for Greening the Financial System, a network to help strengthen the global response required to meet the goals of the Paris Agreement and enhance the role of the finance sector to manage environmental risks.

An overview of key ESG-related initiatives led by the MAS and HKMA is set out below.

SINGAPORE

Environmental Risk Management and Disclosures

Guidelines and Information Papers on Environmental Risk Management

To facilitate the financial sector's transition to a sustainable future, the MAS launched the Green Finance Action Plan (GFAP) in 2019. A key thrust of the GFAP is to strengthen the financial sector's resilience to environmental risk.

To this end, the MAS set out its supervisory expectations around effective governance, robust risk management and meaningful disclosure of environmental-related risks through the issuance of the Guidelines on Environmental Risk Management (ERM Guidelines) for banks, insurers and asset managers in December 2020. Banks, insurers and asset managers are expected to apply the ERM Guidelines from June 2022.

To support the implementation of the ERM Guidelines, the Green Financial Industry Taskforce (GFIT), an industry-led initiative convened by the MAS, published a handbook in January 2021, sharing guidance on practical

Key issues

- To bolster the Singapore financial sector's resilience to environmental risks, the MAS has issued guidelines, best practices and information paper on environmental risk management.
- Climate reporting will be mandatory for SGX-listed issuers in the financial industry from FY 2023.
- Mandatory disclosure requirements for FIs in Singapore are on the horizon.
- The Singapore government continues to support industry efforts to develop an Asian voluntary carbon credit markets.
- Hong Kong government and financial regulators are currently considering the most appropriate market and regulatory model to develop Hong Kong into a global, high-quality voluntary carbon market.
- To support the global efforts in transitioning towards a greener and more sustainable future, the Hong Kong financial regulators continue to enhance measures and regulatory supervision in order to align with international regulatory development trends.

implementation of the ERM Guidelines and good practices on environmental risk management, including best practices on disclosures.

On disclosure standards, MAS supports the alignment of disclosures with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and the upcoming International Sustainability Standards Board (ISSB) standards. As such, in May 2021, the GFIT published the Financial Institutions Climate-related Disclosure Document (FCDD) to assist FIs which are subject to the ERM Guidelines in stepping up their efforts in climate reporting. The FCDD contain best practice recommendations guided by the TCFD recommendations.

The MAS also published a series of information papers in May 2022, which provided an overview of the progress made by selected FIs in implementing the ERM Guidelines, identified emerging and/or good environmental risk management practices by FIs, and highlighted areas of improvement.

Mandatory Disclosure for Listed Companies

From 1 January 2022, all entities listed on the Singapore Exchange (SGX) are to provide climate reporting on a ‘comply or explain’ basis in their annual sustainability reports from the financial year (FY) commencing 2022. Climate reporting will be mandatory for issuers in the financial industry from FY 2023. Sustainability reports are to include climate-related disclosures consistent with the TCFD recommendations, among other things.

Other key changes effective 1 January 2022 include requiring issuers to subject sustainability reporting processes to internal review, and all directors to undergo a one-time training on sustainability.

Disclosure and Reporting for Retail ESG Funds

To mitigate greenwashing risks, the MAS published a circular on Disclosure and Reporting Guidelines for Retail ESG Funds in July 2022. The circular sets out the regulator's expectations on how certain existing legal and regulatory requirements apply to retail ESG funds, and the disclosure and reporting guidelines applicable to these funds.

From 1 January 2023, retail ESG funds would be required to provide clear disclosures on their ESG investment objective and approach, relevant ESG criteria and metrics, as well as regular updates on how their ESG objectives have been met.

Wider Implementation

MAS has said it will consult on mandatory disclosure requirements for FIs, referencing the upcoming ISSB standards.

The Accounting and Corporate Regulatory Authority (ACRA) and Singapore Exchange Regulation have also set up a Sustainability Reporting Advisory Committee (SRAC), and are developing a roadmap for wider implementation of sustainability reporting for Singapore-incorporated companies.

