EXPLAINER

ASIA TAKING SMALL, INCONSISTENT, ESG STEPS

In recent years, discussion of environmental, social and governance (ESG) has gained traction globally, with climate change, supply chain transparency and sustainability increasingly on the agenda. The impact is now starting to be seen in the changing regulatory and legal landscape across certain Asian jurisdictions, but the bigger, coordinated changes are still some distance away.

1 HOW ARE ASIAN JURISDICTIONS SHARPENING THEIR FOCUS ON ESG?

Lee Weilin, head of the sustainability practice at Singapore's Rajah and Tann, says Asia is "levelling up on awareness, particularly on the climate front."

She points to the joint efforts by ASEAN countries in developing the ASEAN taxonomy and government-led initiatives and commitments following COP 26 UN Climate Change Conference held in Glasgow recently, noting large economies like China, Japan, Singapore, and Indonesia all have announced targets to reduce greenhouse emissions or achieve carbon neutrality over the past few years.

But while "the level of attention to each of the issues can vary vastly from country to country as this region has a mix of economies, financial and capital markets with varied size and level of maturity and sophistication," Lee does see "greater focus on actions more than just awareness."

In Singapore, a series of practical tools are underway with the Monetary Authority of Singapore (MAS) working with industry experts on common utility platforms that aggregate and share sustainability data across different stakeholders.

"The platforms include the Greenprint Common Disclosure Portal that aims to simplify the ESG disclosure process by converting data inputs into different reporting framework as required under different jurisdictions and purposes. This will allow international investors and financial institutions to have easier access to ESG disclosures by a company or a sustainability project," Lee says, adding that the financial regulatory authority is also developing a blockchain-based ESG registry.

2 HOW HAS COVID-19 IMPACTED PROGRESS IN THIS AREA?

The global pandemic has undeniably had an impact on the conversation around ESG, Lee says, noting that the fact "the entire world has been affected has brought about awareness to the existential threat to mankind, and ESG issues are in essence, existential issues."

"For example, jurisdictions in the Asia-Pacific region are generally committed to advancing their climate ambitions and achieving their NDCs as most of these countries are vulnerable to the impacts of climate change as a larger number of their population reside in low lying coastal areas and/or are dependent on agriculture for their livelihood," she adds.

But COVID-19 has also placed hurdles in the way, particularly around NDC submissions, economic disruptions and limiting resources that "need to be channelled to rebuilding their economy, protecting their people's lives and avoiding catastrophic social and political consequences due to the COVID-19 pandemic," Lee says. "It is not an easy balance."

3

IS ASIA LIKELY TO INTRODUCE UNIFORM ESG RULES TO AVOID GREENWASHING?

Earlier this year, the European Union introduced the Sustainable Finance Disclosure Regulation, or SFDR. Covering all European Union financial-market participants and advisers, as well as foreigners that market products to EU investors, the new rules require fund managers to evaluate and disclose the environmental, social, and corporate governance features of financial products. This is seen to combat "greenwashing," or the making of false or misleading claims about the environmental benefits of products and services.

In early November, Bloomberg reported that the Monetary Authority of Singapore (MAS) was turning to regulation and technology to tackle greenwashing, but Asian jurisdictions have yet to broadly focus on what is considered a weak link in the push to expanding sustainable finance.

"Unlike in Europe, there is no established regional organisation that binds all the Asian countries," Lee says, noting that "establishing a set of ESG rules that are applicable to all Asian countries which have a diverse mix of economies and culture would take a longer time."

Still, Lee says that the ASEAN finance sectorial bodies has recently introduced the ASEAN Taxonomy for Sustainable Finance — Version 1, something she calls "a step in the right direction."

This is "aligned with international benchmarks and is designed to be an inclusive and credible classification system for sustainable activities for all ASEAN member states. Having a common understanding of what is sustainable is essential to curb greenwashing and provide clarity and confidence to all stakeholders," Lee says.

While Lee concedes ASEAN does not represent all economies in Asia, it is expected to become the fourth-largest economy in the world by 2030, and the success of the ASEAN Taxonomy "will pave the way for uniform ESG rules in the region to avoid greenwashing."

"In the interim, a few of the key economies in Asia are taking steps to develop sustainable investing and financing blueprint with reference to international benchmarks," Lee says pointing to China's Green Bond Endorsed Project Catalogue and MAS' Green Finance Industry Taskforce's proposed taxonomy that will "classify economic activities into green and otherwise, plus activities that are transitional." ALB