REPORT ON PROMOTING SUSTAINABLE FINANCE IN ASEAN

ASEAN Working Committee on
Capital Market Development

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ABBREVIATIONS

ACMF	The ASEAN Capital Markets Forum
ADB	Asian Development Bank
AMS	Member States of ASEAN
ASEAN	Association of Southeast Asian Nations
ASEAN GBS	ASEAN Green Bond Standards
ASEAN SBS	ASEAN Social Bond Standards
ASEAN SUS	ASEAN Sustainability Bond Standards
BNM	Bank Negara Malaysia
Bursa Malaysia	Bursa Malaysia Berhad
CBI	Climate Bonds Initiative
CBS	Climate Bond Standards
EC	European Commission
EES	Economic, Environment and Social
E&S	Environmental and Social Management System
ESG	Environmental, Social and Governance
EU	European Union
EY	Ernst & Young
EY Report	ASEAN Sustainable Finance Report prepared for WC-CMD by EY Corporate Advisers Pte Ltd
FSI	Financial Services Institutions
GBP	ICMA's Green Bond Principles
GDP	Gross Domestic Product
GHG	Greenhouse Gases
GRI	Global Reporting Initiative
HOSE	Ho Chi Minh Stock Exchange
ICMA	International Capital Market Association
IDR	Indonesian Rupiah
IIRC	International Integrated Reporting Council
MAS	Monetary Authority of Singapore
MDB	Multilateral Development Bank
MGFT	Malaysian Green Financing Taskforce
MOF	Ministry of Finance
MYR	Malaysian Ringgit
NGO	Non-Governmental Organisation
NDC	Nationally Determined Contribution
OJK	Financial Services Authority (Otoritas Jasa Keuangan), Indonesia
Paris Agreement	Paris Agreement under the United Nations Framework Convention on Climate Change
PHP	Philippine Peso
PRI	Principles of Responsible Investment
PSEC	Philippine Securities and Exchange Commission
SASB	Sustainable Accounting Standards Board
SBG	ICMA's Sustainability Bond Guidelines
SBP	ICMA's Social Bond Principles
SBV	State Bank of Vietnam

SCM	Securities Commission Malaysia
SDG	Sustainable Development Goal
SGD	Singapore Dollar
SGX	Singapore Exchange Limited
SECT	Securities & Exchange Commission, Thailand
SET	Stock Exchange of Thailand
SRI	Sustainable and Responsible Investment
TCFD	Task Force on Climate-related Financial Disclosures
TCX	The Currency Exchange Fund
THB	Thai Baht
UKFCO	UK Foreign and Commonwealth Office
UK	United Kingdom
UNESCAP	UN Economic and Social Commission for Asia and the Pacific
UNEP FI	UN Environment Programme Finance Initiative
UN	United Nations
USD	US Dollar
US	United States
VNR	Voluntary National Reviews
VSSC	Viet Nam State Securities Commission
WC-CMD	The ASEAN Working Committee on Capital Market Development

1. ABOUT THIS REPORT

The Association of Southeast Asian Nations (ASEAN) Working Committee on Capital Market Development (WC-CMD) is a co-ordinating committee which considers initiatives and the progress of the Member States of ASEAN (AMS) towards building the capacity and laying the infrastructure for the development of ASEAN capital markets, with a long-term goal of achieving regional cross border collaboration. WC-CMD, as a forum whose members are drawn from AMS ministries of finance (MOFs), central banks and capital market regulators.

WC-CMD works closely with the ASEAN Capital Markets Forum (ACMF) on ASEAN capital market matters. ACMF is a high-level grouping of capital market regulators from all the AMS and its primary responsibility is to develop a deep, liquid and integrated regional capital market.

The theme for ASEAN in 2019 was ‘Advancing Partnership for Sustainability’ and recognition was given at the ASEAN ministerial level to the importance of sustainable finance.

> *“We envisage that sustainable finance plays an important role to improve our economic efficiency, prosperity, and competitiveness, while protecting and promoting ecological systems, and enhancing cultural diversity and social well-being.”*
>
> *Joint statement of the 5th ASEAN Finance Ministers’ and Central Bank Governors’ Meeting, 5th April 2019*

As part of its sustainable finance efforts, WC-CMD initiated developing a report aimed at promoting sustainable finance in the region. The development of this report was welcomed by the ASEAN Finance Ministers and Central Bank Governors at their 5th Meeting in Bangkok in April 2019.

This report is intended to identify areas within the purview of WC-CMD members that they can collaborate on to further the sustainable finance agenda. It also encompasses opportunities for WC-CMD and ACMF to work together on common areas of interest.

This report provides recommendations for AMS to implement individually, as they are ready, and also for the ASEAN to implement as a region. While certain AMS may not be in a position to implement some of the country level recommendations at this point, several of the recommendations made under this report will help address the gaps that prevent these AMS from being able to participate. At the same time, some of the recommendations may not be appropriate for every AMS to adopt. As such, it is for every AMS to decide which recommendations it can implement.

The recommendations provided in this report are broad in nature, and therefore, WC-CMD and AMS will need to develop action plans as a follow on. As the capital markets and the sustainable finance market are very dynamic and changes can occur rapidly, this report is intended to be a living document and the recommendations should be periodically reviewed. The action plans should also be 'living plans' that can be augmented as the situation changes, in order to ensure that the initiatives can be relevant and up to date.

This report was prepared by Themiscyra Holdings Sdn Bhd for WC-CMD with input from WC-CMD members, industry and other stakeholders. The UK Foreign and Commonwealth Office had also commissioned Ernst & Young (EY) to prepare a report on sustainable finance in ASEAN for WC-CMD to consider in preparing this report. As part of its work, EY was requested to carry out analyses on the state of sustainable finance in ASEAN that, where relevant, would be incorporated in this report. As such, this report, where appropriate, contains extracts from the ASEAN Sustainable Finance Report prepared for WC-CMD by EY Corporate Advisers Pte Ltd (EY Report). The EY Report is not a public document. WC-CMD thoroughly considered all the input it received from various parties and made its recommendations after considering the impact, practicality, inclusivity and achievability of the inputs it received.

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2. EXECUTIVE SUMMARY

Sustainable Finance is critical for ASEAN

The Association of Southeast Asian Nations (ASEAN) is a region of ten countries with 650 million people. Its member states are diverse in culture and economically. ASEAN is already the fifth largest economy in the world and set to become the fourth by 2050[1]. ASEAN is growing rapidly with a fast-increasing population, urbanization and industrialization. However, with this progress comes unwanted environmental and social impact. The ASEAN Socio-Cultural Community envisages an inclusive community that provides high quality of life, equitable access to opportunities for all and which promotes and protects human rights. It also aims for a sustainable community that promotes social development and environmental protection. The impact of climate change presents a serious challenge for ASEAN, with six out of the twenty most vulnerable countries to climate change in the world being ASEAN countries.[2] Economic losses from climate change could reduce regional gross domestic product by up to 11% by 2100.[3]

The Member States of ASEAN (AMS) have all ratified the Paris Agreement under the United Nations Framework Convention on Climate Change (Paris Agreement) and have committed to individual Nationally Determined Contributions (NDCs). ASEAN's green financing opportunities are estimated to be USD3 trillion between 2016 and 2030.[4] ASEAN is committed to the implementation of the Sustainable Development Goals (SDGs) and although there has been considerable progress made towards several national goals, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) reported that based on the current trajectory, none of ASEAN's SDG targets for 2030 are likely to be met.[5] UNESCAP has also noted that in Southeast Asia, 'many countries do not have adequate financing mechanisms and few have examined the financial implications to ensure effective implementation of the SDGs'.[5] Given these challenges, the financial sector needs to mobilise faster to finance sustainability efforts as well as act as a catalyst for a paradigm shift to make the economy sustainable.

[1] The ASEAN Secretariat (2019), ASEAN Integration Report 2019
[2] https://environment.asean.org/awgcc/
[3] ADB (2015) 'Southeast Asia and the economics of global climate stabilization'
[4] UN Environment Programme & DBS (2017), 'Green finance opportunities in ASEAN'
[5] UNESCAP (2019) 'Asia and the Pacific SDG progress report 2019'

State of play of Sustainable Finance in ASEAN

Given the diversity in the stages of development of the AMS, the state of sustainable finance is different for each country. The AMS have also progressed differently in different areas.

Many of the AMS have taken steps to formalize their sustainable finance efforts through the introduction of policies, roadmaps or action plans to promote or drive sustainable finance. With green finance, these efforts have been at the national level. On the SDGs front, all the AMS have agreed to the Regional Roadmap for implementing the 2030 Agenda for Sustainable Development in Asia and the Pacific. However, a regional financial action plan for the SDGs agenda is currently absent.

While there is no common regional taxonomy or standard for green finance at present, several AMS have, through various avenues, provided direction on eligible project categories for green finance. AMS also use the ASEAN GBS, ASEAN SBS and ASEAN SUS when a bond/sukuk issuance is to be labelled as an ASEAN Green Bond, ASEAN Social Bond and ASEAN Sustainability Bond. These standards – the ASEAN Green Bond Standards (ASEAN GBS), the ASEAN Social Bond Standards (ASEAN SBS) and the ASEAN Sustainability Bond Standards (ASEAN SUS) are based on the International Capital Market Association (ICMA)'s corresponding principles/guidelines and aim to provide more specific guidance on how the ICMA pronouncements are to be applied across ASEAN consistently. The ASEAN GBS, ASEAN SBS and ASEAN SUS foster greater transparency and consistency across ASEAN for sustainable issuances and by doing so, reduce due diligence costs for investors. The ASEAN GBS has created an asset class for labelled/aligned[1] ASEAN Green Bonds with USD6.366 billion worth of issuances up to March 2020. Asset classes for labelled ASEAN Social Bonds (USD220 million up to March 2020) and labelled/aligned[1] ASEAN Sustainability Bonds (USD2.053 billion up to March 2020) are in the process of being created, as the number of issuances in those categories gradually increase. The issuers of sustainable bonds in ASEAN have come from a variety of industries and the proceeds have been used for diverse purposes.

To incentivize the issuance of sustainable bonds, three AMS have provided incentives to issuers in the form of grants, tax incentives or fee waivers. One AMS has provided tax exemptions to fund managers on fees received from managing Sustainable and Responsible Investment funds.

[1] Issuances that comply with the ASEAN GBS, ASEAN SBS and ASEAN SUS, and which are reported to ACMF as having complied, are listed on the ACMF website. Such issuances are classified as 'labelled'. Issuances that are specifically stated as aligned to the ASEAN GBS, ASEAN SBS and ASEAN SUS in their third party reports but not reported to ACMF are classified as 'aligned'. As it is not practical for ACMF to track the 'aligned' issuances, figures on such issuances are based on what is known to ACMF and may not be a complete list of such issuances. The 'aligned' figures represent the minimum amount of such issuances.

Transparency and disclosure are crucial for investor confidence and decision making in the capital markets. It is encouraging to note that there are requirements for sustainability reporting and disclosure in more than half of the AMS. Similar to the situation globally, there is no single reporting and disclosure standard or framework being used by all those AMS.

While sustainable finance is still emerging in ASEAN capital markets, there have been some meaningful efforts by governments and regulators to promote and support this space and it is without a doubt gaining traction. It is important to leverage on the momentum that has been built and take the right actions on a regional basis to move the agenda forward.

WC-CMD's approach in promoting Sustainable Finance

WC-CMD, as a forum with members drawn from AMS ministries of finance (MOFs), central banks and capital market regulators, is well placed to promote sustainable finance as its members will be able to accelerate strategic areas under their respective purviews and engage with decision makers in other related areas with the aim of creating a knock-on effect in those areas. WC-CMD will focus on the four drivers that are most critical for sustainable capital markets and adopt them as the pillars of its sustainable finance strategy.

The first pillar is policy. In an ideal situation, regional policy on sustainable finance should be developed from national policies. At present, not every AMS has a national policy for sustainable finance or green finance. The development of national policies is a complicated process that takes time. Nevertheless, the sustainable finance journey can begin ahead of hard policies being introduced, whether at the national or regional level. The use of soft policies can be faster and pave the way for hard policies. MOFs can play an influential role as many sustainable projects are funded, whether in whole or in part, by the national budget. WC-CMD, working with the MOFs and other relevant ministries or government agencies, can introduce soft policies on using sustainable finance to finance sustainable projects while at the same time applying more holistic and structured approaches to finance such projects rather than on an ad hoc basis.

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The second pillar is co-ordination. Presently, sustainable finance efforts for the capital markets in ASEAN are led by WC-CMD and the ASEAN Capital Markets Forum (ACMF) with each focusing on different aspects of the capital markets. While WC-CMD and ACMF are already collaborating, strengthening this existing collaboration as well as collaborating with other actors and stakeholders such as investors, issuers, intermediaries, other regulators, Multilateral Development Banks (MDBs), Non-Governmental Organisations (NGOs), philanthropies and educators will provide the much needed impetus and optimise the use of limited resources. The co-ordination should be more formal, structured and focused. Where possible, partnerships should be built, both domestically and internationally.

Awareness and education, as the third pillar, is crucial at all levels of government, business and society. Sustainable finance cannot move to the next level if the relevant actors and stakeholders do not have the right competencies or appreciation of the situation. Awareness and education is best delivered in partnership with both the public and private sectors across different age and social clusters.

Last but not least, at the heart of sustainable finance is the demand and supply for it. Building demand and supply for sustainable investments and using this to catalyse sustainable projects in the real economy to create a virtuous cycle is the fourth pillar. Various factors make a case for green and SDG financing in ASEAN to be demand-led. To strengthen demand, there must be a consistent and investible pipeline of issuances, transparent and consistent investment characteristics and investible asset classes. It is therefore important to have acceptable taxonomies, standards and labels as well as robust disclosure and reporting frameworks. To build both demand and supply, it is necessary to connect investors and issuers, and facilitate the flow of capital. Facilitation mechanisms will also help close the gaps between mismatches in the requirements of investors, issuers and project demands. Credit and currency de-risking are examples of facilitation mechanisms.

All these pillars should be built on with scale to optimise the use of resources and to deliver meaningful results.

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Recommendations

Sixteen recommendations, addressing all four pillars, have been made in this report. The recommendations are broad in nature and implementation for these recommendations will need to be determined by WC-CMD and AMS through action plans. As the capital markets and sustainable finance market are very dynamic, this report is intended to be a 'living document'. As such, the recommendations and the action plans developed should be reviewed periodically to make sure that they are relevant and work on them is being carried out in the most effective way.

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3. INTRODUCTION

3.1 Climate Change

ASEAN is a region of ten countries with a population of 650 million people, making its population the third largest in the world. ASEAN is presently the fifth largest economy globally[1] with a combined GDP of USD2.97 trillion[2] and it is expected to become the fourth largest by 2050[3].

Nevertheless, the member states of ASEAN are very diverse economically and their GDP per capita ranges from USD1,441 to USD64,567[2]. As a developing region, ASEAN is cognizant that it will need to manage the implications of its rapid growth. Population increases, rapid urbanization and industrialization are all contributors to higher carbon emissions. The AMS have all ratified the Paris Agreement and ASEAN is deeply concerned about climate change. Indeed, Southeast Asia is one of the most at-risk regions to climate change globally; six of the twenty most vulnerable countries worldwide to climate change – Indonesia, Thailand, Malaysia, Myanmar, the Philippines and Viet Nam – are AMS[4]. Climate change presents serious challenges for Southeast Asia as large populations and economic activity are concentrated at coastlines. The impact of climate change on the weather, including flooding and storms, and rising sea levels, as well as the dependence of many communities on agriculture and natural resources make addressing climate change a priority. Exacerbating the situation is the existing poverty levels in the region. In a 2015 study, the Asian Development Bank (ADB) estimated that losses from climate change could be 60% higher than previously estimated, with regional GDP being reduced by up to 11% by 2100, compared to the 7% estimated in 2009[5]. The study also revealed something compelling – stabilising the climate produces benefits of as much as five to eleven times the net costs. Apart from addressing deforestation, energy efficiency and reduced power use, the development and use of low carbon technologies are necessary to meet climate stabilisation goals.

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1 The ASEAN Secretariat (2019), ASEAN Integration Report 2019
2 As at 31 December 2018; The ASEAN Secretariat (2019), ASEAN Statistical Yearbook 2019
3 https://www.usasean.org/why-asean/growth
4 https://environment.asean.org/awgcc/
5 ADB (2015) 'Southeast Asia and the economics of global climate stabilization'

The ASEAN Socio-Cultural Community Blueprint 2025 envisions the achievement of a sustainable environment in the face of social changes and economic development. Strategic measures for sustainable climate are set out in Section C.3 of the Blueprint. The Blueprint recognises the need for new and innovative financing mechanisms, and the involvement of the private sector and community.

