SHAPING A SUSTAINABLE FINANCIAL SYSTEM

Future-proofing global finance for a net-zero, nature-positive world

SINGAPORE

INTRODUCTION

Singapore is by far the largest issuer of green finance, with

US$3.3 billion

in sustainable finance products issued in 2020[2]

Comprising nearly

50%

of **green bond and loan issuances** within the bloc[3].

Leading Singaporean policy actors – including the Monetary Authority of Singapore (MAS) and Singapore Exchange (SGX) – have articulated a consistent vision of Singapore as a hub for sustainable finance in Southeast Asia, a region which is estimated to require US$200 billion per year in green investment until 2030[1].

Singapore is by far the largest issuer of green finance among the Association of Southeast Asian Nations (ASEAN), with some US$3.3 billion in sustainable finance products issued in 2020[2], comprising nearly 50% of green bond and loan issuances within the bloc[3].

Singapore also plays a significant role in the global trade of forests products. Due in part to its strategic location and status as a financial hub in Southeast Asia, Singapore is home to a number of companies trading in forest risk commodities (FRCs) and related consumer goods. For example, just three companies headquartered in Singapore control 75% of globally shipped palm oil volumes[4]. As such, Singapore operates as a finance conduit to companies involved in the production of FRCs.

Singapore has traditionally relied on incentives rather than regulatory action to spur the growth of sustainable finance within the country. In this spirit, the MAS, the central bank and financial regulator, has provided funding to cover third-party costs associated with sustainable financial products since 2017, and now provides support for green and sustainability-linked bonds and loans. In 2019, the MAS launched its Green Investment Plan, which earmarked US$2 billion for investment into green investments. Singapore's 2021 budget included a commitment of US$14 billion in green bonds for infrastructure projects.

To date, Singapore has deployed relatively few 'sticks' to supplement the various 'carrots' used to promote the growth of sustainable finance. Environmental disclosure remains largely voluntary, and reporting entities are given wide latitude to assess materiality of climate-related issues. Similarly, there are no supervisory requirements with respect to the inclusion of environmental issues in corporate risk management processes.

1. MAS (no date): Sustainable Finance.
2. Osborne Clark (2021): Singapore's green and sustainable finance markets expected to blossom in 2021 with help from MAS grant schemes.
3. PwC (2020): Sustainable finance developments in Singapore.
4. Sustainability Risks for Southeast Asian Banks.

KEY SUSTAINABLE FINANCE POLICY ACTORS

Actor	Responsibilities and actions taken
MONETARY AUTHORITY OF SINGAPORE (MAS)	MAS functions as both the central bank and financial regulator. NGFS member and convenor of GFIT.
GREEN FINANCIAL INDUSTRY TASKFORCE (GFIT)	Members include representatives from FIs, corporations, NGOs, and industry bodies, including ABS and IMAS below. GFIT recently issued an implementation guide for disclosure by financial institutions (FIs) and a white paper on scaling green finance.
SINGAPORE EXCHANGE (SGX)	The Exchange functions as both market operator and regulator. SSEI member. ESG listing requirements are not aligned with TCFD. SGX is the first exchange in APAC with an SBT.
CIVIL SOCIETY GROUPS	
ASEAN CAPITAL MARKETS FORUM (ACMF)	A body comprising regulators from across ASEAN; ACMF created and operates ASEAN Green Bond Standards.
ASSOCIATION OF BANKS SINGAPORE (ABS)	ABS is the trade association that provides guidance and capacity building alongside GFIT.

