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# Sustainable Finance Strategy
## Aligning Investments with Impact

Sarjit Singh

6 December 2024

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# Sustainable Finance Strategy

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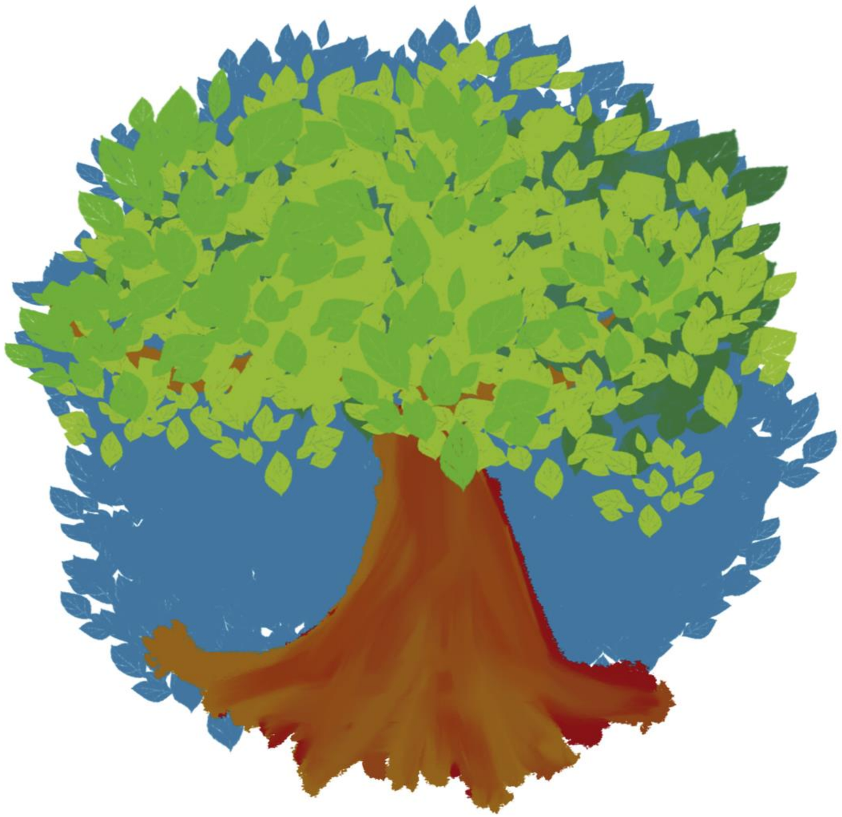


# Welcome and About the Speaker in a Minute – **Sarjit Singh**

- **BBM (Bar), PBM, FCA (Australia), FCA (Singapore), CVA (IVAS), ISCA FFP Credential, Ph.D (Hon.)**
- Tel: **+(65) 9363 5888** Email: **sarjitsingh@deloitte.com**

## My Journey:

- **Senior Advisor, Deloitte Southeast Asia – Current**
- CEO, InCorp Global – 5 years
- CFO, Aviva Asia – 3 years
- CFO, AIA Singapore – 5 years
- Financial Services Practice, PricewaterhouseCoopers – 16 years
- Chartered Valuer and Appraiser, Institute of Valuers and Appraisers of Singapore (IVAS)
- ISCA Financial Forensic Professional, Institute of Singapore Chartered Accountants (ISCA)
- District Councillor and Chairman of Finance Committee, Central Singapore CDC
- Adviser to CA Learning and Assessment Committee – Singapore Accountancy Commission
- Investigation and Disciplinary Panel, Institute of Singapore Chartered Accountants (ISCA)
- Singapore Advocacy Committee, The Institute of Internal Auditors
- Past Chairman, Chartered Accountants Australia and New Zealand, Singapore Regional Council
- **Board of Trustees and Chairman of Audit & Risk Committee, University of the Arts Singapore**
- **Committee on the Future Economy – Legal and Accounting Services Working Group**
- **National Honours : Public Service Star (Bar) 2021**
- University Award : Nanyang Alumni Achievement Award in 2012
- SkillsFuture Fellowship Award 2019 : Presented by the President of Singapore
- **Advanced Management Program, Harvard Business School, Harvard University**


August 2022

**Find Me on LinkedIn!**

**https://www.linkedin.com/in/sarjit-singh-22828528**

# Your ESG Risk *SPA* Treatment


Stakeholders’ Expectations on a Sustainable World and Financial System

The Green Deception: Lessons from Failures


The Role of Risk Professionals in Sustainable Finance and Impact Investing

Today’s Special: Real-world examples, insights into best-fit practices, sharing challenges faced and lessons learned.

# DEFINITION OF SUSTAINABLE FINANCE

*"**Sustainable finance** is the practice of integrating ESG criteria into financial services to bring about sustainable development outcomes, including mitigating and adapting to the adverse effects of climate change."*

- Monetary Authority of Singapore ("MAS")

*"**Sustainable finance** refers to the process of taking ESG considerations into account when making investment and financing decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects."*

- European Commission ("EU")

# IMPORTANCE OF SUSTAINABLE FINANCE

**ADDRESSING GLOBAL CHALLENGES:**

Sustainable finance is crucial in addressing pressing global challenges such as climate change, resource depletion, and social inequality.