C.3. Sustainable Climate

i) Strengthen human and institutional capacity in implementing climate change adaptation and mitigation, especially on vulnerable and marginalised communities

ii) Facilitate the development of comprehensive and coherent responses to climate challenges, such as but not limited to multi stakeholder and multisectoral approaches

iii) Leverage on private sector and community to have access to new and innovative financing mechanisms to address climate change

iv) Strengthen the capacity of sectorial institutions and local governments in conducting Greenhouse Gases (GHG) inventory and vulnerability assessments and adaptation needs

v) Strengthen the effort of government, private sector and community in reducing GHG emission from main activities of development

vi) Mainstream climate change risk management and GHG emission reduction on sectorial planning

vii) Strengthen global partnerships and support the implementation of relevant international agreements and frameworks; e.g. the United Nations Framework Convention on Climate Change.

Source: ASEAN Socio-Cultural Community Blueprint 2025

As signatories to the Paris Agreement, the AMS have also committed to individual Nationally Determined Contributions (NDCs) (as shown below) which they will need to find ways and financing to meet.

AMS	EMISSION REDUCTION (unconditional)	EMISSION REDUCTION (conditional)	Reference Year	Target Year
Brunei Darussalam	Activity Related Targets: **Energy**: reduce energy consumption by 63%, increase share of renewables **Land Transport**: reduce morning peak hour use CO_2 emissions from vehicles by 40% **Forests**: increase total gazetted forest reserves from the current 41 to 55% of the total area		BAU	BAU
Cambodia	-	27%	BAU	2030
Indonesia	29%	41%	BAU (2010)	2030
Lao PDR	Activity related targets: **Energy**: increase renewable energy to 30% of its energy consumption **Forests**: increase forest cover to 70% of total land area		2005-2015	2015-2030
Malaysia	35% (per unit of GDP)	45% (per unit of GDP)	2005	2030
Myanmar	Sectors are identified for mitigation but without specific emission targets			
Philippines	-	70% (under review) [1]	BAU (2000-2005)	2030
Singapore	36% (per unit of GDP)		2005	2030
Thailand	20%	25%	BAU (2005)	2030
Vietnam	8%	25%	BAU (2010)	2030

BAU = Business as usual

Source: ASEAN and Paris Agreement, ASEAN Cooperation on Climate Change
https://environment.asean.org/awgcc/

[1] On 10th October 2015, the Philippines submitted its Intended NDC of a 70% emission reduction by 2030. Under the Paris Agreement, parties have the option of considering their Intended NDC submission as their first NDC. With the country's accession to the Paris Agreement in 2017, the Philippines declared that its NDC is to be updated and the first NDC will be submitted to the United Nations Framework Convention on Climate Change in 2020.

It is clear that while ASEAN is committed to addressing climate change, it will need financing to meet its goals. A report issued by the United Nations (UN) and DBS Bank Ltd in 2017[1] estimates ASEAN's green financing opportunities to be USD3 trillion between 2016 and 2030. 60% (USD1.8 trillion) of this is represented by green infrastructure. The ADB projects that USD3.1 trillion of climate adjusted infrastructure (USD2.8 trillion unadjusted) will be required between 2016 and 2030 in ASEAN[2]. The staggering investment requirements for greening ASEAN will need to be financed. It is clear that much will need to be done to raise the capital required. In a report issued by Standard Chartered[3], it is estimated that public sector capital can only finance about 50% of the total investment requirements.

3.2 Sustainable Development Goals

The sustainable development agenda is unanimously supported by all AMS. In fact, the ASEAN Community Vision 2025 and the UN 2030 Agenda for Sustainable Development have many complementaries and these have been brought together in a framework for action.[4]

Source: UN

1 UN Environment Programme & DBS (2017), 'Green finance opportunities in ASEAN'

2 ADB (2015), Meeting Asia's infrastructure needs

3 Standard Chartered (2019), ASEAN needs to re-think approach to USD2.8 trillion infrastructure gap, quoted in https://www.sc.com/en/feature/asean-needs-to-re-think-approach-to-us2-8-trillion-infrastructure-gap/

4 UNESCAP & ASEAN (2017), Complementaries between the ASEAN Community Vision 2025 and the United Nations 2030 Agenda for Sustainable Development – A framework for action

Although countries in the Asia-Pacific region are committed to the implementation of Sustainable Development Goals (SDGs) and have made considerable progress towards several of their national goals, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) has highlighted that, based on the current trajectory, none of ASEAN's SDG targets are likely to be met by 2030.[1] It also noted that 'many countries do not have adequate financing mechanisms and few have examined the financial implications to ensure effective implementation of the SDGs'[1]. UNESCAP estimates that for the Asia Pacific region alone, achieving the SDGs by 2030 will require an additional investment of USD1.5 trillion. The financial challenges to meet the 2030 deadline include slowing foreign direct investment, shrinking Official Development Assistance and, for some countries, time bound access to concessional financing against a backdrop of increasing financing needs.[2] UNESCAP further points out that to achieve the SDGs, AMS will need to:

i) Mobilise the right scale and mix of financing

ii) Incorporate all resources; and

iii) Have the predictability and sustainability of funding sources [2]

Harnessing the financial markets (including the development of the capital market) and public-private partnerships have been identified as ways to optimize development financing.

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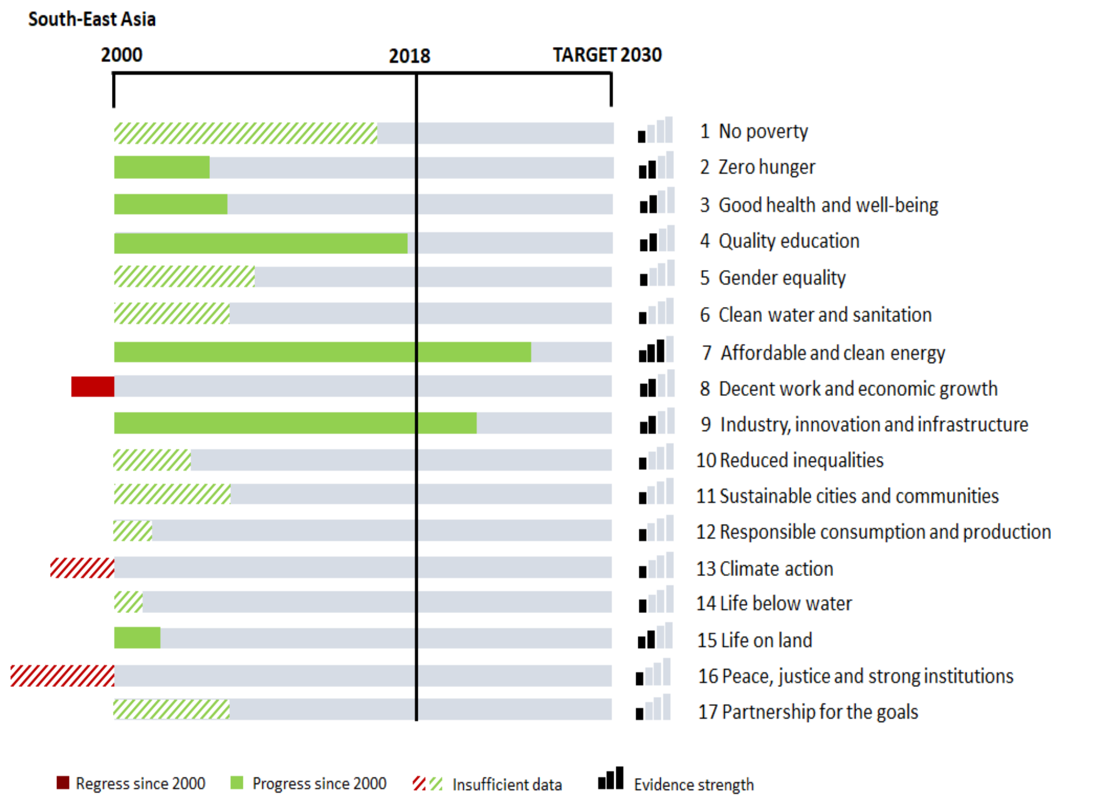
[1] UNESCAP (2019), South East Asia Policy Brief 2019/1

[2] ASEAN, PR China, UNDP (2017), Financing the Sustainable Development Goals in ASEAN

It is estimated that in just the five AMS of Malaysia, Indonesia, the Philippines, Thailand and Viet Nam alone, the investment required for SDG 6 (Clean Water and Sanitation), SDG 7 (Affordable and Clean Energy) and SDG 9 (Industry, Innovation and Infrastructure) will reach USD1.3 trillion by 2030 with an estimated shortfall of USD538 billion.[1]



Snapshot of SDG progress in 2018 – South East Asia

Source: SDG Progress Report 2019[2]

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[1] Donosepoetro, Rino, Jakarta Post (31 January 2020) 'ASEAN sustainable finance: A huge gap means a huge opportunity'
[2] UNESCAP (2019), Asia and Pacific SDG Progress Report 2019

While AMS face different challenges in the pursuit of their SDG agendas owing to their economic diversity, a common challenge facing all AMS is in mobilising financial resources. Procuring funds for SDG specific purposes remains a challenge that needs to be addressed. The SDG targets can only be met if private sector funding can be identified and deployed. Moreover, in areas where public funds are limited, the increased involvement of private sector financing wherever possible will allow the public funds to flow to areas where public funds are the most suitable or are the only funding option.

The challenges presented by climate change and social development needs require action from the financial sector to finance efforts to address these very critical issues. Apart from financing green and the SDGs, the financial sector can also act as a catalyst for a paradigm shift to make the economy sustainable.

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4. AN OVERVIEW OF THE STATE OF PLAY OF SUSTAINABLE FINANCE IN ASEAN

The G20 Sustainable Finance Study Group describes sustainable finance as *'Financial services, products, processes as well as institutional and market arrangements that contribute directly and indirectly to the delivery of Sustainable Development Goals'*. While WC-CMD does not have a definition for sustainable finance, the G20 Sustainable Finance Study Group's definition is fully reflective of the approach of WC-CMD members to sustainable finance.

Sustainable finance is an area that all AMS have paid attention to. Nevertheless, because of the varying stages of development of the different AMS, the state of sustainable finance is different for each country. Moreover, countries have progressed differently in different aspects of sustainable finance. The sustainable finance area is very wide, covering the banking, capital market and insurance sectors and all the related processes and participants. As WC-CMD's purview is over the capital markets, this report will focus on sustainable finance from the perspective of the capital markets.[1]

The state of the sustainable finance market for each AMS can be observed through several facets:

i) the formalisation of sustainable finance efforts

ii) sustainable capital market development

iii) disclosure and reporting;

iv) issuance of sustainable bonds; and

v) formation of asset classes.

[1] Other similar sustainable finance initiatives that are complementary to each other under the ASEAN Finance Cooperation include the Roadmap on ASEAN Sustainable Capital Markets developed by the ASEAN Capital Markets Forum (ACMF) and the Report on The Roles of ASEAN Central Banks in Managing Climate and Environment-related Risks developed under the ASEAN Senior Level Committee on Financial Integration.

4.1 Formalisation of sustainable finance efforts

The formalisation of sustainable finance efforts takes place when governments and/or their relevant agencies introduce policies, roadmaps or action plans to promote or drive sustainable finance. Formalisation can also come in the form of an appropriately mandated national co-ordinating body for sustainable finance. Several AMS have taken steps to formalise their efforts in sustainable finance.

The Financial Services Authority (Otoritas Jasa Keuangan), Indonesia (OJK) published a *Sustainable Finance Roadmap* for Indonesia in 2014 that contains a detailed work plan for all financial institutions under the purview of OJK. The work plan focuses on increasing demand and supply of environmentally friendly financing and increasing oversight and coordination of sustainable finance implementation.

In Malaysia, the Ministry of Energy, Science, Technology, Environment and Climate Change requested the Securities Commission Malaysia (SCM) to form and chair the Malaysian Green Financing Taskforce (MGFT) to facilitate investment in renewable energy to meet the national renewable energy target of 20% by 2025. The MGFT comprised nine other members representing financial regulators, institutional investors, banks, asset managers and government agencies involved in the renewable energy sector. Following this, a Green Financing Centre of Excellence was established. In 2019, Bank Negara Malaysia (BNM) and SCM, together, established a Joint Committee on Climate Change with members comprising senior officials from Bursa Malaysia Berhad (Bursa Malaysia) and 19 industry players.

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Thailand has also established a Working Group on Sustainable Finance comprising the Bank of Thailand, the Ministry of Finance Thailand, the Securities and Exchange Commission, Thailand (SECT), Office of the Insurance Commission and the Stock Exchange of Thailand (SET). This Working Group will help co-ordinate policies and actions to support the development of a sustainable financial system. The SECT also established a committee and working group to engage representatives from the stock exchange, government agencies and industry associations on sustainable finance. In addition, a committee and working group has developed a Sustainable Finance Roadmap for Thailand's capital market as part of SECT's strategic plan 2020-2022 with key areas of actions which include:

- Building a strong issuer base by encouraging and facilitating listed companies, especially small and medium-sized, to integrate ESG aspects into their corporate strategies and operations (ESG-in-process) and disclose in the Annual Registration Statement/annual report

- Encouraging institutional investors to apply ESG factors to the investment decision-making process

- Supporting the creation of local reviewers to create trust in the market

- Promoting the development of new sustainable products to meet a variety of needs

- Collaborating with relevant entities to jointly drive sustainable finance development [1]

In addition, financial regulators in Thailand also worked closely with relevant agencies to further drive sustainable finance. This include the efforts to support Thailand's commitments to the SDGs, the implementation of carbon reduction to achieve the goals of the Paris Agreement and the development of Thailand's Green Industry Roadmap.

Viet Nam has seen a series of strategic blueprints – in particular the *National Green Growth Strategy* and *National Action Plans on Green Growth for 2014-2020* – that resulted in the Ministry of Finance of Viet Nam issuing the *Financial Sector Action Plan on the National Green Growth Strategy to 2020. The Bond Market Development Roadmap during 2017-2020, with a Vision Toward 2030 (Prime Minister Decision NO. 1191/QD-TTg)*, which recommends the adoption of mechanisms and policies for the development of the green bond market, was approved by the Prime Minister in 2017.

[1] Extracted from the EY Report

Singapore has launched a *Green Finance Action Plan* that includes introducing environmental risk management guidelines for the banking, insurance and asset management sectors, grant schemes to support green and sustainability-linked loans, a green investment programme to invest in public market investment strategies with a strong green focus and anchoring centres of excellence with recognised research institutes and universities to contribute to Asia-focused climate research and training programmes. The Philippines is planning to set up a multi-agency taskforce named 'Green Force' to co-ordinate green finance efforts. Indonesia is also exploring setting up a green finance taskforce. Some AMS have more broad green strategies that also make reference to or link to green finance. This includes Laos, which has a *National Green Growth Strategy* for 2030 and Myanmar, the World Wide Fund is working with the Ministry of Natural Resources and Environmental Conservation (MONREC) to develop its *Myanmar's Green Economy Framework.* Brunei's Financial Sector Blueprint 2016-2025 identifies Sustainable, Responsible and Impact Investing oriented Islamic fund management as a key strategy.

While the AMS have agreed to the Regional Roadmap for Implementing the 2030 Agenda for Sustainable Development in Asia and the Pacific, only Indonesia and Malaysia have issued their own SDG roadmaps. Nine out of ten AMS have completed their Voluntary National Reviews (VNR). VNRs are carried out to review the implementation of a country's development agendas, at national and sub-national levels and are country led and country driven.

Indonesia has established SDG Indonesia One, a platform for infrastructure financing that is also oriented to support Indonesia's SDGs. The platform combines public and private funds through blended finance schemes to be channelled into infrastructure projects related to the achievement of the SDGs. SDG Indonesia One provides development facilities, de-risking facilities, financing facilities and equity. It also monitors project implementation.

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4.2 *Sustainable Capital Market Development*

4.2.1. Regulations and Guidelines

To enable sustainable finance, a capital market should have clear rules and guidance to support sustainable finance products and players. There should also be asset classes to reflect the sustainable investment themes as well as rules and guidelines can help define those asset classes.

Many AMS capital market regulators have issued rules, regulations and directives to provide frameworks and clarity to help drive sustainable finance in the capital markets. In Viet Nam, the government has also issued decrees.

