UOB Asset Management

ESG investing comes of age in ASEAN and Taiwan

Best ESG Manager in ASEAN

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Right By You

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Introduction

ESG considerations have risen to the forefront of global business

Across the world, corporations, asset managers and asset owners are recognising the imperative of integrating ESG principles into their operations and decision-making process.

At UOB Asset Management (UOBAM), we embed sustainability as a core component in our research and investment process. This paper aims to highlight the latest ESG developments in ASEAN and Taiwan (thereafter referred as "the region") as well as their implications for investors.

Key ESG trends

Regional policymakers are leapfrogging into a more sustainable future

1 Anti-ESG sentiment isolated to the US

As ESG moved up boardroom agendas in 2023, resistance also mounted. A number of global investors including BlackRock and a number of other Wall Street firms were affected by the anti-ESG movement and this trend has not dissipated. Such legislation put a strain on ESG efforts by limiting public pension funds' ability to engage asset managers that embraced ESG principles. Asset managers were also put under pressure to pull out of leading investment-industry initiative on tackling climate change.

However, it appears that thus far, such anti-ESG sentiment is only isolated to the US, and in particular 19 Republican-led states. Anti-ESG legislative attempts were rejected by the other US states and there is little evidence that investor capital has shifted away from the affected asset managers.

2 Growing ESG interest in the region

Even as the US battles the politicisation of ESG investing, the rest of the world, including Asia, is accelerating its ESG focus. Although the ESG investing landscape in Asia is less developed compared to markets like those in Europe, the ESG agenda continues to mount alongside the stream of new regulations being introduced in the region.

In fact, Asian regulators and investors have been looking into the spillover effects of the ESG advancements in the EU, such as the introduction of the EU's Carbon Border Adjustment Mechanism (CBAM) and its impact in Asia. As local regulations tighten, ESG factors are becoming more material for companies, whether from an earnings or cost of capital perspective. This in turns means ESG considerations are becoming more important in decision-making.

Key ESG trends

3 More Holistic ESG regulation development with enhanced data availability

The regulatory landscape in the region has experienced rapid evolution, driven by global developments like the establishment of the United Nations Sustainable Development Goals (UN SDGs) and the adoption of the Paris Agreement in 2016, and further accelerated by the COVID-19 pandemic.

Interestingly, we observe that regulators in the region follow certain patterns when introducing ESG policies. They tend to introduce corporate ESG disclosure as a first step in the rollout of sustainability-related policies and regulations. This makes sense because data availability helps financial intuitions to gain more clarity on the companies' sustainability practices and provide data for further analysis. With more investors entering the market and to safeguard them from the risk of greenwashing, governments tend to follow up with more ESG policies such as the guidelines for ESG funds. Below is a detailed ESG regulation development timeline by countries in the region.

Fig 1: ESG regulation development timeline by market

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Singapore		CD			CP	ER	CD TX	EF	CD ER TX
Malaysia	CD		EF				TX	TX ER	SIS
Thailand			CD			EF		CD	ER TX
Indonesia			CD				TX		CP
Vietnam						CD		TX	
Philippines					CD				EF TX
Taiwan							CD EF		ER

CD Corporate ESG Disclosure (CD)
CP Carbon Pricing (CP)
EF ESG Fund Disclosure (EF)
ER Environmental Reporting (ER)
TX Taxonomy (TX)
SIS Sustainable Investment Standards (SIS)

Timeline by policy announcement / public consultation / major update (may not be actual implementation of policy).
Updated as of 31 December 2023.

Source: UOBAM

For corporates

Corporate disclosure requirements in the region are maturing, but carbon pricing is still work-in-progress

Demand for transparency grows ever louder

Although the situation has improved markedly, the lack of high-quality standardised ESG data from companies is still cited as a key challenge to ESG investment in the region. Regulators and stock exchanges continue to step up their efforts to enhance corporate ESG disclosure, with Singapore and Malaysia being one of the first in the region to introduce sustainability reporting in 2016, closely followed by Thailand and Indonesia. Today, most Asian regulators have established some form of corporate ESG disclosure requirements. The remaining few are expected to follow suit soon.