**LONG-TERM VALUE CREATION**:

Sustainable finance focuses on investments that generate long-term value by considering ESG factors and promoting sustainable business practices.

**REPUTATION AND STAKEHOLDER ENGAGEMENT**:

Embracing sustainable finance practices can enhance an organization's reputation, attract socially responsible investors, and improve relationships with stakeholders.

**RISK MANAGEMENT**:

Integrating environmental, social, and governance (ESG) factors into financial decision-making helps identify and manage potential risks, such as regulatory changes and reputational issues.

**INVESTOR DEMAND**:

There is a growing demand from investors for sustainable investment options, driven by a desire to align investments with personal values and contribute to positive social and environmental outcomes.

# Stakeholders’ Expectations on a Sustainable World and Financial System

# KEY MARKET DRIVERS FOR SUSTAINABLE FINANCE

## Driving forces on climate & sustainability ranges across various ESG impacts

### Financial costs

**US$65 bn**

Cost of natural disasters in AP in 2023, with only 9% covered by insurance

**Manage costs from more frequent & intense extreme weather events**

### Government regulation

**Net Zero**

New Zealand, China, Japan & South Korea announced time-bound net-zero targets

**Expect new regulation designed to accelerate the transition to net zero**

### Investor expectations

**US$324.7 mil**

Value of SEA-based ESG funds in 2023, rising from US$1.5 bn in 2018

**Prepare for volatility in the cost of finance and access to finance**

### Consumer demands

**US$32 bn**

Projected consumer spending in AP by 2030, driven by Millennials and Gen Zs

**Get ahead of changing expectations from younger consumers**

### Employee expectations

**25-50%**

Reduction in staff turnover in companies with a strong sustainability commitment

**Respond to shifting expectations around employer responsibility**

### Shareholder pressure

**233**

Shareholder resolutions focused on sustainability issues went to vote in 2020

**Prepare for intensifying shareholder pressure over sustainability**

### Business commitments

**Net Zero**

200 of the world's largest businesses committed to net zero by 2050

**Set net zero targets and pathway to decarbonise**

### Technological advances

**US$100 bn**

China dedicated US$100 bn, Japan US$25 bn & India US$11 bn to energy transition

**Plan for rapid and disruptive advances in technology**

# INCREASING PRESSURE FROM MULTIPLE STAKEHOLDERS CREATES THE NEED FOR SUSTAINABILITY TRANSFORMATIONS IN THE FINANCIAL SYSTEM

## VOICE OF THE MARKET

### Competitors / Market Pressure

"Awareness is rapidly changing, and I believe we are on the edge of a fundamental reshaping of finance. The evidence on climate risk is compelling investors to reassess core assumptions about modern finance."

BlackRock *Larry Fink, CEO Blackrock*

"Banks and other financial firms need to get creative to bring sustainable investments into the mainstream. Conversations with clients about climate exposure have amped up materially over the last two years"

Goldman Sachs *David Solomon, CEO Goldman Sachs*

### Customer Behavior & Demand

- Sustainable finance has been growing exponentially over the last few years and the development is expected to accelerate over the coming years
- 40% of investors state that they already take ESG criteria into account when making their investment decision

Financial services

## VOICE OF THE REGULATOR

### Political & Regulatory Behavior

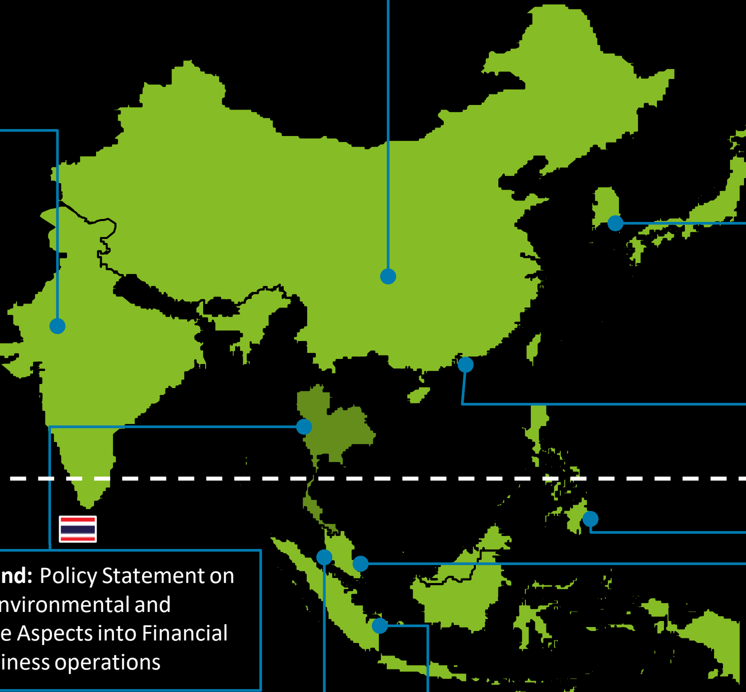
- Global priorities for action expressed within the Sustainable Development Goals (SDGs)
- To meet Paris target and make EU climate neutral by 2050, Europe needs between €175 to €290 billion in additional yearly investment in the next decade
- Transitioning to a climate-neutral economy requires an alignment on the need to act to scale up sustainable finance to plug the current investment gap

"Through our strategy review, we will determine where and how the issue of climate change and the fight against climate change can actually have an impact on our policies."