AMS	Regulations/Guidance
Indonesia	• The Republic of Indonesia Green Bond and Green Sukuk Framework • OJK Regulation No 51/2017 on the Application of Sustainable Finance to Financial Services Institution • OJK Regulation No 60/2017 on Guidance for Green Bond Issuance in Indonesia
Malaysia	• SCM SRI Sukuk Framework • SCM Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market • SCM Guidelines on SRI Funds
Philippines	• Philippine Securities and Exchange Commission (PSEC) Guidelines on the Issuance of Green Bonds under the ASEAN GBS • PSEC Guidelines on the Issuance of Social Bonds under the ASEAN SBS • PSEC Guidelines on the Issuance of Sustainability Bonds under the ASEAN SUS
Thailand	• SECT Sustainability Development Roadmap for Listed Companies • SECT Regulations and Guidelines on Green Bonds, Social Bonds and Sustainability Bonds

AMS	Regulations/Guidance
Viet Nam	• Decree No 95/2018/ND-CP on Regulating the Issuance, Registration, Depository, Listing and Trading of Government Debt Instruments on the Securities Market • Decree No 93/2018/ND-CP on Provincial Government Debt Management • Decree No 163/2018/ND-CP on Regulating the Issuance of Corporate Bonds • Viet Nam State Securities Commission (VSSC) Circular No 155/TT-BTC on Disclosure of Information on the Securities Market

Building upon its *Sustainable Finance Roadmap*, OJK released *POJK No.51/2017 on application of sustainable finance to financial services institution, issuer and publicly listed company.* The objective of this regulation is to increase awareness and commitment to implement sustainability principles and develop sustainable products.

Under *POJK No.51/2017*, financial services institutions (FSI) are required to develop a short term (1 year) and long term (5 years) sustainable finance action plan and together with listed and public companies to publish a sustainability report. The regulation will be implemented in 5 phases (from 2019 to 2025), starting from the largest bank with core capital from IDR5 trillion and foreign bank to the smallest pension fund with total assets of IDR1 trillion. The regulation states that a sustainable finance action plan shall be prepared based on the priorities of each FSI, covering at least the following:

- Development of sustainable finance products and/or service including increasing the financing portfolio, investment, or placement on financial instruments or projects in line with sustainable finance implementation

- The FSI's internal capacity building

- Adjustment of the FSI's organisation, risk management, governance and/or standard operating procedure in line with the principles of sustainable finance implementation [1]

[1] Contents of this page have been extracted from the EY Report

Issuances of green bonds and green sukuks from the government in Indonesia are guided by *Indonesia's Green Bond and Green Sukuk Framework*. The Framework outlines the management and use of proceeds, project eligibility and criteria and reporting mechanism for green bonds and green sukuks issued by the government.

On the regulatory front, OJK issued *POJK No.60/2017 on guidance for green bond issuance in Indonesia*. The regulation is aligned with ICMA's GBP and the ASEAN GBS. *POJK No.60/2017* defines green bond as a debt security whose proceeds are used to finance or refinance part or all of green activities (KUBL). No green bond can be issued for other purposes other than to finance and/or refinance KUBL. KUBL are business activities and/or other activities aimed at protecting, restoring and/or improving the quality or function of the environment.

The types of KUBL that can be financed using green bonds can be in the form of business activity and/or other activities relating to:

- Renewable energy
- Energy efficiency
- Pollution prevention and control
- Management of natural resources and sustainable land use
- Conservation of terrestrial and aquatic biodiversity
- Environmentally friendly transportation
- Sustainable water and wastewater management
- Climate change adaptation
- Eco-efficient products
- Environmentally sound buildings that meet nationally, regionally, or internationally recognized standards or certifications
- Other business activities and/or other activities that are environmentally sound.

POJK No. 60/2017 also specifies requirements for green bond issuances, which include:

- **Mandatory external review:** Issuers must obtain an opinion or assessment from an environmental expert (with competencies relevant to the activities in question) that the activities underlying the green bond issuance are beneficial to the environment [1]

[1] Contents of this page have been extracted from the EY Report

- **Selection of external review providers:** The environmental expert must demonstrate relevant expertise and produce relevant credentials
- **Use of proceeds:** 70% of the green bond proceeds must be used to finance the KUBL. Issuers may change the use of proceeds that were stated in the prospectus, but the use of proceeds must still be used to finance/refinance KUBL and the change must be accompanied with external reviewer's opinion
- **Reporting requirements:** Issuers must submit annual audited review to OJK until the full allocation of proceeds

In 2014, SCM launched its *SRI Sukuk Framework* as an extension of its existing sukuk framework and with the aim of facilitating the financing of Sustainable and Responsible Investment (SRI) initiatives. The additional areas addressed in the framework for the issuances of SRI sukuk included eligible SRI projects, utilisation of proceeds, disclosure and reporting requirements and appointment of an external reviewer.

In November 2019, SCM revised the *SRI Sukuk Framework*, expanding the list of eligible SRI projects, enhancing disclosure and reporting requirements, and clarifying the role of the external reviewer. The four key components of the revised SRI Sukuk Framework are:

- **Utilisation of proceeds:** Issuers must ensure that the proceeds raised from the issuance of the SRI sukuk are utilised only for the funding of activities relating to eligible SRI projects
- **Process for project evaluation and selection:** Issuers must put in place internal processes for the evaluation and selection of the eligible SRI projects
- **Management of proceeds:** Issuers must credit the proceeds into a designated account or have them tracked in an appropriate manner [1]

[1] Contents of this page have been extracted from the EY Report

- **Reporting**: Annual reporting must be provided by issuers, covering the following items:

  (i) Original amount allocated to the eligible SRI projects

  (ii) Amount utilised for the eligible SRI projects

  (iii) Unutilised amount and where such unutilised amount is placed pending utilisation; and

  (iv) List of the eligible SRI projects in which the proceeds have been allocated to along with a brief description of the said eligible SRI projects and their impact

The SRI Sukuk Framework has been developed in accordance with international standards. In Malaysia, the ASEAN Green Bond Standards (ASEAN GBS), ASEAN Social Bond Standards (ASEAN SBS) and ASEAN Sustainability Bond Standards (ASEAN SUS) are implemented through the relevant regulatory frameworks for corporate bonds and sukuk (*Guidelines on issuance of corporate bonds and sukuk to retail investors, and Guidelines on unlisted capital market products under the Lodge and Launch Framework*).

In order to support the growth of SRI Funds, SCM released its *Guidelines on SRI Funds* in 2017, enabling funds to be designated as SRI funds.

In November 2019, SCM issued its *Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market* which sought to create a supportive environment for SRI and outlines the role of the capital market in driving Malaysia's sustainable development. To create a supporting SRI ecosystem in the capital market in Malaysia, the five-year roadmap identifies 20 recommendations under five overarching strategies consisting of:

- Widening the range of SRI instruments
- Increasing SRI investor base
- Building a strong SRI issuer base
- Instilling strong internal governance culture
- Designing information architecture in the SRI ecosystem [1]

[1] Contents of this page have been extracted from the EY Report

Following the launch of the ASEAN GBS in November 2017, PSEC issued in August 2018, the *Guidelines on the Issuance of Green Bonds under the ASEAN GBS (SEC Memorandum Circular No. 12, Series of 2018)* in order to assist issuers register and issue bonds that comply with the ASEAN GBS. The guidelines provide the rules and procedures for the issuance of ASEAN Green Bonds in the Philippines. Notably, they specify categories of projects that are eligible to green bond financing. Those include:

- Renewable energy
- Energy efficiency
- Pollution prevention and control
- Environmentally sustainable management of living natural resources and land use
- Clean transportation
- Climate change adaptation
- Sustainable water and green buildings

Similarly, for social and sustainability bonds, PSEC issued, in April 2019, respectively the *Guidelines on the Issuance of Social Bonds under the ASEAN SBS (SEC Memorandum Circular No. 9, Series of 2019) and the Guidelines on the Issuance of Sustainability Bonds under the ASEAN SUS (SEC Memorandum Circular No. 8, Series of 2019).* Those guidelines aim to help issuers issue bonds that are compliant with the ASEAN SBS and SUS.

The Monetary Authority of Singapore (MAS) will be releasing environmental risk management guidelines which will define standards on how to assess and disclose exposure to environmental risks for the banking, insurance and asset management sectors. MAS is also part of a number of international initiatives that focus on sustainability risks in the financial sector.[1]

[1] Contents of this page have been extracted from the EY Report

In 2014, SECT issued the *Sustainability Development Roadmap for Listed Companies* which presented three key areas of actions in relation to Thai listed companies:

- Support the board of director's role on corporate governance practices
- Support corporate social responsibility
- Encourage anti-corruption measures

In 2019, SECT issued a new Sustainable Finance Roadmap to further enhance the capital market beyond good corporate governance and more towards sustainability in order to propel the country to achieve the SDGs. The roadmap includes strengthening ESG practices of Thai listed companies, including encouraging linkage to the SDGs in relation to carbon emission and human rights in particular.

SECT introduced regulations and guidelines on green bonds in December 2018, which were expanded to include social bonds and sustainability bonds in May 2019.

The guidelines are mainly based upon the four core principles of ICMA's Green Bond Principles, Social Bond Principles and Sustainability Bonds Guidelines, namely the use of proceeds, process of project evaluations, management of proceeds and reporting.

The Government of Viet Nam has also issued several decrees relating to green finance:

Decree No. 95/2018/ND-CP on Regulating the issuance, registration, depository, listing and trading of Government debt instruments on securities market introduces green bonds as a separate type of government bonds which may be issued on the bond market in Viet Nam. Green government bonds are defined, in the Decree, as bonds issued by the government for raising funds for environmental projects as specified in the Law on Environmental Protection and included in the list of projects to which public investment funds are allocated in accordance with the law on public investment and the law on state budget. Green bonds which are issued by the government and government agencies for environmental projects must be approved by the Prime Minister. [1]

[1] Content of this page have been extracted from the EY Report

Decree No. 93/2018/ND-CP on Provincial government debt management provides guidelines on the issuance of municipal bonds, including municipal green bonds. The issuance of municipal green bonds must comply with the regulations related to the issuance of regular municipal bonds. Provincial People's Committees must report the list of projects using funds raised through municipal green bonds.

Decree No. 163/2018/ND-CP on Regulating the issuance of corporate bonds introduces a legal framework for corporate green bonds in Viet Nam. It defines corporate green bonds as corporate bonds issued for investing in environmental protection projects in accordance with the Law on Environmental Protection. Corporate green bonds are a type of corporate bonds, and, as such, green bonds issuers must comply with the regulations on bond issuances set forth in the Decree. Additionally, green bonds issuers are required to account for and manage separately the proceeds raised from the green bonds. Such proceeds must be disbursed for environmental protection projects as planned by the green bond issuers and approved by competent authorities. There are also disclosure requirements for green bond issuers. Green bond issuers must disclose information on the process of managing and using the proceeds raised from the green bonds and prepare an environmental impact assessment report as part of their regular disclosures. The disclosures are to be published online on the websites of the bond issuers and the relevant stock exchange.

VSSC released *Circular No. 155/TT-BTC on Disclosure of information on the securities market* which requires publicly listed companies to report on their Environmental and Social (E&S) impact on an annual basis. This may be disclosed either in companies' annual reports or in a separate Sustainability Development Report. [1]

[The remainder of this page is intentionally left blank]

[1] Content of this page have been extracted from the EY Report

4.2.2. *Taxonomy and Standards*

A commonly agreed taxonomy and/or standard on sustainable finance is also important in providing guidance and assurance to the market on the nature of the 'sustainable' label. This is particularly relevant for green financing where investors are looking at a more narrowly defined set of outcomes and are very concerned with 'greenwashing'. At the ASEAN level, the ASEAN GBS, ASEAN SBS and ASEAN SUS issued by ACMF provide indicative eligible project categories for issuances under these standards. At present, AMS have not issued any national taxonomies on green finance or for sustainable financing. However, Indonesia, Malaysia, the Philippines and Viet Nam do have lists of project categories eligible for green financing. In Viet Nam, the State Bank of Vietnam (SBV) has provided a list of green project categories through its *Green Project Catalogue*.

The SCM's *SRI Sukuk Framework* identifies a list of project categories that are included as eligible SRI projects.

AMS	Guidance on eligible green projects
Indonesia	OJK Regulation 60/2017 provides a list of green activities which are eligible for green bond financing
Malaysia	SCM's SRI Sukuk Framework identifies a list of project categories included as eligible SRI projects
Philippines	• PSEC Guidelines on Issuance of Green Bonds under ASEAN GBS • PSEC Guidelines on Issuance of Social Bonds under ASEAN SBS • PSEC Guidelines on Issuance of Sustainability Bonds under ASEAN SUS
Viet Nam	SBV Green Project Catalogue

As mentioned earlier, ACMF, which comprises of capital market regulators from all ten AMS has developed and introduced a suite of standards that allow bond issuers to label their green, social and sustainability bonds as ASEAN Green, Social and Sustainability Bonds respectively:

1) ASEAN GBS, launched in November 2017, which apply to green bonds i.e. bonds where proceeds are used to finance or re-finance green projects

2) ASEAN SBS, launched in October 2018, which apply to social bonds i.e. bonds where proceeds are used to finance or re-finance social projects

3) ASEAN SUS, launched in October 2018, which apply to sustainability bonds i.e. bonds where proceeds are used to finance or re-finance a combination of both green and social projects

The ASEAN GBS, ASEAN SBS and ASEAN SUS were developed based on the International Capital Market Association's (ICMA) Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG) respectively. The GBP, SBP and SBG provide principles or guidelines for bonds to be labelled as green, social or sustainability bonds. While the ICMA pronouncements provide broad principles for green, social and sustainability bonds, the ASEAN Standards aim to provide more specific guidance on how the ICMA pronouncements are to be applied consistently across ASEAN in order to be eligible to carry the corresponding ASEAN label.

- **Eligible issuers**: The issuers or issuance of the relevant bonds must have a geographical or economic connection to the ASEAN region

- **Ineligible projects**: The ASEAN GBS expressly excludes fossil fuel power generation projects while the ASEAN SBS excludes projects which involve activities that pose a negative social impact related to alcohol, gambling, tobacco and weaponry

- **Accessibility to information**: Investors must be given access to information continuously and issuers must disclose information on the use of proceeds, project evaluation and selection and management of proceeds in the issuance documentation and ensure that such information is publicly accessible from a website designated by the issuer throughout the tenure of the bond

- **Frequency of reporting**: More frequent periodic reporting is encouraged, in addition to the annual reporting, in order to increase transparency and investor confidence

- **External review**: The external reviewers must have relevant expertise and experience in the area which they are reviewing. The external reviewers' credentials and scope of review conducted must be made publicly accessible from a website designated by the issuer throughout the tenure of the bond.

The aim of the ASEAN GBS, ASEAN SBS and ASEAN SUS are to:

- Foster greater transparency, consistency and uniformity of green, social and sustainability bonds across ASEAN which will contribute to the development of new asset classes

- Provide certainty to investors that bonds labelled as ASEAN Green Bonds, ASEAN Social Bonds or ASEAN Sustainability Bonds have met uniformed standards, which should reduce due diligence cost for investors and help them make more informed investment decisions

- Reduce risk of 'greenwashing' and 'SDG washing' by excluding certain types of projects from being funded with proceeds raised from such bonds. The ASEAN GBS explicitly exclude fossil fuel power generation projects to avoid 'greenwashing'. In the case of ASEAN Social Bonds, excluding alcohol, tobacco, gambling and weaponry helps address concerns about 'SDG washing'.

Table 1: Comparison of green bond standards and guidelines available in ASEAN [1]

	ASEAN GBS	Green Bond Principles	Climate Bond Standards
Issuer	ASEAN Capital Markets Forum	International Capital Markets Association	Climate Bonds Initiative
Geographical scope	To create a green asset class for the ASEAN region, the issuer or issuance of the green bond must have a geographical or economic connection to the region.	Global	Global
Eligible projects	Green projects with clear environmental benefits	Green projects with clear environmental benefits	Projects and assets that are consistent with delivering a low carbon and climate resilient economy
Projects excluded	• Fossil fuel power generation projects	N/A	• Uranium mining for nuclear power • Fossil fuel (generation, energy saving in extraction, rail lines with fossil fuels accounting >50% of freight) • Efficiency upgrades to GHG intensive power sources, e.g. cleaner coal technology • Landfill and waste incineration (without gas and energy capture)
Reporting	• Mandatory to bondholders until full allocation and as necessary thereafter in the event of material developments • Report must be provided through a website designated by issuer for as long as the bond is outstanding	• Should make and keep readily available up to date information annually until full allocation, and as necessary thereafter in the event of material developments	• Mandatory to bondholders and CBS Board for the life of bond
External review	Recommended	Recommended	Mandatory
Fees	Free	Free	1/100,000 of total issued
Alignment	Fully aligned with GBP	N/A	Fully aligned with GBP

[1] Contents of this page have been extracted from the EY Report

4.2.3 *Incentives*

The issuance of sustainable bonds provides benefits in terms of meeting sustainability commitments, reputation, public perception and attracting investors with sustainability mandates or preferences. However, the enhanced issuance process and subsequent monitoring requires extra cost and time. Grants to offset these costs have been seen as a way to help encourage issuers to pursue the issuance of sustainable bonds.

