WASHINGTON, DC • LONDON • BRUSSELS • HONG KONG • WWW.ICI.ORG

Submitted 11 March 2021

ICI Global's response to Singapore Green Finance Industry Taskforce (GFIT) consultation on green taxonomy[1]

Our responses are highlighted below in yellow.

Consultation questions and responses

Question 1 – The workstream seeks comments on the useful measures of success, and whether other measures may be considered in addition when evaluating the implementation of a taxonomy.

We emphasize the importance of the following two 'measures of success' listed in the consultation paper:

1) **The extent to which the taxonomy is compatible and consistent with other taxonomies**.
2) **The extent to which the taxonomy is embedded within frontline regulatory disclosure requirements (i.e., corporate disclosure).**

It is essential that any Singapore taxonomy is compatible and consistent with other taxonomies. A lack of compatibility or consistency with other taxonomies would create significant hurdles for 'green investment.'

As one example, an asset manager may not be able to easily offer the same taxonomy-aligned investment strategy across multiple jurisdictions with inconsistent or incompatible taxonomies. If two taxonomies have different definitions of what is green, then an investment strategy that is aligned against the one taxonomy may not be 'green' according to the other taxonomy.

As another example, an asset manager that offered the same ESG investment strategy in multiple jurisdictions would have to screen each investment against multiple taxonomies. Availability of taxonomy-related data on investments poses a significant hurdle for asset managers, as discussed in detail in our response to Question 4.

Given these concerns, we urge the Taskforce to take stock of approaches that may be developing in other countries (e.g., Switzerland, UK), including the work in the International Platform on Sustainable Finance (IPSF) on the Common Ground Taxonomy, in addition to MAS' current work in harmonizing taxonomies with other ASEAN countries, to ensure that the Singapore taxonomy would be harmonized and broadly compatible with taxonomies outside Asia. We further ask the Taskforce to include establishing mutual recognitions of taxonomies with different jurisdictions as part of its roadmap in developing the Singapore taxonomy. Given that many asset managers operate globally and distribute funds cross-border, it is important that a mechanism is in place to ensure that a 'green' fund

[1] The consultation is available at https://abs.org.sg/docs/library/gfit-taxonomy-consultation-paper.

in one jurisdiction (e.g., the EU) could be deemed to be green as well in Singapore. This could broaden cross-border green investment channels and choices for investors.

It would be helpful to be clear on the intended use cases of a Singapore taxonomy before moving forward. For example, we ask the Taskforce to clarify how a Singapore taxonomy would interact with other local regulatory requirements—for example, the MAS Environmental Risk Management Guidelines—and whether the Taskforce contemplates mandating that financial institutions implement the taxonomy, including any potential requirements for asset managers and funds.

It is essential that any Singapore taxonomy is embedded within frontline regulatory disclosure requirements. The consultation paper rightly identifies the lack of disclosure from corporate issuers as a significant hurdle. Corporate issuer disclosure must be sequenced before any financial product disclosure of taxonomy alignment. This 'measure of success' would include, for example, frontline regulators (e.g., stock exchanges) requiring corporate disclosure that directly maps to the requirements of the taxonomy. One challenge is that corporate issuer reporting currently is not taxonomy compatible, in that reporting is not activity-based. Another challenge is how to determine consistently and objectively the 'do no significant harm' requirements and other negative criteria, as we discuss further in our response to Question 9.

We note, however, that frontline regulatory disclosure requirements for Singapore/ASEAN corporate issuers will not be sufficient to address data availability issues. Asset managers invest globally, including in companies that would not be subject to Singapore regulatory disclosure requirements. We discuss data availability issues further in our response to Question 4.

Question 3 – The workstream seeks feedback on potential risk considerations around the development of a taxonomy, including other risk considerations not mentioned in the section 'What are the potential risks to consider?'.

We share the Taskforce's concerns over the risk factors mentioned, in particular those related to unintended side effects on innovation, significant challenges with data availability (discussed in detail in our response to Question 4), as well as cost and compliance burdens for both issuers and financial institutions. We also note that SMEs may find it even more challenging than large corporate issuers to implement the taxonomy. All of these risk factors have the potential to limit the effectiveness of a taxonomy.

Fragmentation of taxonomies is also a serious risk consideration. The EU has already developed a taxonomy, and other jurisdictions are considering taxonomies as well. The IPSF Working Group on Taxonomy, co-led by the EU and China and with Singapore as one of the members, is developing a Common Ground Taxonomy by July 2021. The Common Ground Taxonomy initiative aims to provide a common reference point for the definition of environmentally sustainable investments across relevant IPSF jurisdictions. We caution that the development of a Singapore taxonomy could front-run the Common Ground Taxonomy, which may run counter to efforts to harmonize taxonomies. With each jurisdiction having its own taxonomy requirement, a global asset manager in Singapore would have to screen the investments of its ESG funds not only against the Singapore taxonomy but also other taxonomies.