KEY SUSTAINABLE FINANCE POLICIES AND REGULATIONS

	Policy/Regulation	Supervisory/ Enforcement	Implementing Agency	Positioning on Sustainable Finance	Year of Implementation	Addresses Climate Change?	Addresses the Safeguarding of Water Resources?	Addresses the Protection of Forests?
1	**SGX listing requirements (Rule 711B)**	SGX	**SGX**	SGX published a Sustainability Reporting Guide that lays out ESG listing requirements, which includes details on the issuer's policies, practices, performance and targets vis-à-vis identified material ESG factors. The guide encourages issuers to report using a global framework and names several, including GRI, CDP, CDSB, RSPO, SASB, and IIRC, with GRI by far the most popular framework. The rules apply on a comply-or-explain basis.	2017	**x** (Guidance uses climate and emissions as examples of potentially material issues)	**x** (Guidance uses water as an example of a potentially material issue)	Guidance does not explicitly name forests or land use as a potentially material issue
2	**Guidelines on Environmental Risk Management**	MAS	**MAS**	A set of separate, non-binding guidelines for banks, insurers, and asset managers; the guidelines are broadly aligned with the TCFD recommendations.	2021	**x**	**x**	**x**
3	**Handbook on Implementing Environmental Risk Management**	GFIT	**GFIT**	The Handbook provides advice and practical guidance for the implementation of the MAS Guidelines on Environmental Risk Management. The Handbook identifies TCFD and CDP alongside others as references for members to assess environmental risk.	2021	**x**	**x**	**x**
4	**Financial Institutions Climate Disclosure Document**	GFIT	**GFIT**	The FCDD builds on the environmental risk management guidelines presented by the MAS and GFIT's implementation handbook above, to provide detailed references and guidance with respect to climate disclosure. It provides examples from global banks showing best practice, including disclosure of financed and other Scope 3 emissions; portfolio-level scenario analysis and evaluation of portfolio allocation against 2°C scenarios, transition planning, and so on.	2021	**x**	-	-
5	**Association of Banks Singapore Guidelines on Responsible Financing**	ABS	**ABS**	The non-binding guidelines outline minimum, high-level standards on responsible financing practices for ABS members. The document makes specific reference to Singapore's commitments under the Paris Agreement and is designed to work in concert with SGX ESG listing requirements to maintain Singapore's role as a financial hub. Contains a list of industries with elevated environmental risks and which require greater consideration. This list is referenced in the Handbook above.	2018	**x**	**x**	**x**
6	**Green Finance Action Plan**	MAS	**MAS**	The Action Plan outlines Singapore's vision for a sustainable finance system. Priorities and corresponding strategies include: - **Strengthening financial sector resilience** through the release of guidelines on environmental risk management. - **Developing markets and solutions** through the: a. Green and Sustainable Bond and Loan Grant Scheme, which covers costs of external review. b. MAS Green Investments Program, which invests public money into green financial products. - **Harnessing technology** through funding for fintech innovation. - **Building knowledge and capacity** through training and nurturing the development of verification, review, and ratings services.	2020	**x** (The Action Plan does not identify specific environmental issues, but the associated guidelines on risk management do.)	**x** (The Action Plan does not identify specific environmental issues, but the associated guidelines on risk management do.)	**x** (The Action Plan does not identify specific environmental issues, but the associated guidelines on risk management do.)

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7	Singapore Taxonomy	MAS	**GFIT**	A draft was released for public consultation (ended in March 2021), with further updates expected in late 2021. The proposed taxonomy would identify sectors with the greatest environmental impact in South East Asia and provide criteria for qualifying economic activities. Initial focus sectors include: - Agriculture and Forestry/Land Use; - Construction/Real Estate; - Transportation and Fuel; - Energy (including upstream); - Information and Communications Technology; - Waste/Circular Economy; and - Carbon Capture and Sequestration. Qualifying activities must contribute to one or more of the four identified environmental objectives: - Climate change mitigation. - Climate change adaptation. - Protection of biodiversity. - Promoting resource resilience. Activities will not qualify as sustainable if they contravene the environmental objectives, negatively impact the social and economic welfare of local communities, or violate relevant laws and regulations. Thresholds are yet to be developed, but it is understood that thresholds will correspond to a 'traffic-light' system identifying green, yellow (transition) and red activities. It is not yet clear how the Singapore taxonomy will intersect with the proposed ASEAN taxonomy.	2022 (anticipated)	x	x	x
8	Singapore Green Plan 2030	Ministries of Education, National Development, Sustainability and Environment, Trade and Industry, and Transport	**Ministries of Education, National Development, Sustainability and Environment, Trade and Industry, and Transport**	This lays out the Singaporean government's plan for a new green society in conjunction with national 2030 targets and net-zero aspirations. Plank 4 of the plan – Green Economy – entails developing "Singapore as a carbon services hub, and a leading centre for green finance in Asia and globally".	Various timeframes	x	-	-
9	Fostering Green Finance Solutions White Paper	GFIT	**GFIT**	The Paper outlines a vision for sustainable finance in Singapore, focusing mostly on incentives and support mechanisms by government and industry actors. Priorities include: - Creating a framework for green finance, initially through development of a taxonomy and rating mechanisms (internal, third party, and external ESG ratings). - Transition finance and key sectors where it will be required (O&G, shipping, automotive). - Developing guidelines and incentives for the real estate, infrastructure, and fund management.	2021	x	x	x

Nb: This is not an exhaustive list of actors but key regulatory and policy initiatives in Singapore

ANALYSIS (INCLUDING GOVERNANCE CHALLENGES) AND WAY FORWARD

The MAS does not explicitly include environmental criteria in its supervisory and prudential regulation. Instead, authorities take an incentives-based approach to encourage companies to include environmental criteria in their decisions. The non-binding 'Guidelines on Environmental Risk Management' provide recommendations for banks, asset managers and insurers in line with the recommendations of the TCFD.

While the guidelines have no legal force, the MAS has indicated that compliance with its guidelines has "an impact on the MAS' assessment" on each FI, although the scale and nature of this impact has not been made clear[5].

Singapore has two environmental disclosure regimes. The MAS requires FIs in Singapore to make regular environmental disclosures; listed FIs and other companies are also covered by SGX's disclosure requirements. However, as the SGX requirements function on a comply-or-explain basis, and neither set of requirements is strongly aligned with the recommendations of the TCFD, the overall mandatory disclosure regime remains weak.