Malaysia, Singapore and Thailand have introduced various grant schemes, tax incentives and fee waivers to incentivise issuers to issue sustainable bonds.

❖ ***Malaysia***[1]

To encourage the use of green SRI sukuk as a means to raise funding, a number of grants and incentives have been introduced:

- MYR6 million Green SRI Sukuk Grant Scheme administered by Capital Markets Malaysia – the grant helps to cover 90% of the cost associated to the external review up to MYR 300,000 per issuance

- Tax exemption for the sukuk issuer on the grant received under the Green SRI Sukuk Grant Scheme until the year of assessment 2020

- Tax deduction on issuance costs of SRI sukuk approved or authorised by or lodged with SCM until the year of assessment 2023

❖ ***Singapore***[1]

To promote issuance of green, social and sustainability bonds, the Sustainable Bond Grant Scheme was launched by MAS as a policy incentive. This grant, offering up to SGD 100,000 and valid until 31 May 2023, aims to level costs associated with issuing a labelled bond versus that of a conventional bond, and to promote the adoption of internationally accepted standards on sustainability.

[1] Extracted from the EY Report

- ***Thailand***[1]

  To support the issuance of sustainable bonds, the Thai Bond Market Association, with the approval from SECT, has rolled out an incentive scheme for green, social and sustainability bond issuance in Thailand. This incentive scheme offers issuers a rebate on application fees incurred for the issuance of green, social and sustainability bonds. The rebate is estimated to be no less than THB50,000 per year.

  In a bid to support companies' sustainable bond issuances and help reduce fund-raising costs, the SECT has waived the approval fee and filing fee for green, social and sustainability bond issuances.

Incentives can also be provided to intermediaries, apart from issuers, to encourage them to move into the sustainable finance space. In order to support the growth of SRI funds, Malaysia introduced a tax exemption on management fees received for the management of SRI funds from year of assessment 2018 to 2023.

4.3 Disclosure and Reporting

Transparency and disclosure are pillars of the capital markets. With transparency and disclosure, better investment and resource allocation decisions can be made. However, disclosures must be of high quality, timely and consistent as far as possible. The lack of a common reporting framework and standards can lead to confusion and uncertainty. Currently, there are several commonly used reporting frameworks and standards, with those issued by the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC) and the Task Force on Climate-related Financial Disclosures (TCFD) being the most prominent in general. Several AMS already have requirements on sustainability reporting and disclosure.

[1] Extracted from the EY Report

OJK's *POJK No. 51/2017* regulation requires FSIs, issuers and publicly listed companies to prepare a Sustainability Report that describes their economic, financial, social and environmental performance in running sustainable business. The Sustainability Report may be part of the annual report or separate from it. It shall be submitted to OJK every year and published on the website of the FSI, issuer and publicly listed company.

According to Schedule II of *POJK No. 51/2017*, the Sustainability Report must provide at least the following information:

- Elaboration on sustainability strategy
- Summary of sustainability performance, i.e. comparison of the economic, social and environmental performances over the past three years
- Brief profile of FSI, issuer or publicly listed company, including the vision, mission and sustainability values
- Description of board of directors
- Sustainability governance, i.e. description of the tasks performed by the board of directors and employees for the application of sustainable finance as well as risk management procedures in relation to economic, social and environment risks arising from the application of sustainable finance
- Sustainability performance, i.e. economic, social and environment performances
- Written verification from independent parties (if any)
- Feedback sheet for reader (if any)
- Response of FSI, issuer or publicly listed company to the previous year's feedback [1]

[1] Contents of this page have been extracted from the EY Report

The application of the Sustainability Report requirement will be rolled out progressively starting 2019 depending on the type or size of the organisations. For instance, foreign banks are to start submitting their Sustainability Report for the 2019 reporting period, while pension funds with total assets of over IDR1 trillion are to start preparing their Sustainability Report only for the 2025 reporting period.

In Malaysia, Sustainability Reporting took effect on a staggered basis over a period of 3 years, starting from 31 December 2016 to 31 December 2018. As of 2019, all companies listed on Bursa Malaysia under the Main Market and ACE Market are required to publish a Sustainability Statement in their annual reports. The Sustainability Statement is a narrative statement of the listed company's management of material sustainability matters. Sustainability matters refer to the risks and opportunities arising from the Economic, Environment and Social (EES) impacts of a company's operations and activities. A principle of materiality is applied to the Sustainability Statement. As such, companies are expected to disclose only sustainability matters that are considered to be the most important to them and to their stakeholders.

Sustainability matters are deemed to be material if:

- They reflect the company's significant EES impacts
- They substantively influence the assessment and decisions of the company's stakeholders

For companies listed on the Main Market, the Sustainability Statement must also include detailed disclosures on the following:

- Governance structure in place to manage sustainability matters
- The scope of the Sustainability Statement and the basis for the scope
- A description of how sustainability matters are identified, why they are important to the listed company and how they are managed (including information on the policies to manage the sustainability matters, measures undertaken to deal with the sustainability matters, and indicators which show how the listed company has performed in managing the sustainability matters) [1]

[1] Contents of this page have been extracted from the EY Report

Detailed disclosures are not applicable to companies listed on the ACE Market. Bursa Malaysia has issued a Sustainability Reporting Guide which provides guidance to companies on how to identify, assess and manage EES risks and opportunities and prepare the Sustainability Statement. The guide provides a list of sustainability themes and indicators that companies may consider when identifying, managing and disclosing their material sustainability matters. Bursa Malaysia and SCM are both supporting TCFD. As TCFD supporters, they pledge support to climate-related disclosures.

On February 2019, PSEC issued *Memorandum Circular No. 4, Series of 2019 on the Sustainability Reporting Guidelines for Publicly-Listed Companies.* The Memorandum Circular requires publicly-listed companies to submit a sustainability report along with their annual report. The submission of the Sustainable Report is mandatory and non-attachment of the same to a PLC's Annual Report shall be subject to a penalty for an incomplete Annual Report. Under the 'comply or explain' approach, for the first three years of submission, companies opting to use PSEC's Sustainability Reporting Template may provide explanations for items/indicators when they still have no available data. The application of the Memorandum Circular will start with the 2019 annual reports submitted in 2020.

A Reporting Template attached to the guidelines (Annex A of the Guidelines) provides a list of topics that companies may disclose on. However, companies are not required to disclose on all of those topics but should rather disclose only on topics that have been identified as material by companies after performing an assessment of materiality. The guidelines suggest that the assessment of materiality of a specific topic should take into account the following two considerations:

- Significance of the company's economic, social and environment impacts
- Influence of the topic on stakeholder assessments and decisions [1]

[1] Contents of this page have been extracted from the EY Report

According to the Reporting Template, the sustainability report should first contain a description of the company's materiality process in identifying its material topics. The sustainability report may then include the following disclosures:

- **Economic Disclosures**: They cover the impacts of the company on the flows of economic resources in the local and national economy, risks and opportunities from to climate change, procurement practices and anti-corruption practices

- **Environmental Disclosures**: They cover how the company manages its natural resource needs and how it minimises its negative impact on the environment

- **Disclosures on Social Topics**: They cover how the company is managing its relationship with its stakeholders (e.g. employees, customers, communities, suppliers, the public and the government, etc.) as well as issues related to human rights, responsible marketing practices, access to and quality of products and services, customer privacy and data security

- **Disclosures on UN SDGs**: They cover how the company's products and services are contributing to the SDGs

Publicly-listed companies are also subject to governance disclosures, but those are included in the Integrated Annual Corporate Governance Reports. For companies that already have sustainability reports in accordance with internationally recognised frameworks and standards, their reports are considered as their compliance.

The *Sustainability Reporting Guidelines* reflect the recommendations of the TCFD. The TCFD Recommendations apply to non-financial companies and financial-sector organisations, including banks, insurance companies, asset managers and asset owners.[1]

[1] Contents of this page have been extracted from the EY Report

In 2017, Singapore Exchange Limited (SGX) introduced a **sustainability reporting** requirement for all listed companies which took effect for any financial year ending on or after 31 December 2017. The requirement aims to motivate companies to actively monitor and benchmark their sustainability practices. The Sustainability Report should be released at least once a year and made available on SGXNet and on the company's website.

The Sustainability Report must describe the company's sustainability practices on comply-or-explain basis. It shall include the following primary components:

- Material Environmental, Social and Governance (ESG) factors: The report should identify material ESG factors and the process of selection, taking into account their relevance to the company and its stakeholders

- Policies, practices and performance: The report should describe the company's policies, practices and performance with respect to the identified material ESG factors

- Targets: The report should indicate the company's targets with respect to each identified material ESG factor for the forthcoming year

- Sustainability reporting framework: The report should describe the sustainability reporting framework(s) chosen to guide the reporting and disclosure and the reasons for choosing the framework(s)

- Board statement: The report should include a statement from the board stipulating that the board has taken into consideration sustainability issues as part of the strategic formulation, identified the material ESG factors and supervised the management and monitoring of the material ESG factors.

If a company is unable to report on any of the above primary components, it must state so and explain what it does instead and the reasons for doing so. The ESG factors should be relevant to the company's business strategy and outcomes. There is no hard rule on how to assess the materiality of the ESG factors, but a description of the process by which the company identified material ESG factors shall be included in the Sustainability Report. Companies should choose a sustainability reporting framework that guides the reporting and disclosure. Companies are encouraged to use a framework that is internationally recognised such as the GRI Sustainability Reporting Guidelines and the International Integrated Reporting Council's Framework. [1]

[1] Contents of this page have been extracted from the EY Report

MAS is supporting the TCFD. In addition to MAS, there are 12 other companies and organisations in Singapore that are also supporting TCFD, including CapitaLand, City Development Limited, DBS, OCBC Bank, SGX. As TCFD supporters, they all pledge support to climate-related disclosures.

Under the *Sustainability Development Roadmap for Listed Companies*, as proposed in the SECT Strategic Plan 2013-2015, SECT mandates sustainability reporting for all publicly listed companies. To support sustainability reporting, the SECT, in collaboration with the SET and related participants have issued guidelines on sustainability reporting. The guidelines recommend every publicly listed company to publish a sustainability report.

SET also offer training programmes for listed companies on how to prepare sustainability reports.

Companies may consider to issue the Sustainability Report annually. In certain cases whereby companies may have to respond to stakeholders' requests, they would have to release the Sustainability Report accordingly. The Sustainability Report may be part of the company's annual report or issued separately. It may be published via multiple channels, including company's website and print. There are three sustainability-related topics that companies may disclose on and those should be significant to the business operation:

- General issues
- Environmental issues
- Social issues [1]

[The remainder of this page is intentionally left blank]

[1] Contents of this page have been extracted from the EY Report

General issues
• Company's policies and goals for sustainability, including plans, targets and long-term vision • Structure and form of management, monitoring and decision-making on sustainability • Policy against bribery and corruption • Evaluation methods of opportunities and threats on sustainability • Risk management policy on sustainability • Law, criteria, regulations, international agreements and other agreements that are material to the company, including any penalties, accidents and litigations for breaching law, criteria, regulations and agreements • Future challenges facing the company, the industry it is in and the competitive landscape • Comparison between the company's evaluation results on social and environmental issues and those of its competitors
Environmental issues
• Disclosure of environmental issues, including impacts of the company's operation on the climate, water and ecosystem, etc. • Management of impacts on biodiversity • Management of environmental issues
Social issues
• Treatment of employees • Company's efforts on social issues • Evaluation methods of the impacts on social issues and the company's communication with stakeholders • Policies and guidelines on guaranteeing the quality of products and services • Governance issues within the company

SECT is revising the disclosure requirements for listed companies by issuing new Annual Registration Statement (Form 56-1), so-called **'One Report'** (expected to be launched within the second quarter of 2020), which will apply to the report as of 31 December 2021 onwards. One Report will address the commitment of listed companies in incorporating ESG issues into their business practices.[1]

[1] Contents of this page have been extracted from the EY Report

Moreover, on 21 January 2020, the Capital Market Supervisory Board approved additional elements to be disclosed under One Report, including (1) human rights policy and practices, (2) provident fund provided to employees for retirement saving, and (3) carbon emission. SECT will also provide guidelines for best practices, while supporting listed companies to develop their capacity subject to their own contexts.

In addition, the SECT also included carbon emission information as one of the disclosure topics for companies seeking to go public. To bolster corporate governance, companies seeking to go public are also expected to comply with the requirement that chairman and chief executive officer shall not be the same person.

In Viet Nam, the VSSC's *Circular No. 155/TT-BTC on Disclosure of information on the securities market* requires publicly listed companies to report on their E&S impact on an annual basis. This may be disclosed either in companies' annual reports or in a separate Sustainability Development Report. Topics to be disclosed include the following:

- Management of raw materials
- Energy consumption
- Water consumption
- Compliance with environmental protection law
- Policies related to employees
- Community involvement
- Green capital market activities under the guidance of the VSSC

Companies from the financial, banking and insurance sectors are not required to disclose on management of raw materials, energy consumption and water consumption. The Ho Chi Minh Stock Exchange (HOSE) encourages the use of the GRI Sustainability Reporting Standards which is a global standard for sustainability reporting. A Vietnamese version of this sustainability reporting framework is available since June 2017.

The Hanoi Stock Exchange and the HOSE are both supporting the TCFD.[1]

[1] Contents of this page have been extracted from the EY Report

4.4 Issuances

The reception to the ASEAN GBS, ASEAN SBS and the ASEAN SUS has been encouraging and to date, there have been a total of 58 sustainable bonds issued/listed in ASEAN raising USD13.8 billion as of March 2020. Out of a total of 44 green bonds issued/listed in ASEAN, 29 green bonds are labelled/aligned[1] with the ASEAN GBS. Out of 5 social bonds issued/listed in ASEAN, 1 is labelled as an ASEAN SBS Bond.[2]

Almost all issuers of sustainability bonds in ASEAN have chosen to use the ASEAN SUS. Out of a total of 9 sustainability bonds issued/listed in ASEAN, 6 sustainability bonds labelled/aligned[1] as ASEAN SUS Bonds.

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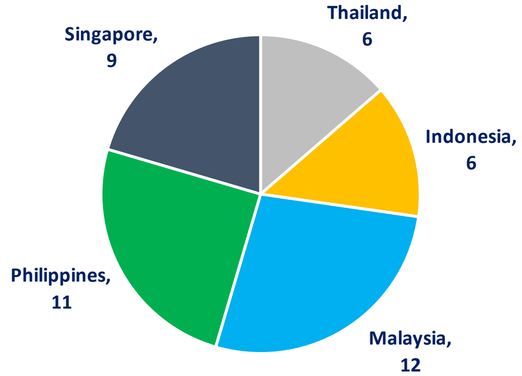
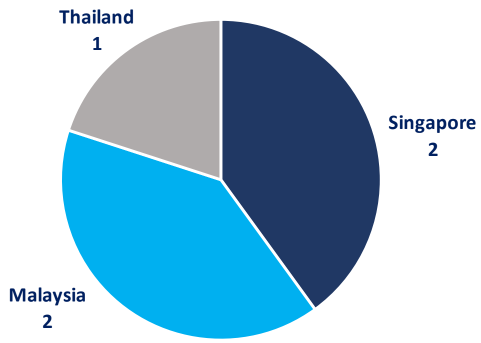
[1] Issuances that comply with the ASEAN GBS, ASEAN SBS and ASEAN SUS, and which are reported to ACMF as having complied, are listed on the ACMF website. Such issuances are classified as 'labelled'. Issuances that are specifically stated as aligned to the ASEAN GBS, ASEAN SBS and ASEAN SUS in their third party reports but not reported to ACMF are classified as 'aligned'. As it is not practical for ACMF to track the 'aligned' issuances, figures on such issuances are based on what is known to ACMF and may not be a complete list of such issuances. The 'aligned' figures represent the minimum amount of such issuances.