*Christine Lagarde, President of the ECB*

# APAC SUPERVISORY LANDSCAPE

## Regulations for Climate & Environmental Risks



**Reserve Bank of India:** N/A

B

**China Banking and Insurance Regulatory Commission:** Green Finance Guidelines, Green Credit Policy and mandatory reporting

B

**Financial Services Agency:** Building a financial system that supports a sustainable society

B

**Financial Services Commission:** Climate Risk Management and Supervision: Current status and future plans

B

**Hong Kong Monetary Authority:** Range of practices for management of climate risks

B

**Bangko Sentral ng Pilipinas:** Sustainable finance framework

**Bank of Thailand:** Policy Statement on Internalizing Environmental and Climate Change Aspects into Financial Institution business operations

**Bank Negara Malaysia:** Climate Change and Principle-based Taxonomy, Climate Risk Management and Scenario Analysis Exposure Draft

**Financial Services Authority:** Application of Sustainable Finance to Financial Services Institutions

B

**Monetary Authority of Singapore:** Guidelines on Environmental Risk Management for Banks

B

*Oceania*

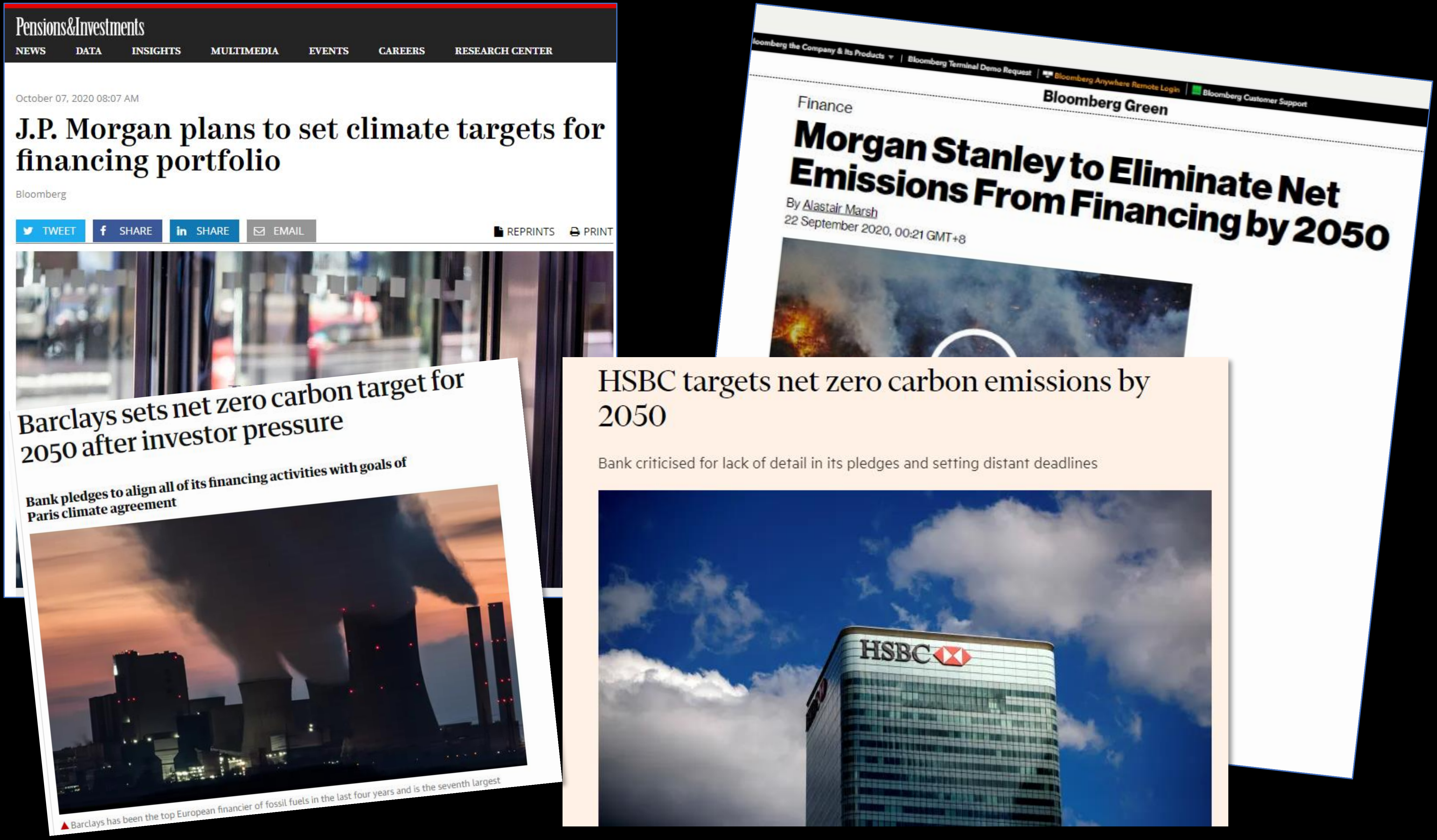
**Australian Prudential Regulation Authority:** CPG 229 Climate Change Financial Risks