An overly narrow definition of 'green' activities would risk significantly narrowing the universe of green investments and subsequently narrow the diversity of green funds. This may in turn reduce investor demand for these funds if they are viewed as niche rather than mainstream products. It is important for asset managers to be able to incorporate a broader understanding of sustainability considerations across a larger segment of the market, rather than focusing solely on a few small green companies. Constraining the universe of green funds to more niche products with a small investable universe runs counter to the Taskforce's objectives of mainstreaming sustainable finance and facilitating the transition to a low carbon economy.

Similarly, an overly narrow definition of 'green' activities could result in 'green' fund disclosure that is misleading to investors. Depending on a taxonomy's final sectors and thresholds, the universe of 'green' investments may be quite small, as is expected in the EU. In this case, many 'green' funds may have a very small portion of investments that are 'green' according to the taxonomy. If most 'green' funds have less than 5% of 'green' investments according to the taxonomy—due to lack of available data and/or a very small investment universe of taxonomy-compliant investments—investors may assume wrongly that these funds are not environmentally friendly investments. This could be misleading to investors as the labelling may fail to fully reflect how 'green' a financial product is and defeat the purpose of the taxonomy in allowing financial institutions to better communicate to investors about their green financial products.

Given the significant risks involved, we urge the Taskforce to carefully consider the development of any taxonomy-related requirements for funds. In particular, any approach should be phased to focus only on funds that the manager markets as having a green focus.

Question 4 – The workstream seeks specific feedback on the extent to which the introduction of a taxonomy would introduce additional cost and compliance burden to Financial Institutions.

We have serious concerns that imposing taxonomy-related requirements on asset managers and funds in the absence of widely available data from companies will impose significant burdens on asset managers and increase the cost of offering green investments with questionable benefit to investors. The consultation paper suggests that regulators could use the taxonomy in approving a product as green—for example, developing a label that uses the taxonomy to demonstrate the 'green' credentials of a product or service. The consultation further suggests that, in the absence of corporate disclosure requirements, regulators could require financial institutions to disclose taxonomy-related information (e.g., a labeling system) and that this would drive those financial institutions to obtain taxonomy information from corporates.

We note that the EU has taken precisely this approach—requiring asset manager and fund disclosure on portfolio investments in the absence of corporate disclosure requirements or otherwise widely available data from corporate issuers. Our feedback incorporates our members' experiences as they work to implement the new EU disclosure requirements, including for the EU Taxonomy Regulation.

Creating the infrastructure to gather, analyze, aggregate, and disclose taxonomy information across tens of thousands of securities presents an enormous operational challenge for managers with corresponding costs. We expect any new taxonomy data requirements to pose significant costs—obtaining data from investee companies or data providers, developing in-house analytical capabilities, implementing new systems to track taxonomy information, among other elements.

As the Taskforce acknowledges, ESG data availability continues to present significant challenges for asset managers. One of the ESG data-related areas our members find most challenging is regulatory requirements to disclose ESG data that is not broadly available from investee companies globally. For example, the EU Sustainable Finance Disclosure Regulation (SFDR) will soon require asset managers to disclose ESG data on investments even though that data is not yet widely available from investee companies or across all asset classes. We also note that the EU Taxonomy Regulation's new disclosure requirements similarly will require asset managers to obtain significant amounts of data from investee companies globally—data that is not currently available, even in the EU.

As with the EU taxonomy, to comply with any Singapore taxonomy-related requirements, global asset managers would have to obtain Singapore taxonomy data for each of their portfolio investments worldwide, including investments in companies outside of Singapore. Despite the EU's Non-Financial Reporting Directive (NFRD) and recent efforts of Singapore Exchange in improving ESG disclosure standards among Singapore's firms, the type of data that the Singapore taxonomy would require is not yet widely available from companies globally. As a further challenge, corporate issuer reporting currently is not taxonomy compatible, in that reporting is not activity-based. Another challenge is how to determine consistently and objectively the 'do no significant harm' requirements and other negative criteria, as we discuss further in our response to Question 9.

Asset managers continue to experience many difficulties with ESG data quality and availability as follows:

- **Lack of accuracy, reliability, and comparability**.
- **Lack of coverage** depending on asset class, geography, size of company, and many other factors.
- **Lack of sector-specific information**.

For example, taxonomy-related data is even less likely to be available for investments in small- and medium-sized enterprises and in developing markets. We also note that taxonomy data for some asset classes other than listed equities, e.g., sovereign bonds, may not be available.

Given the operational challenges and issues with data availability, placing the burden on asset managers to obtain taxonomy-related information from corporates is tantamount to requiring managers to purchase data from service providers without regard for data quality and with questionable benefit to investors. To obtain data across tens of thousands of investments, asset managers will be forced to obtain data from service providers that is based on modelled information with significant variations in inputs and assumptions. We note any taxonomy-related data is unlikely to be consistent across providers given that they obtain data from different sources, make different assumptions, and frequently estimate data using different methodologies.