[2] Based on the EY Report

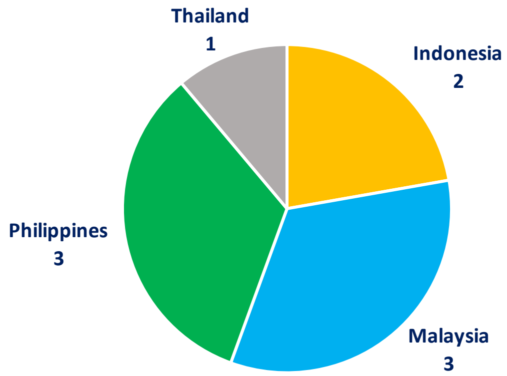
Number of sustainable bonds issued by AMS



Number of green bonds (44)

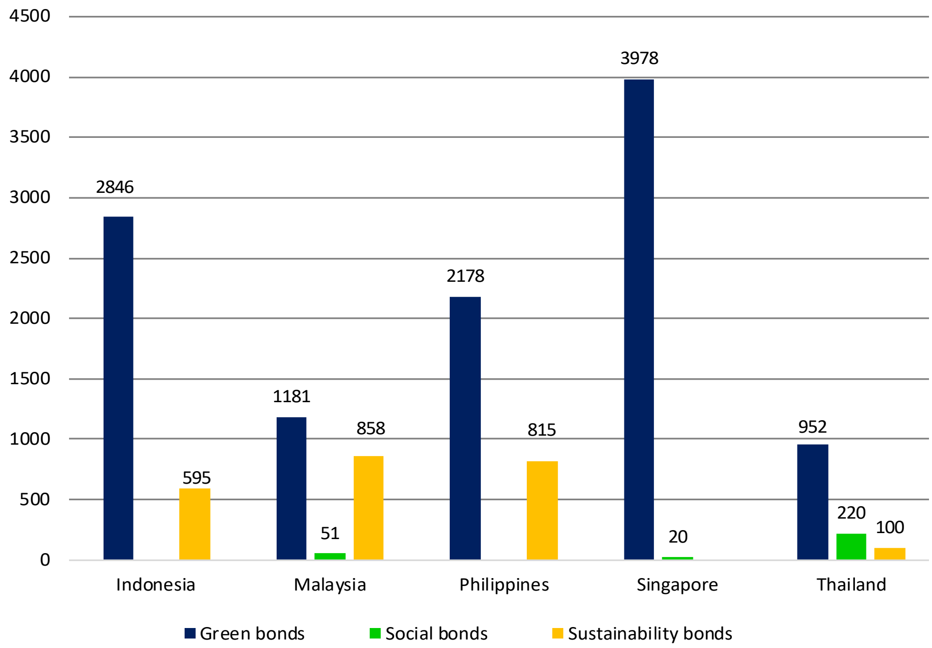


Number of social bonds (5)



Number of sustainability bonds (9)

[1] Contents of this page have been extracted from the EY Report



Volume of sustainable bonds issued by AMS (in USD million)

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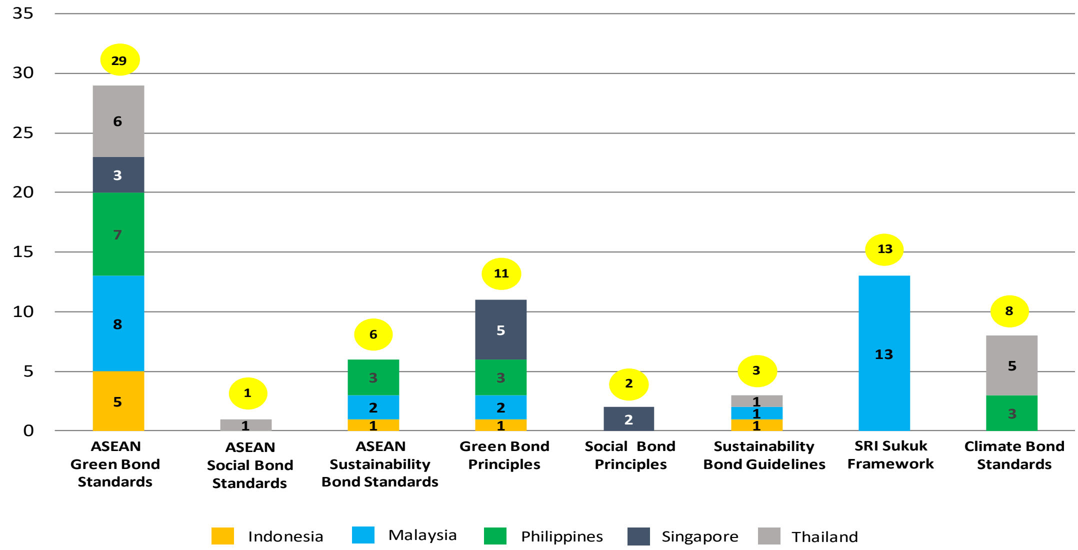
[1] Contents of this page have been extracted from the EY Report



Guidelines and standards used for sustainable bonds in ASEAN

[1] Notes on the methodology for assessing the use of guidelines and standards for sustainable bonds:

- The total number of guidelines and standards used do not match the total number of sustainable bonds, because sustainable bonds may align with multiple guidelines and standards at the same time
- All guidelines and standards used are counted once, except when the sustainable bonds align with ASEAN Standards (i.e. ASEAN GBS, ASEAN SBS and ASEAN SUS), CBS and ICMA's GBP, SBP and SBG, the ASEAN Standards and CBS take precedence over the ICMA's GBP, SBP and SBG which are then not counted. As such:
  - ❖ Green bonds counted under GBP are green bonds which align only with GBP
  - ❖ Social bonds counted under SBP are social bonds which align only with SBP
  - ❖ Sustainability bonds counted under SBG are sustainability bonds which align only with SBG
- There is no information available on the guidelines/standards used for the green bond issued by TMB Bank in Thailand. The green bonds therefore do not show in this chart.

Breakdown of sustainable bonds aligning only with ICMA's principles/guidelines by date of issuance

	Aligned only with GBP	Aligned only with SBP	Aligned only with SBG
Issued before the introduction of the ASEAN Standards [2]	5	1	3
Issued after the introduction of the ASEAN Standards [3]	6	1	0
Total	**11**	**2**	**3**

[1] Contents of this page have been extracted from the EY Report
[2] Bonds issued before or in November 2017 for green bonds, before or in October 2018 for social bonds and sustainability bonds
[3] Bonds issued in or after December 2017 for green bonds, in or after November 2018 for social bonds and sustainability bonds

Issuers of sustainable bonds in ASEAN come from a variety of industries and the proceeds have been used for diverse purposes as shown below:

Issuer (Year)	**Country**	**Amount (in million)**	**Standards**	**Use of proceeds**
Green Bonds				
AP Renewables Inc. (Mar 2016)	Philippines	PHP 10,700 (USD 232)	CBS	Energy
City Developments Limited (Apr 2017)	Singapore	SGD 100 (USD 72)	GBP	Buildings
DBS Group Holdings Ltd (Jul 2017)	Singapore	USD 500	GBP	Energy, buildings, transport, water, waste, adaptation
Tadau Energy Sdn Bhd (Jul 2017)	Malaysia	MYR 250 (USD 58)	SRI, GBP	Solar
Quantum Solar Park (Oct 2017)	Malaysia	MYR 1,000 (USD 236)	SRI	Solar
Indian Renewable Energy Development Agency (Oct 2017)	Singapore	INR 19,500 (USD 300)	GBP	Solar, Wind
Manulife Financial Corp (Nov 2017)	Singapore	SGD 500 (USD 371)	GBP	Renewable energy, green buildings
PNB Merdeka Ventures Sdn (Dec 2017)	Malaysia	MYR 690 (USD 171)	SRI, ASEAN GBS	Building
BDO Unibank (Dec 2017)	Philippines	USD 150	GBP	Climate-smart projects
Sindicatum Renewable Energy Company Pte Ltd (Jan 2018)	Singapore	INR 2,536 (USD 40)	ASEAN GBS	Renewable energy
Sinar Kamiri Sdn Bhd (Jan 2018)	Malaysia	MYR 245 (USD 63)	SRI, GBP	Solar
Segi Astana Sdn Bhd (Jan 2018)	Malaysia	MYR 415 (USD 106)	ASEAN GBS	Building
Republic of Indonesia (Mar 2018)	Indonesia	USD 1,250	ASEAN GBS[1]	Energy, buildings, transport, waste, land use, adaptation
UiTM Solar Power Sdn (Apr 2018)	Malaysia	MYR 222.3 (USD 57)	SRI, ASEAN GBS	Solar
Star Energy Geothermal (Apr 2018)	Indonesia	USD 580	ASEAN GBS[1]	Geothermal
TMB Bank (Jun 2018)	Thailand	USD 60	N/A	Solar, WTE, biomass, bagasse
IFC's Mahubay Bond (Jun 2018)	Philippines	PHP 4,743 (USD 89)	GBP	Geothermal energy
PT Sarana Multi Infrastructure (Jul 2018)	Indonesia	IDR 500,000 (USD 35)	ASEAN GBS[1]	Energy, transport, water, waste, agriculture
Sindicatum Renewable Energy Company Pte Ltd (Aug 2018)	Singapore	PHP 1,060 (USD 20)	ASEAN GBS	Renewable energy

Issuer (Year)	Country	Amount (in million)	Standards	Use of proceeds
Green Bonds (cont'd)				
IFC (Oct 2018)	Indonesia	IDR 2,000,000 (USD 131)	GBP	Infrastructure, climate-related projects
China Banking Corporation (Oct 2018)	Philippines	USD 150	GBP	Climate-smart projects
B. Grimm (Dec 2018)	Thailand	THB 5,000 (USD 155)	CBS, ASEAN GBS	Solar
Rizal Commercial Banking Corporation (Feb 2019)	Philippines	PHP 15,000 (USD 287)	ASEAN GBS	Energy, buildings, transport and pollution
Pasukhas Green Assets Sdn Bhd (Feb 2019)	Malaysia	MYR 17 (USD 4)	SRI, ASEAN GBS	Hydropower
Republic of Indonesia (Feb 2019)	Indonesia	USD 750	ASEAN GBS[1]	Energy, buildings, transport, waste, land use, adaptation
AC Energy (Jan 2019)	Philippines	USD 300	CBS, ASEAN GBS	Renewable energy
AC Energy (Feb 2019)	Philippines	USD 110	CBS, ASEAN GBS	Renewable energy
ICBC Singapore (Apr 2019)	Singapore	USD 2,200	GBP	Energy, water, waste
BTS Group Holdings Public Company Limited (May 2019)	Thailand	THB 13,000 (USD 409)	CBS, ASEAN GBS	Transport
PNB Merdeka Ventures Sdn (Jun 2019)	Malaysia	MYR 445 (USD 108)	SRI, ASEAN GBS	Building
Energy Absolute PCL (Jul 2019)	Thailand	THB 3,000 (USD 98)	CBS, ASEAN GBS	Renewable energy
Energy Absolute PCL (Aug 2019)	Thailand	THB 4,000 (USD 131)	CBS, ASEAN GBS	Renewable energy
Bank of Philippine Island (Aug 2019)	Philippines	CHF 100 (USD 101)	ASEAN GBS	Energy, water and waste, pollution, buildings
Telekosang Hydro One Sdn Bhd (Aug 2019)	Malaysia	MYR 470 (USD 115)	SRI, ASEAN GBS	Hydropower
Telekosang Hydro One Sdn Bhd (Aug 2019)	Malaysia	MYR 120 (USD 25)	ASEAN GBS	Hydropower
Bank of Philippine Island (Sept 2019)	Philippines	USD 300	ASEAN GBS	Energy, water and waste, pollution, buildings
Cypark Ref Sdn Bhd (Oct 2019)	Malaysia	MYR 550 (USD 132)	SRI	Solar
Energy Absolute PCL (Oct 2019)	Thailand	THB 3,000 (USD 99)	CBS, ASEAN GBS	Wind
Republic of Indonesia (Nov 2019)	Indonesia	IDR 1,459,880 (USD 100)	ASEAN GBS[1]	Airport, navigation, sea port, irrigation, reservoir, water

Issuer (Year)	Country	Amount (in million)	Standards	Use of proceeds
Green Bonds (cont'd)				
AC Energy (Dec 2019)	Philippines	USD 400	ASEAN GBS	Renewable energy
PNB Merdeka Ventures Sdn (Dec 2019)	Malaysia	MYR 435 (USD 106)	SRI, ASEAN GBS	Building
CapitaLand Commercial Trust (Dec 2019)	Singapore	JPY 10,000 (USD 124.7)	N/A	Buildings
Overseas-Chinese Banking Corporation Limited (Dec 2019)	Singapore	AUD 500 (USD 350)	ASEAN GBS	Renewable energy, energy efficiency, pollution prevention and control, clean transportation, sustainable water and wastewater management, climate change adaptation, green buildings
Arthaland Corporation (Feb 2020)	Philippines	PHP 3,000 (USD 59)	ASEAN GBS	Green buildings
Issuer (Year)	**Country**	**Amount (in million)**	**Standards**	**Use of proceeds**
Social Bonds				
Khazanah Nasional Berhad – Sukuk Ihsan (Apr 2015)	Malaysia	MYR 100 (USD 28)	SRI	Education
Khazanah Nasional Berhad – Sukuk Ihsan (Jun 2017)	Malaysia	MYR 100 (USD 23)	SRI	Education
Impact Investment Exchange (Jul 2017)	Singapore	USD 8	SBP	Women empowerment
Bank of Ayudhya (Oct 2019)	Thailand	USD 220	ASEAN SBS	Women-led small and medium sized enterprises
Impact Investment Exchange (Jan 2020)	Singapore	USD12	SBP	Women empowerment
Issuer (Year)	**Country**	**Amount (in million)**	**Standards**	**Use of proceeds**
Sustainable Bonds				
TLFF I Pte Ltd. (Feb 2018)	Indonesia	USD 95	SBG	Agriculture
Kasikornbank Public Company Limited (Oct 2018)	Thailand	USD 100	SBG, ASEAN GBS	Green and social projects
HSBC Amanah Malaysia (Oct 2018)	Malaysia	MYR 500 (USD 120)	SBG	UN SDGs

Issuer (Year)	Country	Amount (in million)	Standards	Use of proceeds
Sustainable Bonds (cont'd)				
PT Bank Rakyat Indonesia Tbk (Mar 2019)	Indonesia	USD 500	ASEAN SUS[1]	Microfinance, transport
Rizal Commercial Banking Corporation (Jun 2019)	Philippines	PHP 8,000 (USD 156)	ASEAN SUS	Energy, buildings, transportation, pollution, water, natural resources and land, access to basic infrastructure and essential services, employment generation, housing, and socio-economic advancement and empowerment
Rizal Commercial Banking Corporation (Sept 2019)	Philippines	USD 300	ASEAN SUS	Energy, buildings, transportation, pollution, water, natural resources and land, access to basic infrastructure and essential services, employment generation, housing, and socio-economic advancement and empowerment
CIMB Bank Berhad (Oct 2019)	Malaysia	USD 680	ASEAN SUS	UN SDGs
Edra Solar Sdn Bhd (Oct 2019)	Malaysia	MYR 245 (USD 58)	SRI, ASEAN SUS	Renewable energy, socio-agriculture
Development Bank of the Philippines (Nov 2019)	Philippines	PHP 18,125 (USD 359)	ASEAN SUS	Clean transport, affordable basic infrastructure, renewable energy, energy efficiency, sustainable water and wastewater management, pollution prevention and control, socio-economic advancement and empowerment, green buildings, access to essential services, affordable housing, and employment generation.

- Data on green bonds, social bonds and sustainability bonds is as of March 2020
- For bonds issued in a currency other than USD:
  - If the corresponding USD amount was communicated at the time of issuance, then it is that amount which has been used in the report
  - If the corresponding UDS amount was not communicated at the time of issuance, then the quantum has been converted in USD using the USD exchange rate applicable on the last day of the issuance month quoted by Bloomberg and/or respective central banks
- SRI refers to the SCM's SRI Sukuk Framework

Source: EY Report

[1] Specifically stated in relevant third party report as aligned to ASEAN GBS or ASEAN SUS but not reported to ACMF for labelling.

It is also interesting to note that the world's first green sukuk and first SDG sukuk were issued in Malaysia.

4.5 *Asset Classes*

The introduction of the ASEAN GBS, ASEAN SBS and ASEAN SUS were also intended to create asset classes to grow ASEAN sustainable finance. The ASEAN GBS, in particular, has successfully created an ASEAN Green Bond asset class given the encouraging rate of adoption and issuances while the development of the ASEAN Social Bond and ASEAN Sustainability Bond asset classes are in progress with the increasing number of issuances. However, this is just the beginning and ASEAN should be able to grow even more asset classes under the sustainable category, including in the equities space. At present, several AMS have local sustainable equities indices.