Green and Transition Taxonomy

To serve as a common reference for Singapore FIs to determine if an economic activity can be considered green or transitioning towards green, the GFIT proposed a taxonomy in January 2021 which references international best practices and adapts them to the Asian context where relevant. The GFIT intends to finalise the full taxonomy in 2023.

Harnessing Technology

To address the financial sector's sustainability data needs, MAS also launched Project Greenprint, a series of initiatives that harnesses technology to support high-quality sustainability disclosures.

These initiatives promote the development of a robust data infrastructure (through the establishment of an ESG Disclosure Portal and ESG Registry, and a Data Orchestrator) that collects and aggregates ESG data, and avails it for use by the financial sector.

Promoting Sustainable Investments

The Green and Sustainability-Linked Loan Grant Scheme was launched in November 2020 to enhance corporates' ability to obtain green and sustainability-linked loans, by defraying the expenses of engaging independent service providers to validate the green and sustainability credentials of the loan.

The Sustainable Bond Grant Scheme, first launched in 2017, was also expanded in recent years to include social, sustainability, and sustainability-linked bonds. Qualifying issuers can offset expenses incurred for independent external review or rating done on the bonds, based on any internationally recognised green, social or sustainability bond principles or framework.

Towards a Voluntary Carbon Market

The Singapore government is keen to facilitate the growth of the carbon services ecosystem, and in particular, the development of a robust carbon market.

Together with other industry players, the SGX co-established Climate Impact X, a carbon exchange and marketplace. The carbon exchange will facilitate the sale of carbon credits through standardised contracts that cater primarily to multinational corporations and institutional investors. The marketplace offers a selection of natural climate solutions projects that can meet corporate sustainability objectives.

HONG KONG

Environmental Risk Management

With sustainable finance as the top of the regulatory agenda for the Hong Kong financial sector, the Green and Sustainable Finance Cross-Agency Steering Group (Steering Group) co-chaired by the HKMA and the Securities and Futures Commission (SFC) was established in May 2020 as a key driver to co-ordinate the management of climate and environmental risks of financial institutions. The Steering Group comprises of the Financial Services and the Treasury Bureau, the Environment Bureau, Hong Kong Exchanges and Clearing Limited (HKEX), the Insurance Authority and the Mandatory Provident Fund Schemes Authority.

Central Banking Measures

In December 2021 the HKMA published a new supervisory policy manual module on "Climate Risk Management" and a circular on sound practices that support banks in their transition to carbon neutrality. Building on that work, the HKMA completed a review of its existing banking supervisory processes and shared with the industry its two-year plan to integrate climate risk considerations into these processes. Amongst others, the HKMA intends to conduct thematic examinations on selected areas of climate risk management later in 2022, and another round of climate risk stress test between 2023 and 2024. In its effort to align with international standards, the HKMA supports the Principles for the Effective Management and Supervision of Climate-related Financial Risks issued by the Basel Committee on Banking Supervision in June 2022 and is assessing the need for aligning its existing supervisory framework with the principles.

Securities and Futures Markets Initiatives

As ESG-related investment products continue to gain traction globally, the SFC issued a circular on enhanced disclosures for Hong Kong authorized funds which incorporate ESG factors as a key investment focus and introduced periodic assessments to address greenwashing risks. The SFC also amended the Fund Manager Code of Conduct and issued a circular in August 2021 to set out the expected standards for fund managers managing collective investment schemes (CIS) to consider climate-related risks in their investment and risk management processes and make appropriate disclosures (where applicable). Large Fund Managers (i.e. those with assets under management in their CIS which equal or exceed HK$8 billion) must comply with (i) the baseline requirements (focused around governance, investment management, risk management and, if applicable, disclosure) by 20 August 2022, and (ii) the enhanced standards (assessing relevance and utility scenario analysis, and calculating the portfolio footprint of Scope 1 and Scope 2 GHG emissions associated with the funds' underlying investments) by 20 November 2022. Remaining Fund Managers (i.e. those with less than HK$8 billion assets under management in their CIS) must comply with the baseline requirements by 20 November 2022[1].