B

**Reserve Bank of New Zealand:** Climate Change Report

Contributed to ASEAN Central Banks in managing climate and environment-related risks, 2020

B Member of Bank of International Settlements (Basel Committee)



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October 07, 2020 08:07 AM

# J.P. Morgan plans to set climate targets for financing portfolio

Bloomberg

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Finance

# Morgan Stanley to Eliminate Net Emissions From Financing by 2050

By Alastair Marsh

22 September 2020, 00:21 GMT+8

# Barclays sets net zero carbon target for 2050 after investor pressure

**Bank pledges to align all of its financing activities with goals of Paris climate agreement**

Barclays has been the top European financier of fossil fuels in the last four years and is the seventh largest

# HSBC targets net zero carbon emissions by 2050

Bank criticised for lack of detail in its pledges and setting distant deadlines

# A RANGE OF SUSTAINABLE FINANCE INSTRUMENTS (1/2)

## Green loans

**include funding committed exclusively to finance green projects** such as climate change, natural resources depletion, loss of biodiversity, and air, water and soil pollution. These instruments involve a periodic reporting by the borrower to the lender of the actual use of proceeds, through qualitative or quantitative performance measures (e.g. electricity generation, or reduction of GHG emissions).

## Green supply chain finance

Supply chain finance involves a buyer approving its supplier invoices for financing by a bank when a product or service is provided. Green supply chain finance **entails the provision of financing at preferential conditions upon demonstrated sustainability performance** and can vary depending on the sustainability performance.

## Green bridge loans

These loans provide SMEs with short-term financing options before more long-term financing can be secured. This instrument is particularly **useful for green pioneer companies facing high upfront costs and risks in early-stage development and between funding rounds**, e.g. developing cutting edge technologies in areas such as clean energy or mobility

## Green bonds

Green bonds are **fixed income instruments designed to finance climate- or environment related projects**. Large and more established SMEs can issue green bonds themselves, but the majority of SMEs can benefit from green bonds indirectly i.e. via financing from the proceeds of green bond issued by financial institutions.



Source: Financing SMEs for sustainability: Drivers, Constraints and Policies

# A RANGE OF SUSTAINABLE FINANCE INSTRUMENTS (2/2)

## Green equity instruments

Green equity includes both venture capital and private equity aimed specifically at funding innovative solutions to address environmental challenges (e.g. Green-tech, sustainability start-ups). Green VCs typically fund the development of pilot-scale green projects where investments can have long funding periods.

## Green grants

Green grants can be used to help firms offset high upfront costs related to the implementation of green technologies and/or processes as well as to incentivise the production of green products and services. They can be provided solely as grants or as part of hybrid financing programmes in combination with debt or equity financing.

## Hybrid financing instruments

SMEs are likely to benefit more from green investments as compared to alternative investments, because of favourable financing conditions, e.g. when a green loan is connected to a grant. For example, PFIs can provide a certain percentage of the green loan in the form of a grant if the company uses the grant for targeted green measures such as investment in renewable energy or energy efficiency.