In June 2009, the SRI KEHATI index was launched by the Indonesian Stock Exchange in cooperation with Yayasan Keanekaragaman Hayati Indonesia (the Indonesian Biodiversity Foundation – KEHATI). The SRI KEHATI index consists of stocks from 25 listed companies which are selected based on their practices regarding corporate governance, the environment, community involvement, human resources, human rights and business behaviour. The methodology of how the constituents of the index are selected is described on KEHATI's website. [1]

In 2014, Bursa Malaysia and FTSE launched the FTSE4Good Bursa Malaysia Index which consists of Malaysian stocks selected from the top 200 companies in the FTSE Bursa Malaysia EMAS Index based on their ESG performance. [1]

The SGX has also launched two ESG indices as a tool for capacity-building:

- iEdge SG ESG Transparency Index: A broader benchmark that measures the performance of sustainable companies listed in Singapore.
- iEdge SG ESG Leaders Index: A narrower index that measures the performance of SGX-listed companies with best-in-class leading ESG practices. [1]

The SET established, in 2015, the Thailand Sustainability Investment Index which comprises Thai listed companies with prime ESG performance. The index methodology is publicly available on SET's website. As of December 2019, the index consists of 63 listed companies from different business sectors such as Food and Beverages, Transportation & Logistics, Banking, Property Development, Energy & Utilities and Information & Communication Technology. [1]

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[1] Extracted from the EY Report

Launched in July 2017, the Viet Nam Sustainability Index tracks the performance of 20 companies listed on the HOSE with the highest sustainability ratings. The constituents of Viet Nam Sustainability Index are selected among the 100 largest companies listed on HOSE.

In addition, FTSE launched in April 2016 the FTSE4Good ASEAN 5 Index which constituents are companies with prime ESG practices listed on Bursa Malaysia, Indonesia Stock Exchange, the Philippine Exchange, SGX and the SET. The index methodology is publicly available on FTSE Russell's website. [1,2]

At this point, there has been insufficient demand for an ASEAN wide Sustainability Index to be launched.

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[1] Contents of this page up to here have been extracted from the EY Report

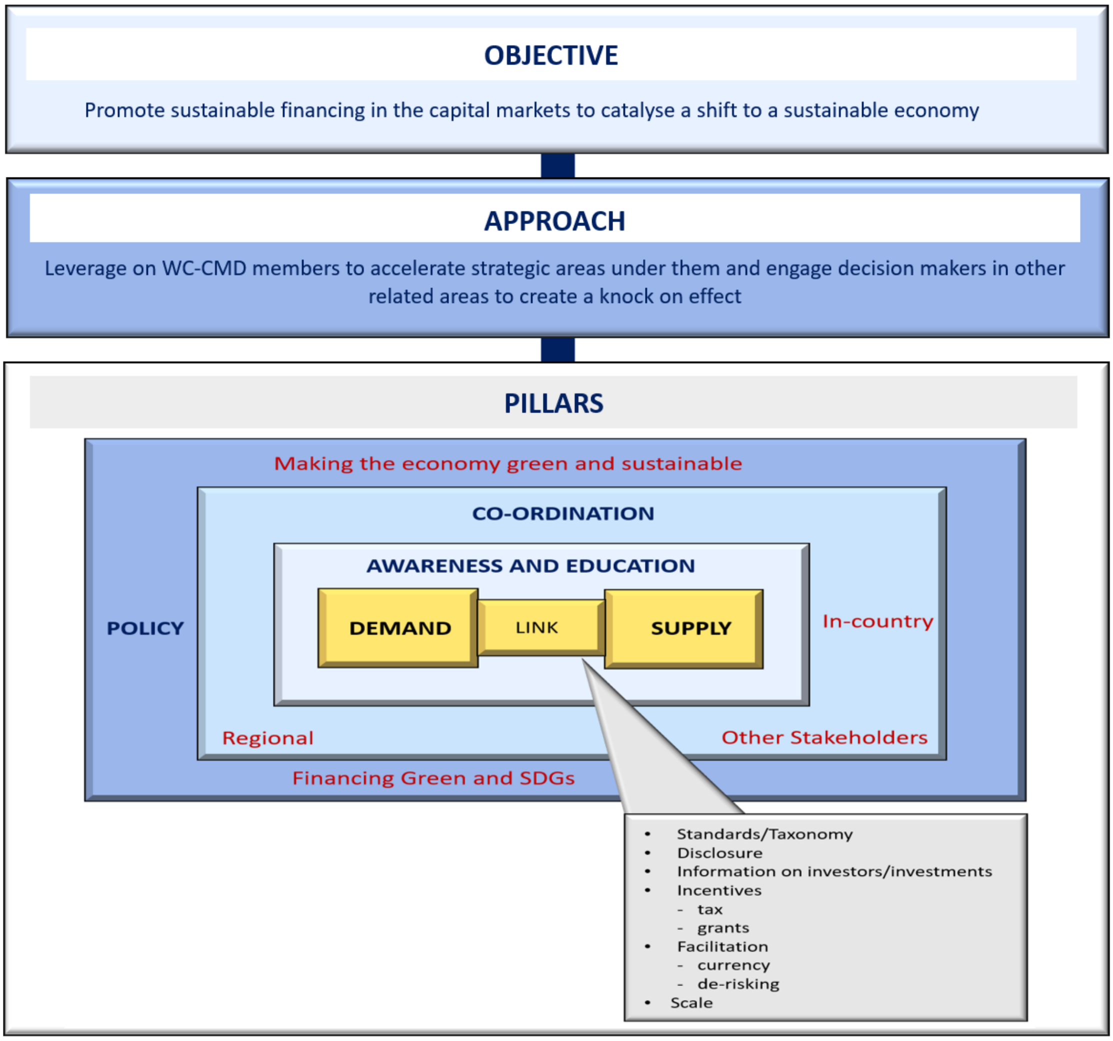
[2] The FTSE4Good ASEAN 5 Index methodology is available on: https://www.ftserussell.com/products/indices/ftse4good

5. THE PILLARS

WC-CMD's objective is to promote sustainable finance in the capital markets to catalyse a shift to a sustainable economy.

WC-CMD is taking a pragmatic, holistic and inclusive approach towards achieving this objective. It will leverage on its structure as a forum whose members are drawn from AMS MOFs, central banks and capital market regulators to accelerate strategic areas under their respective purviews and engage with decision makers in other related areas with the aim of creating a knock-on effect in those areas.

In order to advance its goals, WC-CMD will focus on the drivers that are most critical for the success of sustainable finance and adopt them as the pillars of its overall strategy for promoting sustainable finance.



Four key pillars have been identified for WC-CMD to promote sustainable finance in the ASEAN capital markets. In order to make meaningful progress in driving the sustainable finance agenda for the capital markets, these pillars need to be connected correctly and collaborative action needs to be taken by all the key decision makers. Recommendations are made in this report for each of these pillars.

The four key pillars are described below:

5.1 Pillar 1: Policy

There is no doubt that without a mandate, the sustainable finance agenda will not be able to progress at the necessary pace. Policy mandates from the appropriate level of authority are the best (and in some cases only) way to create a paradigm shift. Policy mandates can come in various forms. Policy can come at the highest level through legislation. The United Kingdom (UK) is a good example of this. The passing of the Climate Change Act 2008 by the UK Parliament created a statutory framework that legally binds the UK to emission reduction targets. The Secretary of State for Energy and Climate Change is responsible for ensuring that the UK's output of the six greenhouse gases identified under the Kyoto Protocol is at least 80% lower than the 1990 baseline in 2050. The Act further empowers ministers to introduce measures necessary to meet those targets. Additionally, an Independent Climate Change Committee and an Adaptation Sub-Committee were created to oversee the process.

The EU Green Deal Championed by the European Commission (EC) will also be underpinned by a proposed European Climate Law to transform a political commitment to a legal obligation.

In 2013, the Chinese government released its National Climate Change Adaptation Plan followed by the National Plan on Climate Change (2014-2020) in 2014.

An alternative approach to legislation is for the responsible ministries and/or government agencies to come together to introduce some form of policy or pathway for the areas within their purview to drive the agenda.

It is clear that there needs to be some form of policy driver in order for sustainable finance to progress regionally. This driver needs to start at the AMS national level given that every AMS will have a different set of circumstances and therefore will require a different policy approach. The national policies will then be used to develop a regional approach. Not every AMS has a national policy yet and the development of a national policy is a complicated process that takes time. However, it is not necessary to have hard policy for ASEAN's sustainable finance journey to begin. An alternative approach would be to apply soft policy in areas within the purview of WC-CMD members in a manner that is not intrusive to other national decision makers. At the heart of all sustainability initiatives is the funding, including public funding. The national funding budget and the public balance sheet present themselves as a good base to introduce, promote and facilitate sustainable finance. MOFs can introduce a 'Sustainable Finance First for Sustainable Projects' soft policy where the project owners or promoters are encouraged to consider using sustainable finance as a first choice for sustainable projects. As an example, green finance should be considered as a first choice for infrastructure that can be categorised as green. As the ownership and responsibility for financing some sustainable projects may reside with ministries or government agencies other the MOFs, these entities should also be part of such efforts. Linking the NDCs to green financing is also an effective way of helping governments finance and meet their NDC requirements and obligations. This will have the twin effect of growing the pool of green investment opportunities while at the same time facilitating the 'greening' of projects that have the potential to be 'green'. The same principle would apply to SDG projects.

Secondly, MOFs should also introduce a policy internally to move from funding green and SDG projects using the national budget to, where possible, using the best combination of public, private and development capital. Financing options from both domestic and international sources should be considered. This also requires a change in the manner in which the funding of projects is approached. Rather than considering funding for projects on a project by project basis, an open system strategic financing approach can be applied, where more prominence is given to mobilising private capital at scale. [1]

[1] Wilson, Gavin, World Economic Forum (2019) '4 key ways countries can finance their SDG ambitions'

Thirdly, policy banks and lending institutions (such as development finance institutions and agricultural banks) should be encouraged and supported to issue SDG Bonds to finance their SDG efforts. SDG labelled bonds have been issued by financial institutions like HSBC, ANZ Bank and CIMB Bank while Rizal Commercial Banking Corporation, the Development Bank of Philippines, Bank of Ayudhya, Kasikornbank and PT Bank Rakyat Indonesia are examples of financial institutions who have issued social or sustainability bonds. In 2018, HSBC Amanah, an Islamic bank in Malaysia, issued the world's first SDG Sukuk.

In order to increase the supply of green and sustainable bonds in the market, national governments, local governments and government entities can issue green and other types of sustainable bonds. By doing this, they would lead the way and encourage more issuance from the private sector. This would also signal national commitment to sustainable finance. However, while issuances send a strong signal to the market, the bonds must be issued for impactful purposes and provide value for money. At present, Indonesia is the only AMS that has issued a sovereign green bond. In 2015, Malaysia's Khazanah Nasional issued a Social Impact Sukuk via a special purpose vehicle, Ihsan Sukuk Berhad, to fund trust schools that were intended to improve access to quality education. A second tranche which was also offered to retail investors was launched in 2017.

While government and quasi-government issuances can help develop the market, their feasibility would depend on the situation and strategies of each AMS.

5.2 Pillar 2: Co-ordination

At present, the sustainable finance efforts for capital markets in ASEAN are led by WC-CMD and ACMF, who both focus on different aspects of the capital market. WC-CMD focuses on the government and quasi-government space (which currently resides in the bond market) and on cross cutting issues for the capital markets, such as tax. This is reflective of WC-CMD as a forum whose members are drawn from membership of ministries of finance, central banks and capital market regulators. ACMF, on the other hand, is comprised of the securities regulators of the AMS. ACMF is tasked with developing a deep, liquid and connected capital market. ACMF's vision 2025 is for an 'inter-connected, inclusive and resilient ASEAN Capital Market'.

WC-CMD and ACMF co-ordinate their efforts through joint meetings as well as a Joint Working Group on Infrastructure Finance and another Joint Working Group on Sustainable Finance.

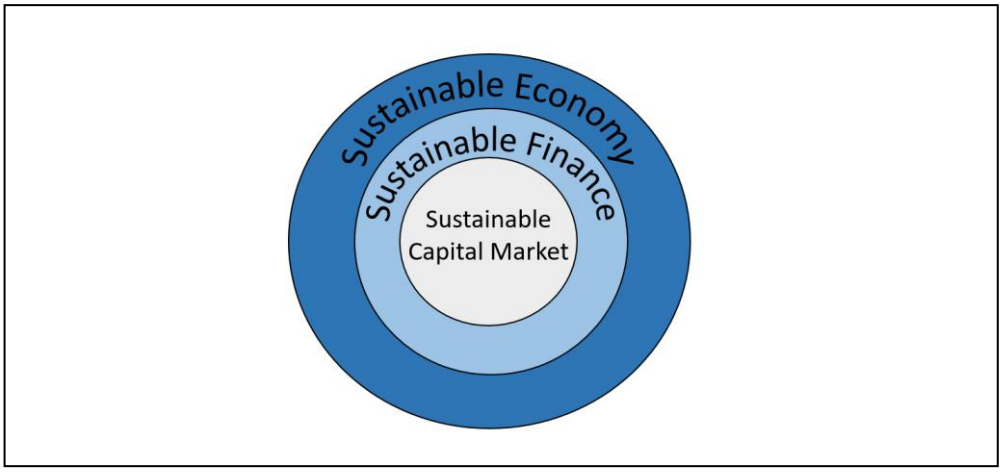


Diagram 1: A Sustainable Capital Market for Sustainable Economy

The capital markets form only a part of the sustainability eco-system and as such, for them to achieve their goals in sustainable financing, they must co-ordinate, collaborate and connect with other parts of the eco-system. The financial system is part of this eco-system. For instance, bank loans are repackaged through various means, such as securitisation, into the capital markets. In order to facilitate movement from the banking stream into the capital markets stream, it is important that key issues are resolved upfront. An example of this are loans for infrastructure projects where the terms of the loan will determine the ease in which they can be repackaged as capital market products. More importantly though, is that in many situations, financing is derived from multiple sources and as such, for efficiency and effectiveness, the sources of finance must be able to interface with each other. In this respect, insurance and pension fund regulators should also be part of discussions on sustainable finance. Co-ordination with other actors in the financial system is also crucial. This includes investors and intermediaries. Clear two-way messaging about the requirements of each party and bringing about convergence will help create the investment flows. For example, investors need to communicate clearly to regulators what their needs are and regulators need to communicate their expectations clearly to issuers, investors and intermediaries. If regulators try to create an asset class, it must meet the needs of investors.

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At a broader level, there is a need to also co-ordinate with the parts of the real economy that generate the sustainable financing opportunities or that require financing for those opportunities. Such parties include other parts of government as well as private project and asset owners. It is only when there is co-ordination that resource allocation can happen effectively and efficiently. Co-ordinating with the real economy will also enable the move towards a sustainable economy as the relevant actors can see a means of achieving their goals through the capital markets. For example, project owners may not climate adapt their assets if they are not aware that there are investors who prefer such investments and are willing to finance them.

Partnerships must also be developed to take advantage of synergies and scale. Apart from the ASEAN partnerships and partnering with the private sector, broader partnerships, particularly international partnerships, need to be considered. In executing its green finance strategy, the UK collaborates with China, India and Brazil through their regular Economic and Financial Dialogues while China, Mexico and Colombia work with the UK through the UK Partnerships for Accelerated Climate Transitions Programme. Multilateral Development Banks (MDBs), Non-Governmental Organisations (NGOs) and philanthropies also play many roles in the ecosystem, from being advocates to funders. As such, it is important to work closely with these parties. Many AMS already have collaborations and partnerships with other governments, international bodies and MDBs in the various areas of sustainability and this can be expanded to provide ASEAN wide coverage.

Importantly, partnerships are needed with academia and learning institutions as well as NGOs to create awareness and educate the public about the role capital markets play in sustainability. For example, many NGOs educate and inform members of the public about why greening the economy is important or about the impact of climate change but they stop short of sharing with the public how, by changing their investment preferences, they can make a difference.

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Co-ordinating sustainable finance at an ASEAN level can provide a significant boost to the effort. There have been various proposals on how co-ordination for sustainable finance at an ASEAN level can be implemented through different approaches and structures. This includes through:

- Co-ordinating committees
- Outsourced dedicated secretariat that resides with other entities such as the ASEAN Secretariat or ADB
- Independent dedicated entities

Under the approach of establishing an independent dedicated entity, the independent entity would act as the single and dedicated platform for collaboration among the AMS on sustainable finance at the ASEAN level. Working groups would then be set up under this entity to address various aspects of sustainable finance. The eventual form of such an entity can modelled after the ASEAN Centre for Energy which currently has 34 permanent staff.