Without widely available data from companies, taxonomy-related information will lack consistency and reliability and may even be misleading to investors. In the absence of company disclosure, two service providers are likely to come to different conclusions about the taxonomy-alignment of a company's activities. The Taskforce mentions that the regulators could use taxonomy-related information to classify funds as 'green', but without consistent and reliable taxonomy-related information on investments, it will be difficult to consistently and reliably classify a fund's investments as 'green' according to the taxonomy.

Question 5 – The workstream seeks feedback on the proposed approach to the development of a Singapore taxonomy. If you disagree, please comment on alternative options, including: (i) alternative approaches to the development of a Singapore taxonomy, (ii) an option where Singapore does not develop a taxonomy and makes no further contribution, or, (iii) an option whereby Singapore does not develop a taxonomy but instead provides transparency and guidance around existing taxonomies to the market.

Although we appreciate the Taskforce's recognition of the importance of aligning with other taxonomies, we are concerned that the development of a Singapore taxonomy at this stage may jeopardize regional efforts in harmonizing taxonomies. As discussed earlier, the EU and China are leading the effort in developing the Common Ground Taxonomy, in which Singapore participates as one of the working group members. Global coordination on any taxonomy development is essential because, like climate change, investing and financing do not take place within the bounds of clear borders. Alignment of taxonomies globally is also particularly important for global asset managers that offer green investment solutions worldwide, given that they will have to comply with taxonomy requirements in multiple jurisdictions.

Instead of developing its own taxonomy, we ask the Taskforce to consider working with the border region in developing a taxonomy. We further urge the Taskforce to assess the final report on the Common Ground Taxonomy before finalizing its approach in developing a Singapore taxonomy. The final report, to be published by July 2021, will outline the commonalities between the taxonomies already existing within the IPSF membership. These IPSF jurisdictions potentially form the largest climate finance market collectively, given that the EU and China combined already account for about one-third of global GDP. The final report could serve as a useful reference point for Singapore in developing a Singapore taxonomy that aligns with a globally recognized framework while localizing for key sectors in Singapore.

Question 8 – The workstream seeks specific feedback on four environmental objectives identified, namely: (a) climate change mitigation; (b) climate change adaptation; (c) protect biodiversity, and (d) promote resource resilience.

As discussed in Question 1, it is essential that any Singapore taxonomy is compatible and consistent with other taxonomies. We therefore urge the Taskforce to align the environmental objectives of any Singapore taxonomy with the objectives that are commonly identified in taxonomies of other jurisdictions. The Taskforce may take reference to the EU-China Common Ground Taxonomy report, which will be published by July 2021, in identifying the common environmental objectives in the region. Although we understand that there could be small deviations from the commonly identified objectives to address Singapore's particular policy context, we ask the Taskforce to carefully consider any deviations compared to other key regions and provide a mapping against the objectives in other taxonomies.

Question 9 – The workstream seeks specific feedback on the negative requirements identified, i.e. that an activity must not (a) impose negative impact on communities' social and economic well-being in the long-term; (b) impose negative impact on communities' social and economic well-being, unless the trade-offs can be justified in the long run, and (c) breach local laws and regulations.

We note the EU Taxonomy incorporates a similar concept in requiring an economic activity to 'do no significant harm' to any other environmental objectives as well as meet certain 'minimum social safeguards' to be deemed environmentally sustainable according to the EU Taxonomy. Much of the complexity of the EU Taxonomy comes from these additional criteria, which often require assessment against additional sectoral legislation and regulations. Likewise, it is not entirely clear how to implement these assessments. The subjective nature of these assessments makes it challenging for asset managers to consistently assess different corporates, especially given the lack of standardized corporate reporting requirements.

Given the significant challenges that our members are experiencing with the overly prescriptive EU approach, we strongly urge the Taskforce to take a more high-level approach to any 'negative requirements.' Requiring disclosure of a high-level policy commitment on assessment of any negative requirements would be simpler, with lower implementation costs. As an alternative approach to the negative requirements described in the consultation paper, assessing violations of the UN Global Compact would cover issues relating to human rights, labor, and anti-bribery and anti-corruption.

Question 12 – The workstream seeks feedback on the use of a traffic-light system, including suggestions for expansion and granularity in any subsequent taxonomy.

We appreciate the Taskforce's recognition of the importance of transition activities, and we agree that a taxonomy should not attempt to drive investments solely to a small universe of 'green' activities/companies to achieve Singapore's environmental objectives. As discussed earlier, a narrow universe of green/sustainable investments may defeat the Taskforce's efforts to mainstream sustainable financing. Investment in transitioning companies is a key element in expanding the investable universe of green/sustainable investments. If the Taskforce moves forward with developing a taxonomy, we therefore would agree with placing a broad emphasis on both 'green' and 'yellow' investments.