Importantly, the pressure for more transparency and improved supply chain practices does not come solely from regulatory requirements, but also from customer demand and market competition.

Asian markets are an important node in the global supply chain, and as major exporters to the EU and US, Asian companies face increasing pressure from their customers to enhance ESG disclosures and elevate their overall business practices. Those able to meet these foreign requirements gain a competitive edge over those that continue to resist.

In addition, more fund houses are incorporating ESG into their investment analyses. As global investors steer capital to companies with credible ESG practices, those with limited data disclosure are increasingly at a disadvantage. That said, many local analysts are attempting to plug the gap by providing additional analyses based on their on-the-ground research and interviews with the management.

Figure 2: Corporate ESG disclosure by market

Country	Voluntary/ Mandatory	Guidelines Based/ Metrics Based	Disclosure of Compulsory Metrics	More Disclosure Proposed/ announced	TCFD Disclosure	Independent Assurance Required
Singapore	"Comply or explain" with mandatory industries	Guidelines and Metric Based	Strongly Encouraged	Yes	Required	Recommended
Malaysia	Mandatory	Guidelines and Metric Based	Yes	Yes	Required from FY2026	Recommended
Thailand	Mandatory	Guidelines Based (More Specific)	None Announced	None Announced	Recommended	Recommended
Vietnam	Mandatory	Guidelines Based	None Announced	None Announced	Not Required	Do not require
Indonesia	Mandatory	Guidelines Based	None Announced	None Announced	Not Required	Do not require
Philippines	"Comply or Explain"	Guidelines Based	None Announced	None Announced	Recommended	Do not require
Taiwan	Mandatory	Guidelines and Metric Based	Yes	Yes	Required	Mandatory

As of 31 December 2023
Source: UOBAM

Carbon pricing schemes yet to take root in Asia

We observed that a number of markets in the region have adopted the approach of introducing voluntary carbon markets, including Malaysia, Thailand and Taiwan. To date, only Singapore has launched a carbon tax and Indonesia also set up an Emission Trading Scheme (ETS). A number of countries in the region are also contemplating the idea of carbon pricing. For example, in 2021, Vietnam started to establish a mandate to design a National Crediting Mechanism (NCM) and a domestic ETS, and planned to establish an ETS in 2028.

The need in developing countries to prioritise economic growth causes these governments to be more reluctant to burden their domestic companies. And even if carbon tax schemes were to be implemented, the impact would depend on a number of factors, such as the scope of sectors and companies as well as the price set.

However, we would expect governments to gradually introduce such schemes, given that carbon pricing is a key strategy to achieve national net zero targets.

Another incentive for Asia countries is the EU's plan to introduce its Carbon Border Adjustment Mechanism (CBAM). This mechanism seeks to tax select goods imported into Europe from countries with lax carbon policies and has been in transitional phase since 1 Oct 2023. During this transitional phase, the CBAM only applies to imports of cement, iron and steel, aluminum, fertilisers, electricity and hydrogen , and at this stage is intended to enable the EU to collect data. However, once fully implemented, with many manufacturing companies set up in the region, ASEAN and Taiwan are amongst the most exposed regions to be affected.

Fig 3: Carbon pricing scheme by market

Country	Carbon tax	Emission trading scheme	Carbon pricing	Plan to increase carbon pricing	view from Climate Action Tracker	Availability of voluntary carbon market
Singapore	Yes Covered sectors: manufacturing, power, waste and water.	No	Carbon Tax: S$5/tCO2e in 2019-2023 S$25/tCO2e in 2024-2025 S$45/tCO2e in 2026-2027 S$50-80/tCO2e by 2030	Announced	Carbon tax is too low when compared to IPCC estimates for a 1.5C compatible price	Climate Impact X (CIX)
Malaysia	No	No	No	No	NA	Bursa Malaysia's Carbon Exchange (BCX)
Thailand	No	In-development	No	No	NA	Federation of Thai Industries Exchange (FTIX)
Vietnam	No	In-development	No	No	NA	In Progress
Indonesia	No	Yes, Covered sector: Power sector	Trading volume has been low	No	NA	Indonesia Carbon Exchange (IDXCarbon)
Philippines	No	No	No	No	NA	NA
Taiwan	Postponed the implementation until 2025 Covered Sectors: manufacturing, cement, steel.	No	Not official announced	No	NA	Taiwan Carbon Solution Exchange (TCX)

As of 31 December 2023
Source: UOBAM

For asset managers

Regulators are enforcing controls to limit greenwashing risks

Standardisation of ESG fund features

The global interest in ESG-integrated investment products has gained traction in recent years, and this momentum has also gradually gained ground within the region. This trend is underpinned by a growing ESG awareness among retail and institutional investors, and supported by the expanding range of ESG-focused investment solutions.