All the structures proposed above have their own strengths, challenges and differing resourcing needs. A hybrid of the proposed approaches and structures can be adopted. One plausible way forward is to enhance the existing collaboration between WC-CMD and ACMF (the Joint ACMF and WC-CMD Sustainable Finance Working Group) by having a more structured engagement platform. An independent and dedicated secretariat could then be appointed to support this working group. MDBs or regional institutions can host the secretariat or alternatively, the secretariat can be funded by MDBs or developmental aid. With the increased resources, the reconfigured working group would then engage more with banking and insurance regulators.

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5.3 *Pillar 3: Awareness and Education*

As highlighted earlier, awareness and education at all levels of government, business and society is crucial. Creating awareness and education will help:

1) Identify opportunities for sustainable financing

2) Equip participants to translate opportunities for sustainable financing into action

3) Generate support for the sustainability cause

4) Increase demand for sustainable finance

The UK Green Finance Taskforce on Accelerating Green Finance had also made a recommendation that government and professional bodies should develop competencies across a wider group of societal stakeholders through education tools. It noted that 'shifting finance onto a sustainable footing to boost green finance opportunities will require all actors in the system to improve their engagement, understanding and competency in the issues'. [1]

To be effective and efficient, awareness and education need to be delivered in partnership with both the public and private sectors across different age and social clusters. It must reach investors, issuers, intermediaries and the public. Delivery partners include:

- Professional bodies (investment banking/banking associations, accounting institutes, analysts)
- Trade and industry bodies (chambers of commerce, infrastructure owners)
- Academia (universities, schools)
- MDBs
- NGOs

[1] UK Green Finance Taskforce (2018), Accelerating green finance

Awareness and education efforts must also reach the young as they are the decision makers of the future. At the same time, older citizens with savings pools who can make a difference should also be informed as to how their investment decisions can shape the world.

As mentioned in the earlier discussion on co-ordination, NGOs are an important partner as they can effectively educate the public about sustainability issues through their outreach efforts. Extending these outreaches to disseminate information about how sustainable finance can contribute to sustainability can ignite action by the public.

5.4 Pillar 4: Building Demand and Supply, and Creating A Virtuous Cycle

Underlying sustainable finance is the demand and supply for it. Demand and supply for financing come when there are needs from the real economy. Nevertheless, having demand for sustainable investments can spur the development of real economy projects as project owners are encouraged by the availability of capital. At the same time, real economy projects create a supply of sustainable investments. When there is a strong supply pipeline of sustainable investments, investors will take more interest as there will be choice, diversity, liquidity and the benefits of scale. If sustainable investing is to turn mainstream, it must not be a peripheral or an incidental affair. This means that investors will need to dedicate resources on a permanent basis, which can only be done if there is scale. Therefore, it is important to build demand and supply of both real economy projects as well as investments and create a virtuous cycle. Although driving projects in the real economy is beyond the scope of WC-CMD, it can be seen that spurring the demand and supply of sustainable investments can have a knock-on effect on demand and supply in the real economy.

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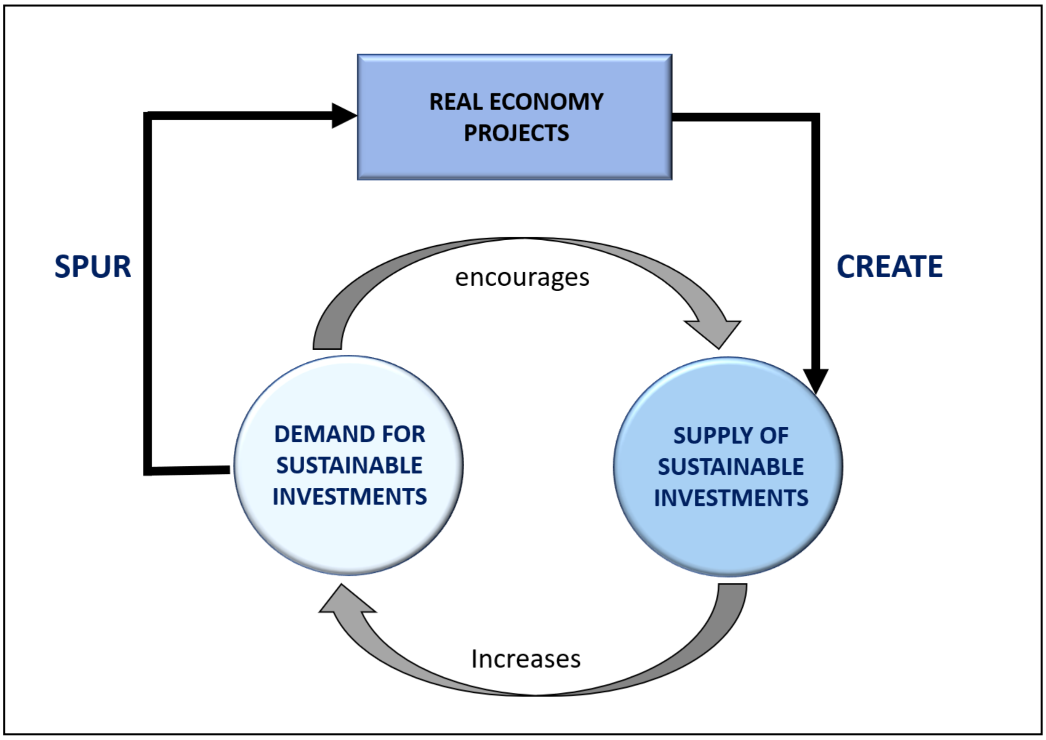

Diagram 2: Creating a virtuous cycle

In ASEAN's case, the absence of a 'greenium' globally for green instruments today and the additional costs and requirements for an issuance make a case for green finance to be demand-led. Although SDG investments may come with performance incentives or penalties that could mimic the effects of a 'greenium', the uncertainty as to the availability of finance for this area makes it more feasible to adopt a demand-led approach.

In order to strengthen demand, focus must be placed on the following:

- A consistent and investible pipeline of issuances to attract and maintain investor interest
- Transparent and consistent investment characteristics, including classification and labelling
- Investible asset classes

The linking of demand and supply is critical and this is determined by several key determinants that influence the appetites of investors and issuers. These determinants are examined in the following sections.

5.4.1. Taxonomy and Standards

A sustainable finance taxonomy provides a complete, transparent, reliable and consistent definition on what qualifies to be a green or sustainable investment. Having a taxonomy will make it easier for investors to have confidence in what they are investing in without having to do a disproportionate amount of due diligence. It also allows for the creation of asset classes. For issuers, having a taxonomy helps them understand whether their issuance will be eligible to qualify as a sustainable issuance. Products that meet a standard or satisfy the requirements of a label can hold themselves out as such, and this information can help guide the choices of investors. Standards may not necessarily use a taxonomy but could just provide their own definitions or eligible project categories. Having standards helps create simplicity but at the same time, if standards become too prescriptive or constraining, it will simply discourage market participants. In the case of green finance, there is no universally accepted common standard-neutral taxonomy today, nor is there a common global standard. The lack of a common taxonomy or common standard allows for 'greenwashing' and makes it difficult for investors to know if they are making the right investment decisions. Up to now, investors have navigated and managed a medley of different green standards, but a common standard would help green finance move to the next level.

As shown in Section 4.4 of this report, while the ASEAN GBS, ASEAN SBS and ASEAN SUS are the standards that will be applied for issuances that want to carry the 'ASEAN' label, each AMS is still allowed to have its own national green standards. There have been questions as to whether ASEAN should introduce its own green taxonomy. Among the issuers of commonly applied 'rules' in this area are ICMA, the European Union (EU) and Climate Bonds Initiative (CBI). Chinese issuers have been amongst the largest issuers, making guidance issued by China, the Green Industry Guiding Catalogue in China 2019, an important global influencer. ICMA has established a Working Group on Green Projects Eligibility that will, as part of its work, map its own categories and the categories of the EU Taxonomy, Green Industry Guiding Catalogue in China 2019 and classification systems such as those used in the system for Environmental Economic Accounting.

Any development of taxonomies and standards should consider the initiatives and positions of central banks as well, given the interconnectedness of the banking sector and capital markets. Insurance and pension fund regulators should also be involved. In Malaysia, BNM released its Discussion Paper on '*Climate change and principle-based taxonomy*', which aims to provide an overview of the matter, in December 2019.

In order to avoid fragmentation and to foster international acceptance, it is more efficient and practical to adopt a standard that is applied internationally. The question is which. Given the significant developments in this area, the number of stakeholders involved, and the nascency of the ASEAN sustainable finance market, it would make sense to consider the outcomes of the current discourses before deciding the best course of action. ACMF is also considering the same issue in its Roadmap for ASEAN Sustainable Capital Markets and is waiting for the outcome of global developments in this area before deciding on its course of action.

5.4.1.1. Transition Bonds

In its latest report, the Intergovernmental Panel on Climate Change highlighted that at the current pace, temperature increases will breach the 1.5°C threshold between 2030 and 2050 unless annual carbon dioxide emissions decline 45% by 2030 and reach 'net zero' by 2050. The UNEP, in its Emissions Gap Report 2019, estimates that by 2030, emissions will be 27% and 38% higher than is needed to limit warming to 2°C and 1.5°C respectively. In other words, the Paris Agreement targets will be missed.

Global temperatures continue rising and the last decade was warmest decade on record since record keeping began in 1880.

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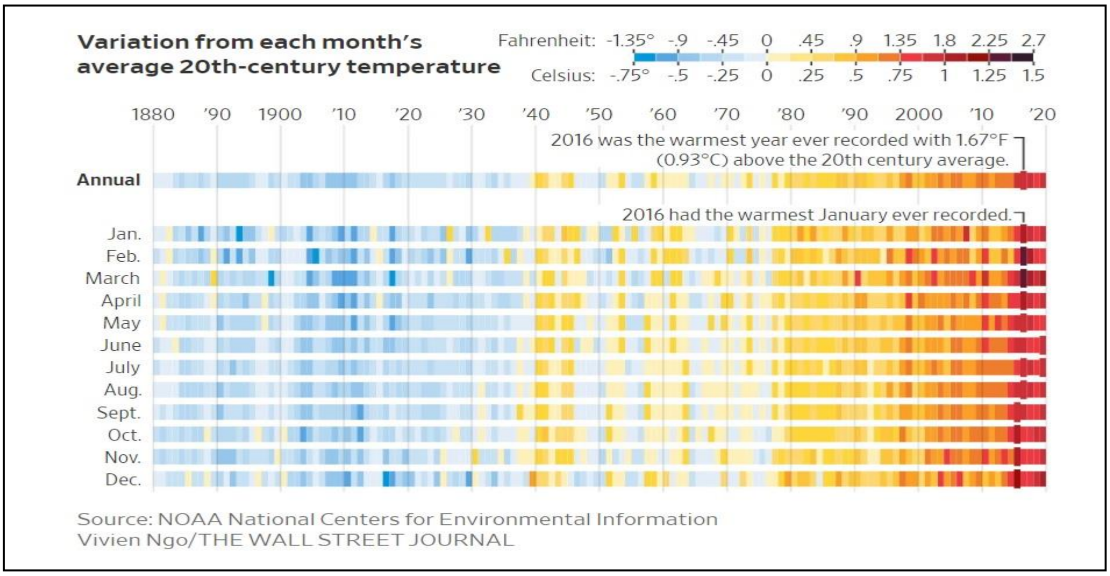

Source: 2019, Second-Warmest Year, Caps Decade of Rising Temperatures, Wall Street Journal
https://www.wsj.com/articles/2019-was-second-warmest-year-on-record-federal-climate-scientists-say-11579105990?

It is becoming apparent that more needs to be done faster in decarbonising the economy. In the green finance space, conflicts of what the focus should be on is reflected by two common maxims in the market – 'Don't let perfect be the enemy of good' and 'Greenwashing must not be allowed'. The disdain for greenwashing has led to a move to exclude certain type of projects from the traditional green market. However, given the need to move faster, there has been a loud call for support to be given to those who are trying (or need) to move gradually to get to that 'perfect' point. After all, some progress is better than no progress with issuers who cannot meet the 'green' standards but who want to be less 'brown'. In some situations, transitioning has, theoretically, been able to find a home in SDG 7 – Affordable and Clean Energy and SDG 13 – Climate Action. In ASEAN, however, the ASEAN SUS, which apply to a combination of green and social bonds, specifies that the requirements of the ASEAN GBS apply to the green portion. This means fossil fuel projects are excluded. The decision was made consciously at that time to construct a 'pure green' label to protect the credibility of the labelling. This has paid off with an 'ASEAN Green Bond' asset class being created. ACMF, at the time of deciding to create a 'pure green' label also did recognise that consideration should be given further down the road to the needs of members to finance projects that are not eligible under the ASEAN GBS but that contribute positively to climate change.

The introduction of 'Transition Bonds' has attracted substantial debate. Essentially, transition bonds are bonds that allow 'brown' issuers who are not eligible to make issuances in the traditional green bond market to raise capital to be less 'brown'. Transition bonds are targeted at industries with high greenhouse gas emissions. While proponents of Transition Bonds argue that Transition Bonds will help prevent 'greenwashing', given that it will allow issuers who do not have the right green credentials into the market without trying to use the green tag, detractors say that the liberal criteria for transition bonds will allow more greenwashing at a time when the EU is planning guidelines that will prevent this. There are also questions as to whether the lower requirements of Transition Bonds will end up not incentivising participants from moving to a higher standard i.e. 'Will good be the enemy of perfect?'

Another variation to the Sustainable Bond suite is the Sustainability-Linked Bond which focuses more on outcomes and links penalties to sustainability performance targets, where higher interest rates are levied if the agreed sustainability targets are not met. While such targets help keep in check the outcome of the use of proceeds, it also generates debate on the manner in which those outcomes are measured and how it opens room for manipulation. There are, of course, solutions to the above concerns on Transition Bonds and Sustainability-Linked Bonds. Criteria can be introduced to define what can qualify as a Transition Bond while the targeted outcomes of Sustainability-Linked Bonds can be specified as science-based targets. Many believe that the size of the Transition Bond market will exceed the size of the Green Bond market. Given that, to-date, the Paris Agreement targets are not being met despite all the pledges and efforts, Transition Bonds can offer a way to help put those targets back on track. ICMA has already established a Working Group on Climate Transition Finance. Credit Suisse and CBI are working together to unlock the power of the capital markets to accelerate the transition to a sustainable low carbon economy by promoting a 'Sustainable Transition Bond Market'. [1]

[1] https://www.credit-suisse.com/about-us-news/en/articles/media-releases/climate-bonds-credit-suisse-green-bonds-sustainable-transition-bonds-partnership-201909.html

The role of Transition Bonds is relevant for ASEAN, as given the state of development of the AMS, brown sectors such as utilities and transport play an important role in their economies. Fossil fuels will still be very significant as an energy source for ASEAN moving forward as shown analyses in the ADB *Working Paper on The Impact of Nationally Determined Contributions on the Energy Sector-Implications for ADB and its Developing Member Countries*.[1]

Based on the report, coal-fired generation is set to grow faster than every other energy source in Southeast Asia. By 2030, the share of coal generation will increase from 36% in 2014 to 42% although the share of natural gas generation will decline from 40% to 30%.

Energy Source	RE 2014	RE 2030	Coal 2014	Coal 2030	Gas 2014	Gas 2030	Oil 2014	Oil 2030	Nuclear 2014	Nuclear 2030
Power Generation Share %	19	27	36	42	40	30	5	0	0	1

Note: RE – Renewal Energy

Source: Yangping Zhai, Lingshui Mo, Madeline Rawlins (2018) 'ADB sustainable development working paper series: The impact on nationally determined contributions on the energy sector – Implications for ADB and its developing member countries'

Investment in gas, coal and other fossil fuel power generation will also be higher than in non-fossil fuel power generation from 2016 to 2030.

Investment Value						
Power Generation (USD million)					Power Grid (USD million)	Total (USD million)
Renewable	Gas	Coal	Other Fossil Fuel	Nuclear		
316,541	46,547	215,254	261,902	13,800	148,024	740,286

Source: Yangping Zhai, Lingshui Mo, Madeline Rawlins (2018) 'ADB sustainable development working paper series: The impact on nationally determined contributions on the energy sector – Implications for ADB and its developing member countries'

[1] Yangping Zhai, Lingshui Mo, Madeline Rawlins (2018) 'ADB sustainable development working paper series: The impact on nationally determined contributions on the energy sector – Implications for ADB and its developing member countries'

This presents a strong case to provide some form of transitioning mechanism aside from the current green frameworks.