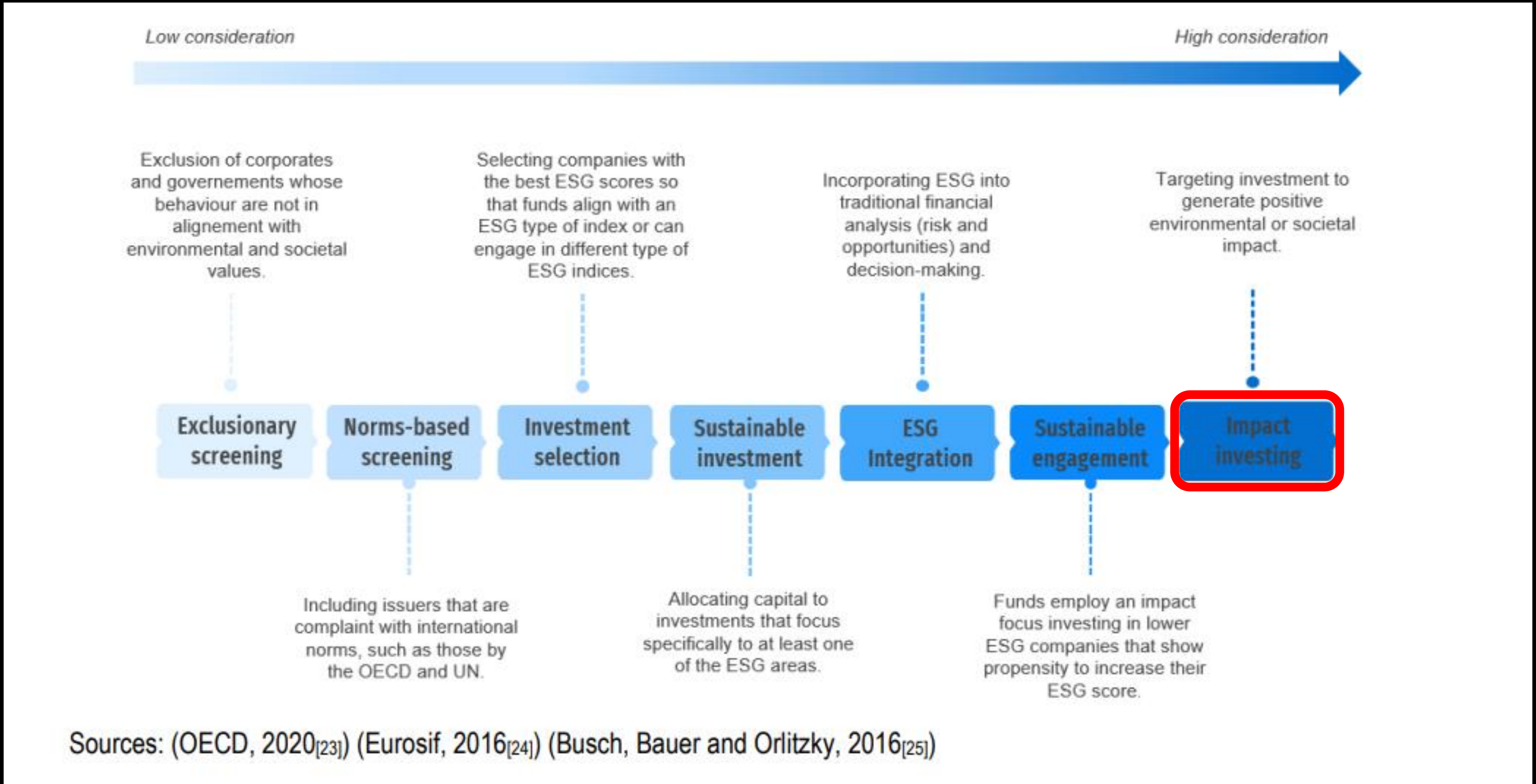
## ESG-linked instruments:

ESG-linked instruments are financing instruments that tie the financing conditions to the sustainability/ESG performance of the issuer/recipient. They can include ESG-linked loans or ESG-linked bonds. ESG-linked loans have a dynamic interest rate linked solely to selected sustainability performance indicators, such as carbon emissions or a specific ESG target