Nonetheless, during this nascent stage of development, there exists variability in ESG disclosure concerning the characteristics of these mutual funds. Acknowledging the risk of greenwashing and the need to protect investor interests, regional regulators are gradually stepping up to tighten ESG fund disclosure requirements. Below is a summary table of the region's ESG fund disclosure development.

Fig 4: ESG fund disclosure by market

Country	Scope of ESG Definition	Need for Approval from regulators	Minimum Allocation	Disclosure of Compulsory Metrics	Incorporation with Taxonomy	ESG Fund Marketing Restrictions
Singapore	Excludes sole negative screening & integration	Yes	67%	None Announced	Considered in Consultation	None Announced
Malaysia	All ESG strategies included	Yes	67%	None Announced	None Announced	None Announced
Thailand	All ESG strategies included	Yes	80%	None Announced	None Announced	None Announced
Vietnam	None Announced					
Indonesia	None Announced					
Philippines	All ESG Strategies included, but must adopt at least one sustainability principle	Yes	67%	None Announced	None Announced	Yes
Taiwan	All ESG strategies included	Yes	70%	None Announced	None Announced	Yes

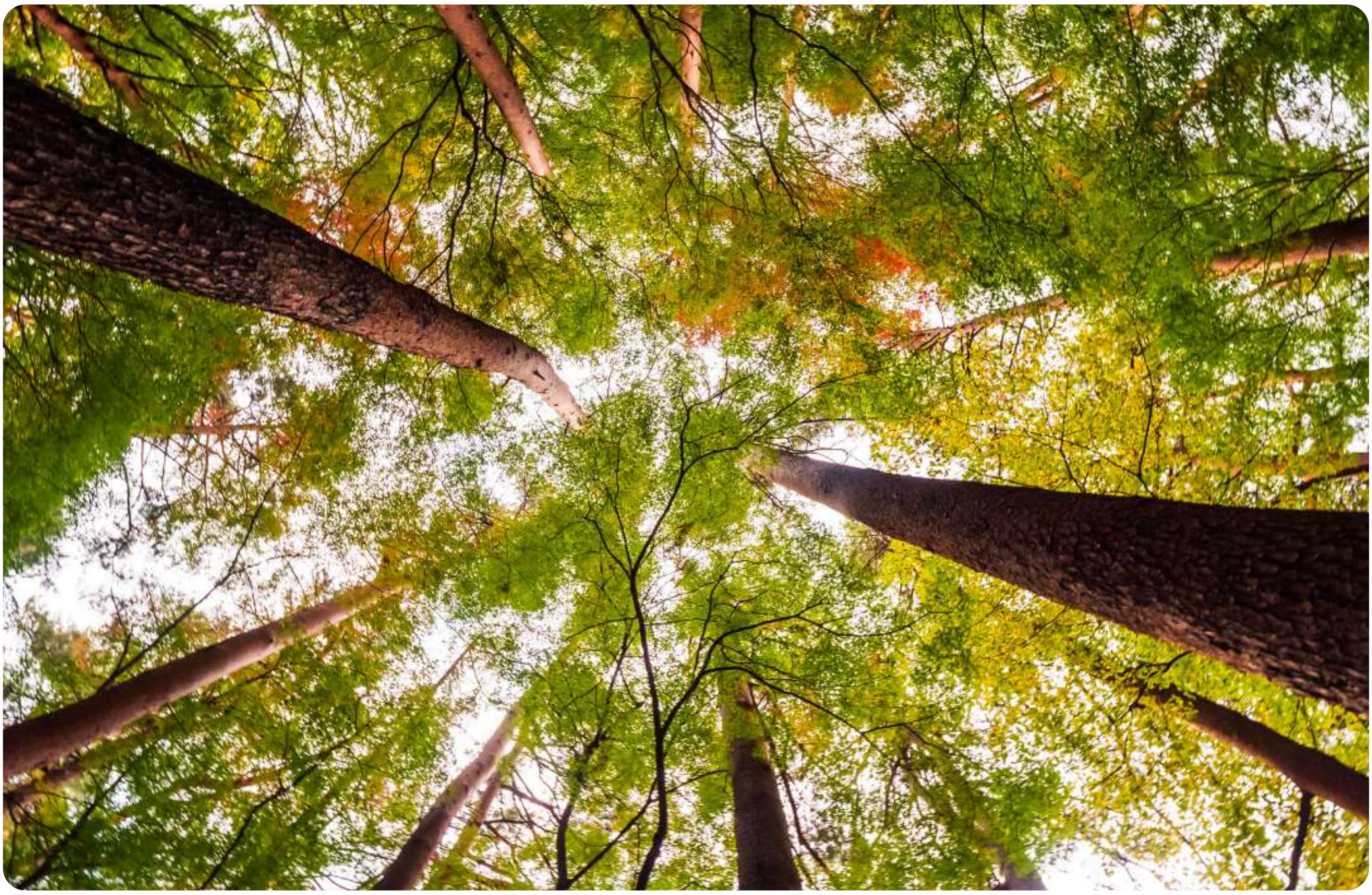
As of 31 December 2023
Source: UOBAM

More ESG-fund labeling requirements

The EU's Sustainable Finance Disclosure Regulation (SFDR) requires all funds within Europe to classify themselves as Article 6, 8 or 9 funds based on their ESG characteristics. In contrast, most regulators in Asia only require a binary classification - funds are either ESG or non-ESG. Regulators across the Asian region generally enforce a minimum proportion of investments that must align with ESG criteria.

Nevertheless, certain countries have introduced more sophisticated requirements, such as specifying the scope of ESG criteria and ESG fund marketing restrictions. For example, the Monetary Authority of Singapore (MAS) now excludes funds with solely negative screening from qualifying as having an ESG investment focus. Taiwan has also introduced ESG fund marketing rules similar to that applied by the EU. Looking ahead, we would expect regulators to adopt higher qualification standards, more disclosure of compulsory metrics, and ESG fund marketing restrictions.