Under its Roadmap for Sustainable ASEAN Capital Markets, ACMF is also evaluating how transitional standards can be introduced and examining the suitability of adopting for ASEAN any transitional standards that emerge from bodies like CBI.

5.4.2 Disclosure and Reporting

While taxonomies, standards and labelling help provide consistency and clarity in categorisation, ongoing disclosures and reporting provide the transparency and information to support sustainable decision making. Generally, there are two types of disclosures and reporting. The first relates to disclosure and reporting obligations pursuant to green or sustainable issuances. The second relates to disclosures by companies. The first type of reporting relates to the voluntary adoption of a standard or label and is best left to the market for now and regulators can, as needed, specify that issuers adopting a standard must meet its requirements. On the other hand, disclosures by companies that are in the public markets can benefit from regulatory influence or intervention. Corporate sustainability disclosures have become prominent with calls for more disclosures.

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In the EU, large public interest entities, including listed companies, banks, insurance companies and other designated companies, are required to disclose material information on ESG aspects and how they manage ESG risks, as per the EU Directive on the Disclosure of Non-Financial Information since 2018. Furthermore, in March 2019, the proposal for the disclosures relating to sustainable investment and sustainability risks (DSR) was agreed, and the EC expects the regulation to be applied by firms in early 2021. This regulation introduces disclosure obligations on how institutional investors and asset managers integrate ESG factors into their investment decisions for end investors. The disclosure obligations have been set out as:

- Integration of ESG risks and opportunities into processes for financial market participants and financial advisers
- Informing investors on compliance with the integration of ESG risks and opportunities
- Extent that risks may have on the profitability of the investment
- Information on how green investment strategy will adversely impact ESG matters

In the UK, the Companies Act 2006 regulations that came into force on October 2013 require listed companies to report on greenhouse gas emissions, human rights and diversity. The UK Government is also showing strong interest in climate-related financial disclosures and the TCFD recommendations which it formally endorsed in 2017. According to the UK's Green Finance Strategy, the UK government expects all listed companies and large asset owners to be disclosing in line with the TCFD recommendations by 2022. The UK Government is planning to establish a joint taskforce with regulators to ensure a coordinated approach on climate-related financial issues. The taskforce will analyse the most effective way to approach disclosure, including the appropriateness of making the reporting mandatory. [1]

[1] Contents of this page have been extracted from the EY Report

In China, the set of actions defined under the Guidelines for Establishing the Green Financial System include the introduction of a mandatory environmental information disclosure regime for listed companies and bond issuers. The Ministry of Environment Protection and the China Securities Regulatory Commission are cooperating in establishing such regime which is set to be rolled out in three stages:

- 2017: Disclosure of environmental information is mandatory for "key polluter" companies and voluntary for other listed companies

- 2018: Disclosure of environmental information is required for all listed companies on a "comply or explain" basis

- 2020: Disclosure of environmental information is mandatory for all listed companies

The Shanghai and Shenzhen Stock Exchanges have released guidelines on environmental and social information disclosure of listed companies.

In 2018, a pilot programme was launched by China-UK Green Finance Taskforce to encourage disclosure of environmental information by six Chinese financial institutions and four UK financial firms. [1]

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[1] Contents of this page have been extracted from the EY Report

Corporate sustainability disclosure and reporting is also important for the corporates themselves as it helps them assess their own risks and opportunities. There are many disclosure and reporting frameworks in place for corporates to make sustainability disclosures at present.

The GRI's standards are focused on the wider sustainability agenda. There are 3 universal standards and 34 topic focused standards.

The IIRC's framework covers the disclosure of both financial and non-financial information and sustainability related information in an integrated way.

The IIRC framework is mainly for the private sector and for profit companies of any size but can be also used by the public sector and not for profits.

The SASB has its own sustainability classification system that buckets companies by sustainability characteristics, including risks and opportunities. The SASB has published a set of industry specific sustainability accounting standards covering 77 industries and 11 sectors.

The TCFD Recommendations require disclosures around four areas – Governance, Strategy, Risk Management and Metrics and Targets with the aim of disclosing climate related risks and opportunities. TCFD can interface with other frameworks and standards. The SASB has released an FAQ on 'Understanding how SASB Standards and TCFD Recommendations are Complementary'.

The number of disclosure standards and frameworks in existence has led to concerns of fragmentation, confusion and overburden on reporting parties. This has resulted in the Better Alignment Project by the Corporate Reporting Dialogue which saw the sustainability standards and frameworks of the GRI, SASB, CDP (formerly the Carbon Disclosure Project) and Climate Disclosure Standards Board mapped against the TCFD Recommendations. The mapping showed that there was strong alignment between the frameworks and standards and the TCFD recommendations and a practical guide has been produced to help users implement the TCFD Recommendations when using those standards and frameworks. Nevertheless, the existing standards and frameworks have different goals and audiences and as such, any form of roll up may be challenging in the immediate term.

Listed corporations fall under the purview of ACMF members and ACMF has taken the matter of corporate sustainability disclosure under its Roadmap for ASEAN Sustainable Capital Markets. ACMF is of the view that given global discussions are still ongoing, it will, for now, evaluate the feasibility of adopting a single regionally accepted standard in consultation with the ASEAN Stock Exchanges and other stakeholders.

While corporate disclosures inform investors and other stakeholders on the state of affairs of companies, it is also important for asset owners and managers to communicate how they fulfil their fiduciary responsibilities, including towards sustainability. A few AMS already have investment stewardship codes. The majority of asset managers in ASEAN fall under the supervision of ACMF members who recognise the importance of investment stewardship given the roles that asset owners and managers play in engaging their portfolio companies in promoting corporate governance practices that can help drive sustainability. Under its Roadmap for ASEAN Sustainable Capital Markets, ACMF will be working with institutional investor associations to develop national investment stewardship codes. ACMF members will also engage asset managers on the latter's investment and risk management practices to highlight the importance of ESG integration, where possible, through guidance or guidelines.

5.4.3 Information on Investors and Investments

An effective way of stimulating demand for and supply of sustainable products is to make information on investment opportunities easily available to investors while showing issuers which investors are interested in sustainable investment opportunities. Such information needs to be presented in a manner which promotes access and connectivity. The information must also be up to-date, reliable and be at a sufficient scale to garner interest. An example of a database that functions in such a manner is the Australia and New Zealand Infrastructure Pipeline (ANZIP) Database which is available online.

When investors and issuers sign up to access such a database, a new dataset will also be created on potential investors and issuers. This will be useful in initiatives for co-ordination as well as awareness and education efforts. Such a database will need to be funded and maintained. This can be done through sponsorship, financial support from MDBs, philanthropic and developmental programmes or a combination of funding sources.

WC-CMD has been exploring the creation of such a database for infrastructure projects, in particular green infrastructure and the joint WC-CMD-ACMF Working Groups for both Infrastructure Finance and Sustainable Finance have been exploring how to implement this.

The concept of an information platform can also be taken a step further to provide intermediation, particularly for SDG related projects. The advent of technology makes it feasible to offer solutions that could not be deployed in the past. An example is the use of crowdfunding platforms where SDG related projects from across the region can be hosted. While this can be done easily by the private sector today, the major differentiator would be if the platform is a centralised platform hosting projects that have been filtered in some way. Desktop screening of the projects by credible parties (such as banks and accounting firms), who could do this as part of their corporate social responsibility commitments, will increase the level of comfort for investors.

Another avenue is a regional exchange for impact investing. Again, the funding to set up and operate a crowdfunding platform or an exchange can come from a variety of sources as with the platform for investor and investment information. To jumpstart the process, ASEAN could work with established platforms such as the Impact Investment Exchange and existing crowdfunding platforms.

It is important to ensure that scale and ease of access is achieved. Scale will emerge if these initiatives are carried out on a regional basis. Governments, MDBs and philanthropies can also optimise the use of their financial resources by co-funding or co-investing in projects on such platforms or by using such platforms to get co-funding or co-financing from the private sector and members of the public for their projects.

5.4.4. Incentives

Green and other sustainable issuances require more disclosure, compliance (including external reviews) and in some cases, structuring, than conventional issuances. After issuance, there is also extra cost incurred in monitoring and reporting. More time and resources on the part of the issuer may also be required given the extra requirements and organisational learning curve. This can discourage potential issuers from coming to market. It has long been suggested that incentives to defray these additional costs when there is no pricing advantage (such as a 'greenium') for issuers would support more issuers coming to market. These incentives can come directly in the form of grants or tax breaks.

As discussed in Section 4.2.3 of this report, several AMS have already introduced incentives. China has introduced interest subsidies while also leveraging on monetary and prudential measures (such as allowing green bonds to be used as collateral for central bank facilities) to incentivise issuances as well.

While grants and tax breaks are useful in helping encourage issuance, they are dependent on the fiscal position of each AMS. A centralised grant scheme will be challenging to operationalise, as for all AMS to benefit it must be accompanied by the right issuance eco-system at each AMS so that issuers from every AMS can take advantage of the grant.

5.4.5. Facilitation

Often overlooked is the way investment is facilitated to close the gaps between mismatches in the requirements of investors, issuers and project demands. For example, an issuer may wish to issue in local currency but investors do not want to be exposed to foreign currency risk, preferring investing in something denominated in a reserve currency such as the USD. A swap is then required but the cost of the swap may make the issuance unattractive. Swaps may also not be available for long tenures. This is a challenge that exists for all issuances that are trying to attract cross-border investments and not just sustainable issuances. Another example is where intra-regional investments that are reliant on the recycling of funds from ASEAN countries into other ASEAN countries may be reduced owing to foreign exchange rules that limit flows.

In both these instances, consideration should be given as to how facilitation for sustainable investments can take place. For instance, there could be a regional corridor for sustainable investments where foreign exchange rules are liberalised or where a currency hedging facility is provided for sustainable investments. An example of a currency hedging facility is The Currency Exchange Fund (TCX), which was established by a group of development financial institutions. Its investors include KfW, the French Development Agency, the European Bank for Reconstruction and Development and the IFC. ASEAN can look to models like TCX or partner parties like TCX to develop bespoke ASEAN solutions.

Apart from currency de-risking, it is also important to look at ways to de-risk investors from a credit perspective, particularly because many SDG type projects may have higher risk profiles than traditional projects. Examples of credit de-risking are guarantees, first loss absorption and viability gap funding which are discussed below:

Mechanism	Description and Examples
Guarantees	Guarantees either partially or fully cover credit losses. Guarantees enhance the credit profile of an issuance and improve the deal pricing while increasing investor interest. Guarantees can be provided by specialised facilities such as the Credit Guarantee Investment Facility and GuarantCo or development aid such as USAID
First loss absorption	First loss pieces will absorb losses ahead of any other providers of capital up to the pre-set amount. For example, the SDG500 funds have a catalytic first loss layer and the Climate Finance Partnership has a USD100 million first loss tranche put up by a group led by Blackrock
Viability gap funding	Viability gap funding is an approach that has been applied successfully in India where the government supports projects that lack financial viability as standalones. Support can be given in the form of bearing some costs or some other capital grant. Viability gap funding is useful for SDG projects that may not be financially viable on their own

Indonesia's SDG Indonesia One Fund provides de-risking facilities as one of its business pillars.

It is important for facilitation mechanisms to be used wherever possible as they address the fundamental needs of issuers and investors.

5.4.6 Scale

Scale is necessary to build the sustainable finance market rapidly. Scale refers to both investment opportunities as well as investors. Scale can be achieved by:

- Taking a regional approach
- Taking a strategic, rather than an ad hoc approach
- Consolidating fragmented efforts as opposed to having many small 'go at it alone' efforts
- Reaching out to more stakeholders through awareness and education
- Using tools to consolidate information and access

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6. RECOMMENDATIONS

Having engaged with WC-CMD members, industry participants and other stakeholders, the following recommendations have been developed. Some of these recommendations will need to be implemented on an ASEAN-wide basis while others are meant to be implemented by individual AMS. The recommendations are organised by the four pillars that were identified earlier.

PILLAR	RECOMMENDATIONS
Policy	R1: WC-CMD should work together with AMS MOFs and other relevant ministries or government agencies (where applicable) to develop an approach for a 'Sustainable Finance First for Sustainable Projects' initiative R2: WC-CMD should work together with AMS MOFs and other relevant ministries or government agencies (where applicable) to identify sustainable projects intended to be funded through the national budget and review how they can be instead financed using a combination of public, private and developmental capital R3: WC-CMD should work together with AMS MOFs and other relevant ministries or government agencies (where applicable) to develop a framework to apply a strategic and structured approach to financing sustainable projects where the use of a combination of public, private and developmental capital is considered in a systematised way rather than on a project by project basis. The issuance of sovereign, local and government linked bonds that can provide value for money should be considered as part of this framework R4: Explore developing a toolkit for issuing SDG Bonds for policy banks and lending institutions in ASEAN that can be used to engage and encourage these institutions to issue SDG Bonds

PILLAR	RECOMMENDATIONS	
Co-ordination	R5:	Enhance the existing collaboration between WC-CMD and ACMF (the Joint ACMF and WC-CMD Sustainable Finance Working Group) by having a more structured engagement platform. An independent and dedicated secretariat should be appointed to support this working group. MDBs or regional institutions can host the secretariat or alternatively, the secretariat can be funded by MDBs or developmental aid. With the increased resources, the reconfigured working group should engage more with banking and insurance regulators
	R6:	Request for the ASEAN Secretariat to appoint an expert to study the establishment of an entity dedicated to promoting Sustainable Finance for ASEAN
Awareness and Education	R7:	The Joint ACMF and WC-CMD Sustainable Finance Working Group should develop an outreach programme with NGOs for the general public
	R8:	The Joint ACMF and WC-CMD Sustainable Finance Working Group should engage relevant professional bodies and industry associations to develop learning and capacity building programmes for key sustainable finance participants
	R9:	The Joint ACMF and WC-CMD Sustainable Finance Working Group to collaborate with ministries of education, learning institutions and the relevant stakeholders (which could include the relevant ASEAN sectoral bodies) to create awareness of the impact of sustainable finance for students at all levels
Building demand and supply and creating a virtuous cycle	R10:	Collaborate with ACMF to determine the most appropriate sustainable taxonomy for ASEAN to adopt, taking into consideration global developments and ASEAN's strategic goals, with priority given to the approach for a green taxonomy
	R11:	Collaborate with ACMF to promote sustainability disclosures. In the long term, determine if a particular standard can be adopted for ASEAN and the extent of the adoption (i.e. mandatory or voluntary)

R12:	Evaluate whether standards on Transition Bonds and Sustainability-Linked Bonds should be issued
R13:	Explore development of platforms to provide information regionally on investment opportunities and investors. This should be done together with partners from the developmental and/or private sectors
R14:	Explore, with ACMF and other relevant bodies, the establishment of a regional crowdfunding or impact investing platform for sustainable projects including co-funding/co-financing structures
R15:	Explore, with other relevant ASEAN Committees, the creation of an intra-ASEAN sustainability corridor that will allow investments flowing through that corridor to enjoy relief from individual AMS foreign exchange rules
R16:	Explore, with MDBs, the private sector and other relevant bodies, new and innovative credit and currency de-risking mechanisms

While incentives like grants and tax breaks can contribute to the development of sustainable finance, it is more appropriate for this to be decided and developed at the AMS national level. Incentives in the form of prudential relief or preferential treatment is also a matter for the prudential authorities of each AMS to decide on their feasibility.

The sixteen recommendations above ("Recommendations") should be implemented together with the private sector and developmental bodies (such as MDBs) as ASEAN and WC-CMD should leverage on their expertise, experience and resources. The Recommendations are broad in nature and WC-CMD and AMS will need to develop action plans to implement the Recommendations. The timelines for implementation should also be discussed and agreed once these recommendations are endorsed by the ASEAN Finance Ministers' and Central Bank Governors' Meeting.

The capital markets and the sustainable finance markets are very dynamic and changes can occur rapidly. As such, this report should be treated as a 'living document'. The Recommendations should be reviewed periodically to ensure that they are relevant and that the work on them is being carried out in the most effective way. WC-CMD views the ACMF Roadmap for ASEAN Sustainable Capital Markets ("the Roadmap") as complementary to this report and will co-ordinate with ACMF to ensure that the Roadmap and the Recommendations are implemented synergistically.

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