Source: Financing SMEs for sustainability: Drivers, Constraints and Policies

# INVESTOR'S VIEW OF SUSTAINABLE INVESTMENT



# GREEN AND TRANSITION PLANS ARE ESSENTIAL FOR FUTURE-PROOF INVESTMENT STRATEGY

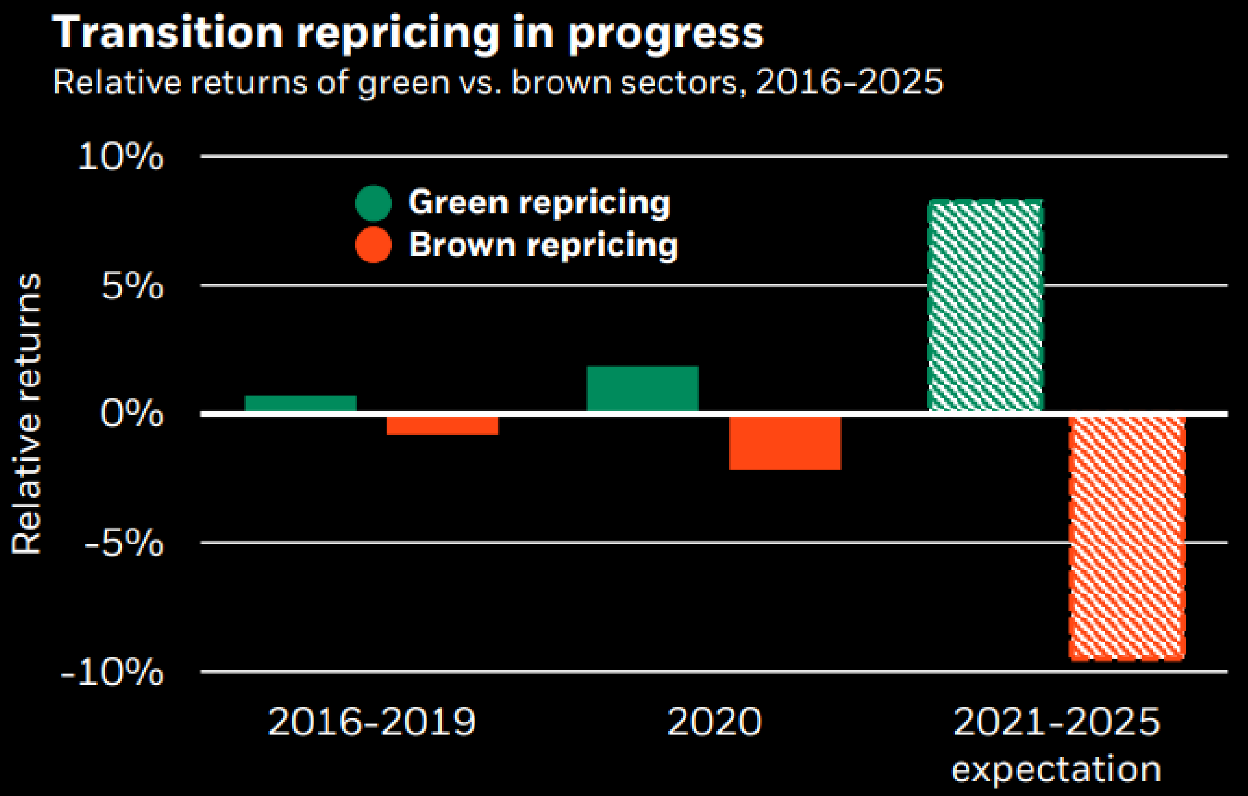



**Chart takeaway:** *We are already seeing green sectors post better relative returns to brown sectors – and think it has room to run.*

BlackRock.

## 2022 midyear outlook

BlackRock Investment Institute

**Back to a volatile future**

**Investing in high-carbon companies with credible transition plans or that are key to the transition can give investors exposure to the transition as well as help mitigate the impact of its bumps.**

# Sustainable Finance Trends



# IMPACT INVESTING IN THE ASEAN REGION

IMPACT INVESTING IN ASEAN IS A GROWING TREND THAT SUPPORTS THE SDGS

IMPACT INVESTING TARGETS SECTORS SUCH AS FINANCIAL INCLUSION, CLEAN ENERGY, AGRICULTURE, HEALTHCARE, AND EDUCATION

CUMULATIVE IMPACT INVESTMENTS IN ASEAN WERE $12.2 BILLION BETWEEN 2007 AND 2017

CHALLENGES AND BARRIERS INCLUDE LACK OF DATA AND TRANSPARENCY, REGULATORY UNCERTAINTY, LIMITED DEAL FLOW, AND MISMATCHED EXPECTATIONS

MAJOR DEVELOPMENTS THAT COULD BOOST IMPACT INVESTING INCLUDE RCEP AND INCREASING AWARENESS AND DEMAND FOR SOCIAL AND ENVIRONMENTAL IMPACT

# THE "RETURN" OF GREENWASHING

- Greenwashing has rebounded in recent years. Why?
  - Increasing legal implications
    - Misleading shareholders
    - What are the consequences of lying in financial filings?
  - Strong appetite for green products, investments etc

*"Labels have become an increasingly important driver of fund flows, especially in the retail [investor] segment of the market," the IMF said.*

*Evergreen Consultants, which assesses the ESG credentials of managed funds, has estimated the incidence of greenwashing is between 5-10% of those carrying a responsible investing label.*

ASX cracks down on ethical fund 'greenwashing' (theworldnews.net)

# REGULATORS AND FINANCIAL INSTITUTIONS ARE TAKING ACTION TO COMBAT GREENWASHING

## Europe

- In Feb 2022, the European Securities and Markets Authority (ESMA), the EU's securities markets regulator, published its Sustainable Finance Roadmap 2022-2024 (Roadmap). ESMA identifies three priorities for its sustainable finance work.

1. Tackling greenwashing and promoting transparency;
2. Building National Competent Authorities' (NCAs) and ESMA's capacities in the sustainable finance field; and
3. Monitoring, assessing and analysing ESG markets and risks

esma European Securities and Markets Authority

ESMA PRIORITISES THE FIGHT AGAINST GREENWASHING IN ITS NEW SUSTAINABLE FINANCE ROADMAP


Europe securities regulator endorses ESG benchmark label to deter greenwashing

By HAZEL BRADFORD



Sources:
https://www.pionline.com/esg/europe-securities-markets-regulator-endorses-esg-benchmark-label-deter-greenwashing
https://www.esma.europa.eu/press-news/esma-news/esma-prioritises-fight-against-greenwashing-in-its-new-sustainable-finance

# REGULATORS AND FINANCIAL INSTITUTIONS ARE TAKING ACTION TO COMBAT GREENWASHING

## United States

- The US securities regulator is cracking down on exaggerated ESG credentials in investment products, preparing standards for a sustainable funds industry that has boomed to almost US$3tn.

- Rules being prepared by the Securities and Exchange Commission would specify disclosures to be made by investment funds that have terms such as "ESG", "sustainable", or "low-carbon" in their names.


SEC prepares to crack down on misleading ESG investment claims

Pending rules come as funds repackage themselves for the $3tn 'sustainable' market

Gary Gensler, SEC chair, has suggested he wants to 'make it easier to tell whether a fund is really what they say they are' © Al Drago/Bloomberg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ESG

May 23, 2022 03:45 PM

BNY Mellon unit settles SEC charges of misstating ESG considerations

By BRIAN CROCE


Bloomberg

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Green

ESG

The SEC War on Greenwashing Has Begun

The regulator's campaign against fund managers profiting from exaggerated ESG claims is off and running.