Stock Exchange

As part of the Steering Group's action plan, climate-related disclosures aligned with the TCFD recommendations will be mandatory across relevant sectors in Hong Kong no later than 2025. The ESG reporting requirements of the HKEX that came into effect in July 2020 incorporated certain key recommendations of the TCFD, such as requiring board's oversight of ESG matters, targets for certain environmental key performance indicators and disclosure of impact of significant climate-related issues. In November 2021, the HKEX published Guidance on Climate Disclosures to facilitate listed companies in complying with the TCFD recommendations. The HKEX also published its analysis of initial public offering (IPO) applicants' corporate governance (CG) and ESG practice disclosures to highlight the importance for IPO applicants to take CG and ESG issues into consideration at an early stage.

Following HKEX's publication of consultation conclusions on Review of the Corporate Governance Code (CG Code) and Related Listing Rules, the revised CG Code and Listing Rules came into effect on 1 January 2022. The amendments highlight ESG risk management as an integral part of good corporate governance which, amongst others, elaborate the linkage between CG and ESG, improve the timeliness of ESG reports and further promote board (gender) diversity of listed issuers. In April 2022, the HKEX launched a new board diversity repository and enhanced its ESG academy to improve issuers' ESG practices as part of its continued effort in enhancing Hong Kong's position as a leading governance and ESG hub in Asia.

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[1] Clifford Chance has co-authored a paper to offer practical guidance to fund managers when undertaking climate-related risk assessment under the SFC requirements.

Green and Transition Taxonomy

The Steering Group intends to develop a local green classification framework that facilitates navigation amongst the Common Ground Taxonomy, China and EU's taxonomies, guided by principles of interoperability, comparability and inclusiveness. In line with the Steering Group's strategic plan to support the development of a global uniform set of sustainability reporting standards, the Steering Group welcomes the ISSB's proposed general requirements for disclosure of sustainability-related financial information and climate disclosure requirements. The ISSB aims to publish the first set of international sustainability standards late 2022 or early 2023; the SFC and the HKEX are evaluating a climate-first approach to implement the ISSB standards for Hong Kong.

Promoting Sustainable Investments

Since the launch of the Government Green Bond Programme in 2018, a total of more than US$7 billion equivalent of green bonds targeting global institutional investors has been issued. The Hong Kong government at its budget speech in February 2022 indicated that it will issue green bonds totalling about US$4.5 billion or equivalent this year. The Green and Sustainable Finance Grant Scheme launched last year was well received by the industry and to further support companies, the government will lower the minimum loan size from HK$200 million to HK$100 million in respect of applications for subsidies for covering external review costs under the scheme.

Towards a Voluntary Carbon Market

In March 2022, the Steering Group published its preliminary assessment of feasibility for Hong Kong to pursue carbon market opportunities. One of the success factors identified in the report is Hong Kong's linkage with Mainland China, which enables Hong Kong to facilitate global capital flows into Mainland China's carbon markets. As a way forward, the Steering Group intends to proceed with developing Hong Kong into a global voluntary carbon market and establish and explore opportunities with the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) Unified Carbon Market. With the aim of supporting China's efforts to peak carbon emissions by 2030 and reach carbon neutrality by 2060, the HKEX signed a Memorandum of Understanding with the China Emissions Exchange under which the two exchanges will jointly explore the development of a voluntary carbon emission reduction programme in the GBA.

In July 2022, the HKEX announced the launch of Hong Kong International Carbon Market Council as a further step to realise Hong Kong's carbon neutrality goals, including the development of an efficient and effective Hong Kong–based international carbon market.

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