This is set to put asset managers under greater scrutiny but ultimately helps to improve investor confidence. According to a report published by Goldman Sachs (2022), European ESG funds have benefited from tightened ESG fund requirements, with flows into EU Article 8 and 9 funds surpassing Article 6 funds.



For Asset Owners

Institutions looking to invest their assets are being encouraged to incorporate ESG considerations

Guidelines for sustainable investment standards

Besides asset managers, asset owners and institutional investors also play an important role in creating long-term value and impacting long term sustainability. Recent developments indicate that asset owners are being held to higher standards in their investment practices.

For instance, in 2020, Singapore introduced Environmental Risk Management Guidelines for insurers. The guidelines encouraged insurers to establish robust processes and systems for continuously monitoring, assessing and managing the environmental risks associated with their investment portfolios. So too in Malaysia, where the government published its Sustainable Investing Standards (SIS) in 2023.

The SIS is designed to guide government-linked investment companies (GLICs) towards sustainable investment practices. It requires GLICs to integrate sustainability considerations into their investment strategies, regardless whether their assets are managed internally or through external fund managers.

Such moves are raising the bar for asset owners. Both public and private sectors are being encouraged to view ESG factors as integral components of their investment due diligence process in when evaluating solutions and asset managers. Looking ahead, it is reasonable to expect more countries to make similar requirements of institutional asset owners.

Summary:

1. The introduction of regulations has accelerated in recent years.
2. More stakeholders are being affected, expanding from corporations to asset managers and asset owners.
3. Countries are moving in a similar direction in introducing ESG regulations, especially in terms of coverage. However, the depth or comprehensiveness of regulations may vary.
4. There are challenges and opportunities presented in the region.