Sources:

BNY Mellon unit settles SEC charges of misstating ESG considerations | Pensions & Investments (pionline.com)

SEC prepares to crack down on misleading ESG investment claims | Financial Times (ft.com)

The SEC's War Against Greenwashing and ESG Misuse Has Begun - Bloomberg

# REGULATORS AND FINANCIAL INSTITUTIONS ARE TAKING ACTION TO COMBAT GREENWASHING

In Australia, ASIC has taken its first action for 'greenwashing' against a listed company

*"Energy company, Tlou, has paid a total of $53,280 to comply with four infringement notices issued by ASIC over concerns about alleged false or misleading sustainability-related statements made to the Australian Securities Exchange (ASX) in October 2021".*

The infringement notices were issued in relation to statements and images contained in two ASX announcements made by Tlou which claimed that:

- electricity produced by Tlou would be carbon neutral;
- Tlou had environmental approval and the capability to generate certain quantities of electricity from solar power;
- Tlou's gas-to-power project would be 'low emissions'; and
- Tlou was equally concerned with producing 'clean energy' through the use of renewable sources as it was with developing its gas-to-power project.

- ASIC was concerned that Tlou either did not have a reasonable basis to make the representations, or that the representations were factually incorrect.



Source:
[22-294MR ASIC acts against greenwashing by energy company | ASIC]

# REGULATORS AND FINANCIAL INSTITUTIONS ARE TAKING ACTION TO COMBAT GREENWASHING

## Australia

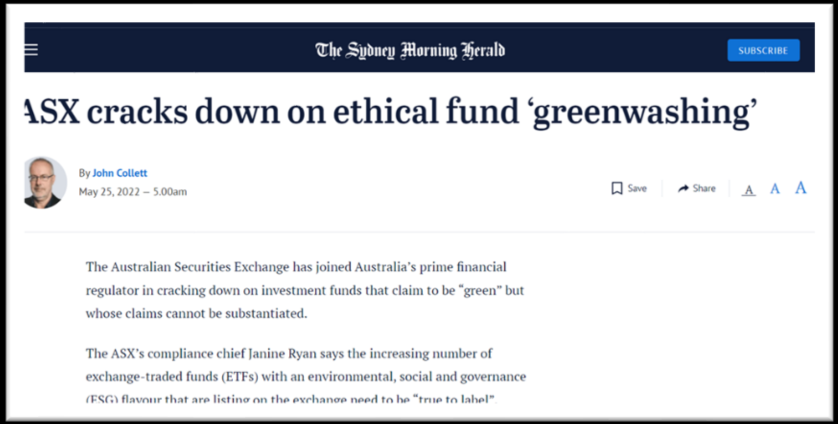
“Green finance and superannuation funds will be targeted by the investment regulator (Australian Securities and Investments Commission) in an effort to stop consumers placing their money with underperforming and dodgy companies and money manager.” (August 2022)

FINANCIAL REVIEW
PLATINUM 70 YEAR
Newsfeed

**ASX-listed company investigated by ASIC for greenwashing**

The corporate watchdog is conducting at least two investigations into “greenwashing”, including a publicly listed company, as it warns businesses and fund managers to avoid overhyping their climate change credentials.

Green finance and superannuation funds will be targeted by the



The Sydney Morning Herald
SUBSCRIBE

**ASX cracks down on ethical fund ‘greenwashing’**

By John Collett
May 25, 2022 – 5.00am

Save Share A A A

The Australian Securities Exchange has joined Australia’s prime financial regulator in cracking down on investment funds that claim to be “green” but whose claims cannot be substantiated.

The ASX’s compliance chief Janine Ryan says the increasing number of exchange-traded funds (ETFs) with an environmental, social and governance

Sources:
https://www.afr.com/companies/financial-services/asx-listed-company-investigated-by-asic-for-greenwashing-20220822-p5bbrd
https://www.smh.com.au/money/investing/asx-cracks-down-on-ethical-fund-greenwashing-20220520-p5an1j.html

SUSTAINABLE FINANCE TREND

# REGULATORS AND FINANCIAL INSTITUTIONS ARE TAKING ACTION TO COMBAT GREENWASHING

## Singapore

- Effective 1 Jan 2023, ESG Funds sold to retail investors in Singapore will be required to disclose in alignment with guidelines issued by the Monetary Authority of Singapore (MAS) to combat greenwashing.

- Under the new guidelines, ESG funds must provide information such as their investment strategy, the criteria used to select investments, and the risks and limitations associated with that strategy.

### MAS tackles greenwashing with new guidelines for ESG funds


The new guidelines will take effect from January 2023. ST PHOTO: LIM YAOHUI

Source: https://www.straitstimes.com/business/banking/mas-tackles-greenwashing-with-new-guidelines-for-esg-funds

# RAISING IMPORTANCE OF ESG DATA

ESG data is evolving from static and backward-looking to dynamic and forward-looking, harnessing the digital revolution.