SGX listing rules require issuers to release an annual sustainability report. Mandatory components of the report include material ESG factors; policies, practices and performance with respect to material factors; targets; and a Board statement detailing the Board oversight of sustainability issues. The report should align with a recognized sustainability framework; standards and practices associated with GRI, IIRC, SABS, CDP, and CDSB, are named as references for sustainability reporting.

Similarly, the MAS Guidelines on Environmental Risk Management advises FIs to issue an annual sustainability report using an internationally accepted framework. The guidelines endorse TCFD as one such framework, but they do not specify what must be disclosed.

To complement the MAS guidelines, in May 2021, the GFIT released the Financial Institutions Climate-related Disclosure Document (FCDD), which contains extensive disclosure guidance for FIs with specific recommendations for banks, insurers and asset managers. While nonbinding, the FCDD is closely aligned with TCFD recommendations and lays out best practices for FIs.

Launching a green taxonomy remains a priority in Singapore. In January 2021, the GFIT released a draft taxonomy for public consultation. The proposed taxonomy is largely aligned with the EU taxonomy and encompasses both green activities and transition activities. The thresholds, targets, sectors and activities differ from the EU taxonomy for the ASEAN context. The objectives identified in the taxonomy cover both climate adaptation and mitigation directly, as well as deforestation and water security through separate objectives on the protection of biodiversity and promoting natural resource resilience, respectively.

The consultation period for the proposed taxonomy ended in March 2021, and GFIT is expected to disclose the results later in the year. It is not yet clear how Singapore's taxonomy and the recently released Malaysian taxonomy will sit alongside the proposed ASEAN taxonomy, currently under development by ASEAN Capital Markets Forum (ACMF), a body comprising top regulators from across the bloc.

The ASEAN Green Bonds Standards (ASEAN GBS), also developed by the ACMF and based on the International Capital Association's Green Bond Standards, is the leading framework for green bonds issued in Singapore.

5. *Supervisory Approach and Regulatory Instruments*. Monetary Authority of Singapore.

The way forward

The policy measures and exercises described above comprise a clear signal that Singapore intends to become a hub for sustainable finance in ASEAN. Focal areas going forward include:

Inclusion of environmental criteria in supervisory and prudential requirements

Singapore could complement its incentives-based system of encouraging the growth of sustainable finance by expanding supervisory and prudential requirements to cover environmental issues. The environmental criteria should extend to financed emissions and other Scope 3 emissions as well as value chain engagement so as to discourage financing activities driving climate change and deforestation.

Regulatory appetite for increasing the stringency of supervisory and prudential requirements could increase along with the norming of corporate environmental stewardship as the volume of sustainable financing expands and FIs benefit from the capacity building offered by GFIT and various industry associations. The MAS could achieve this by mandating existing, non-binding guidelines or by more closely linking adherence to non-binding guidelines to the MAS's risk assessment of FIs.

Taxonomy development & transition financing

Both the MAS and the GFIT have emphasized the importance of transition and sustainability-linked financing for the ASEAN region. Such financing will be especially relevant for the oil and gas and shipping sectors, hard-to-abate sectors that play a large part in Singapore's economy. Unlike the EU taxonomy with its single threshold, the proposed Singaporean taxonomy uses a 'traffic light' system to differentiate among green, yellow, and red activities; thresholds and requirements for yellow activities are expected to be developed as the taxonomy takes shape.

Yellow financing may be a way to generate a pipeline of projects and companies that may be suitable for green financing opportunities after an initial transition period. The taxonomy should provide actionable guidelines with respect to both climate change and deforestation. Capacity building designed to increase awareness of environmental risk and opportunities among companies carrying out yellow activities could be a driver for such companies to begin to develop transition strategies. Similarly, banks will need training on how to use the taxonomy and associated guidelines to improve their lending and investing practice with respect to both emissions and FRCs.

Data developments

Whether Singapore's taxonomy contains hard thresholds like the European Union's or more qualitative descriptions like China's and Malaysia's, the discussion document indicates that it will require metrics for monitoring purposes, and data will be needed on these metrics, whether the activities are deemed green or yellow. As more data is produced, there will be a corresponding need to ensure that Singaporean FIs have the capacity to integrate this data into their business practices, as many local banks lack the capacity to conduct analysis on how their portfolios impact the climate[6]. Similarly, the GFIT's white paper calls for the development of a more robust reviewing and assessment ecosystem for sustainable finance products. CDP is well positioned to offer data that can support the goals of leading policy actors.

6. CDP (2021): Sustainability Risks for Southeast Asian Banks

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Norway's International Climate and Forest Initiative

About CDP
CDP is a global non-profit that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Voted number one climate research provider by investors and working with institutional investors with assets of over US$106 trillion, we leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts. Over 9,600 companies with over 50% of global market capitalization disclosed environmental data through CDP in 2020. This is in addition to the hundreds of cities, states and regions who disclosed, making CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change. CDP is a founding member of the We Mean Business Coalition.

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