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Source: *The Business Times*, p6
Date: 26 April 2021

Financial firms want to be sustainable, and seek standard ESG measurement

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A FRESH study showed that financial institutions in Singapore that were asked, would all say they want to be sustainable. But they are asking too how they compare with peers, and are pushing for a standard set of calculation for environmental, social, and corporate governance (ESG) performance.

The study was jointly done by SGX RegCo, NUS Business School, and KPMG Singapore. In it, 14 key financial institutions in Singapore were surveyed, while 52 senior representatives participated in focus group discussions.

Participants include banks, asset managers, institutional investors and insurers. These are a mix of listed and non-listed financial institutions.

One key recommendation is that emerging efforts globally and locally to harmonise reporting standards should "continue unabated", the report said.

Corporates and financial institutions have been asked to deepen their understanding and disclosures on climate-related risks and opportunities, to drive "meaningful disclosures".

In this light, regulators should consider providing capacity building support and guidance, and not just financial incentives, the study said.

Other key findings showed that all respondents said that it is important for them to fully integrate sustainability into their investment strategy by 2030.

They note their "critical role" in moving the sustainability agenda forward through their allocation and cost of capital. But they called for more structured governance over sustainability, which should come from the board, as well as senior management oversight.

Meanwhile, financial institutions faced "some difficulties" in interpreting ESG disclosures. This made it tough for meaningful benchmarking and in assessing a company's green practices within and across industries.

The problem comes from various reporting frameworks and standards that needed to be aligned to guide reporting and disclosures.

Critically, these firms want guidance – but not prescription – from regulators in how they should apply reporting frameworks. "The current ESG disclosures needed to be strengthened with quantification, and harmonisation for comparability across and within industries."

This means that respondents were generally supportive of some sort of taxonomy to support the scaling up of sustainable finance, by identifying the activities or investments that deliver on sustainability objectives.

An example of the technical assistance suggested was a standard set of calculation for ESG performance that could be aligned to international standards such as the EU Taxonomy.

Another example was to provide some assistance to identify the top things that companies should focus on.

These firms asked as well if regulators and government could offer technical help on data collection and calculation methods.

They also called for standardised disclosure methods, and understanding of frameworks to support Singapore's sustainability priorities.

They liked governmental efforts to provide guidance on key issues such as the quantification of ESG risks and harmonisation of standards.

Environmental disclosures and in particular, carbon emissions featured prominently as key disclosures.

Six out of nine environmental indicators were considered by respondents as important disclosures for financial institutions' considerations when investing, financing or underwriting.