Data quality and maturity

### FOUNDATIONAL

- Existing data usage (emails, production units, F&A, HR, HSE systems)
- Spreadsheets (and post-its)
- Manual data management
- High-level partner input (e.g. from reports)

### ADVANCED

- Standard ESG reporting tools
- BI/Analytics dashboards
- Detailed supply chain reporting
- Sourced third party data
- Investing in "for-purpose" solutions (often AI-powered)

### LEADING

- Boardroom using ESG data-driven insights
- Advanced ESG forecasting and predictions at the heart of strategic decision-making
- Exploration and investment in solution-building and data acquisition
- ESG data of sufficient quality to be tied to compensation and bonus schemes
- Ecosystem collaboration around new technologies, business models and partnerships

# IMPROVING THE ACCURACY OF YOUR ESG DATA

Through setting up the company's internal governance and controls over data collection and management, you can improve the accuracy of ESG data

- Implement **a continuous monitoring process** for key performance indicator tracking to spot anomalies. This also enables teams to accurately track progress toward targets and industry benchmarks and minimizes the need to go back and sift through data when it's time to report externally.
- **Establish a robust set of goals and targets with a standardized method** to measure progress, improve transparency, and reduce error in data collection.
- **Generate regular progress reports and increase accountability for the data** in order to streamline the data collection and validation processes. The highest quality reports came from companies where responsibility for data rested with the CEO, Board of Directors, or a specific board member, such as the CFO.
- **The internal audit team** can review the sustainability data from three perspectives: **quality, pertinence, and provenance**. The team can provide an internal, independent review of the data before the report is published.

# ROLE OF RISK PROFESSIONALS IN SUSTAINABLE FINANCE ECOSYSTEM

1

**Environmental Impact**

Assess environmental risks (e.g., physical and transition risks) and integrate these into enterprise risk management (ERM) frameworks. Their evaluation helps prioritize actions to address environmental vulnerabilities.

2

**ESG Disclosures and Metrics**

Validate and ensure that ESG disclosures comply with regulations and are integrated into the organization's risk management processes. They also monitor and assess the effectiveness of ESG metrics in decision-making.

3

**Sustainable Financing Solutions**

Evaluate the risks associated with financial instruments like green bonds, sustainability-linked loans, and green infrastructure funds, such as credit, market, or reputational risks, and ensure these are factored into financial strategies and models.

4

**Coordinating Projects and Knowledge-Sharing Tools**

Provide ongoing monitoring and oversight to ensure that projects deliver expected impacts while managing associated risks.

# WHO USES SUSTAINABLE TAXONOMIES?

### Asset managers

Taxonomy can better equip asset managers with knowledge as to what is "green" and provide relevant financial products

### Regulators

Endorse whether a product or activity is green

### Companies

Taxonomies assist companies to match their products and services correctly to what is environmentally sustainable, and what aligns with the environmental goals

### Commercial Banking

Use taxonomy to ensure loans and fundings are given activities or products that are considered sustainable or green

## Risk Professionals

- ✓ **Mitigating Greenwashing Risks:**

  By validating data and processes, risk professionals prevent organizations from inaccurately portraying their sustainability credentials.

- ✓ **Scenario Analysis:**

  Conduct climate and sustainability-related scenario analyses to identify long-term financial impacts tied to taxonomy adoption.

- ✓ **Stakeholder Confidence:**

  Risk professionals enhance transparency and credibility, building trust among investors, regulators, and other stakeholders.

# SUSTAINABILITY ASSURANCE

## VALUE OF ASSURANCE

- Higher credibility and clarity for investors and stakeholders
- Greater confidence it will get done right
- Reduced risk, increased efficiencies, and less disruption
- Enhancing strategic and competitive considerations
- Increases rating and certifications by agencies for companies

# Q&A

# 36 ESG Essentials

## Areas of focus for performance and conformance

TAKE AWAY

**E** Environmental

**S** Social

**G** Governance

1 Climate Change
2 Greenhouse Gas Emissions
3 Biodiversity and Deforestation
4 Air Quality
5 Water Use and Quality
6 Land Use and Quality
7 Resource Use

8 Waste Management
9 Renewal Energy and Energy Efficiency
10 Hazardous Materials
11 Impact of Products
12 Environmental Reporting and Disclosure
19 Health and Safety
20 Product Liability and Consumer Protection

13 Human Capital Management
14 Conflict Minerals
15 Inclusive Behaviour
16 Workforce Relations
17 Employment Standards
18 Modern Slavery
24 Human Rights and Community Relations
21 Diversity and Equal Opportunity

25 Compliance
26 Risk Management
27 Whistleblower Policies
28 Shareholder Voting Rights
29 Related Party Transactions
23 Employee Attraction and Retention
22 Data Protection and Privacy

30 Anti-competitive Behaviour
31 Board Composition, Independence and Diversity
32 Bribery and Corruption
33 Business Ethics
34 Remuneration Policies
35 Accounting Standards
36 Transparency and Disclosure Practices

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# What are E, S, and G?

TAKE AWAY

## Environmental

Your impact on the world

- Climate change
- Greenhouse gas (GHG) emissions
- Natural resource depletion
- Waste and pollution
- Deforestation
- Hazardous materials
- Biodiversity

Your **commitment** to future generations

## Social

Your contribution to your communities

- Human rights, including slavery and child labour
- Impact on local communities
- Conflict regions
- Health and safety
- Employee relations and diversity
- Product mis-selling
- Data protection

How returns are **shared**

## Governance

How you conduct yourself

- Executive pay
- Bribery and corruption
- Political lobbying and donations
- Board diversity and structure
- Tax strategy
- Data breaches

Your **licence** to operate

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