Growing Asia's Markets

NAVIGATING SUSTAINABILITY IN ASSET MANAGEMENT: *A Practitioner's Guide*

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ASIFMA is an independent, regional trade association with over 160 member firms comprising a diverse range of leading financial institutions from both the buy and sell side including banks, asset managers, accounting and law firms, and market infrastructure service providers.

Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative and competitive Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the U.S. and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

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ASIFMA would like to extend its gratitude to all the individuals and member firms who contributed to the preparation of this Paper

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FOREWORD

Sustainability or ESG is a key topic impacting the asset management ("AM") industry, including ASIFMA Asset Management Group ("AAMG") which represents some of the largest global asset managers operating in Asia.

Sustainability-related regulations and disclosure expectations range from International Sustainability Standards Board ("ISSB") sustainability reporting and transition planning reporting to Corporate Sustainability Reporting Directive ("CSRD") obligations in Europe. These growing regulations have wide-reaching implications across a growing range of functions at asset managers, including investments, products, legal and compliance, distribution, and communications. As a result, firms are faced with the need to increase their level of sustainability expertise, accountability and decision-making ability across the organisation, irrespective of a firm's level of actual sustainability or ESG ambition.

Today, however, sustainability teams are sometimes tasked with the overwhelming challenge of managing (or contributing significantly to) many of their firm's sustainability-related work which may pose risks due to resourcing issues, the level of expertise required, and/or limit a firm's ability to fully leverage sustainability-related opportunities.

In this guide, we highlight some good practices at our member firms to address how asset managers (and also asset owners) can incorporate sustainability practices across relevant functions and integrate sustainability in governance structures and decision-making forums, to mitigate regulatory, reputational and greenwashing risks.

We hope these suggestions can assist firms in meeting sustainability-related expectations, whilst aligning with a firm's sustainability positioning.

Sustainability in an Organisation's Strategy and Governance

Clarity of sustainability positioning or objectives

It is important for a firm to have clarity about its sustainability intent and the importance of sustainability to the organisation so that its sustainability objectives, efforts, and resources can then be aligned. For example, a firm may decide to ensure its overall sustainability approach is robust and matches with client and regulatory expectations. Alternatively, a firm may wish to be a market leader in this topic. It is important to recognise there may be a spectrum of sustainability objectives.

To put a firm's positioning into practice, clear messaging then needs to be coupled with top-down support or sponsorship. This empowers sustainability practitioners, whose roles often require internal capacity building and engagement. It is also useful to incorporate an avenue for escalation when there is push back.

Good Practice

- The sustainability philosophy, approach or intent is articulated by the CEO or senior management, with specific objectives endorsed or sponsored by Heads of Investments and Asset Classes, as relevant to the firm's level of commitment.

Examples of Sustainability Objectives

- Meet sustainability regulations
- Offer a range of sustainable products for clients who want them
- Commit at firm level to a net-zero target

Establishing clear governance structures for sustainability

Increasing client and regulatory focus is leading to greater firm-wide focus on sustainability. A lack of cross-firm expertise, complicated by the creation of an entirely new language of sustainability, can create a barrier to sustainability adoption for existing teams, including compliance and legal, even though evolving sustainability rules are primarily a regulatory issue. In the absence of clarity on responsibilities, many of these increasing sustainability-related topics may fall on sustainability specialist teams to solve, even if these topics are outside of their area of expertise. These teams can also be subject to a growing level of accountability and reporting on their scope.

Good Practice

- Steering Committees and underlying committees can have clear terms of reference to ensure division of responsibilities and accountabilities are clear.
- Governance structure charts can be produced that illustrate the inter-relationships between various specialist structures (e.g. sustainability committees / working groups) and traditional business governance structures (e.g. product committees, heads of business lines), including information sharing and issue escalation flows.
- Sustainability risks can be incorporated into local governance structures, in line with local jurisdiction risk management regulatory requirements, such as the Securities & Futures Commission of Hong Kong's expectations on the Management and Disclosure of Climate-related Risks by Fund Managers.

Division of labour on sustainability issues

Insufficient sustainability expertise within product and legal teams can mean that responsibility falls on sustainability specialist teams to understand regulatory and label requirements, and even contribute to legal disclosures, for example in prospectuses, given growing regulations surround sustainability-related content.

We expect roles and responsibilities to have evolved over recent years. First-line functions which are not sustainability-specific should be increasingly familiar with how their function interacts with the topic of sustainability. If not, gaps can be highlighted with appropriate training to follow. Below are examples of how to integrate sustainability practices across a firm to effect organisational change to meet sustainability objectives.

Good Practice 1

Standardising RFP and client queries. Following relevant training and collaboration between RFP and sustainability teams, RFP teams can directly extract data sets related to sustainability when there are standard or common RFP questions or client queries on this topic, consulting the sustainability team only where there are non-standard or more nuanced sustainability-related questions. For efficiency, a Q&A bank can be created by the sustainability team in collaboration with other teams such as investment, legal and compliance team, and depending on the firm, the appropriate team(s) can be tasked with ensuring that this database of sustainability answers is maintained and updated.

Good Practice 2

Cross-functional collaboration in designing sustainable investing policies. The approach to developing a sustainability policy can be driven by sustainability specialists but with strong engagement of stakeholders across the business. Stakeholders include investment teams which are particularly impacted, but also sales teams which can gauge reputational impacts in local markets, as well as risk and legal functions. A pre-requisite for

collaboration is sufficient understanding of sustainability-related topics, which can be built up by capacity building.

EXAMPLE

Sustainability-focused portfolios and reporting. Through capacity building, Portfolio Managers will be better able to navigate sustainability topics and regulations. As a result, responsibility for sustainability-related issues, such as building a sustainability universe, engaging on sustainability-related mandates, and complying with investment labels, can rest jointly between the sustainability and investment teams as well as legal and compliance. Separately, following relevant training, Client Reporting Teams and Legal can also be responsible for reporting in accordance with the EU's Sustainable Finance Disclosure Regulation ("SFDR") as part of prospectus writing, annual report generation and other legal documentation tasks.

The sustainability team can serve as an independent central source of sustainability knowledge, providing frameworks and implementation assistance. Frameworks can include the firm's approach to SFDR and to investment labels. Implementation assistance can include providing toolkits, guides, research, engagement templates etc, and working with investment teams to upskill and integrate these resources and processes into their investment strategies.

GOOD PRACTICE 3

Regulatory compliance oversight on sustainability topics. Final responsibilities for complying with regulation typically lies with existing teams responsible for more traditional regulatory implementation. Sustainability teams can offer advice and education on topics like climate reporting where other teams may be less familiar.

Compliance and Legal Teams are second lines of defence which provide oversight over first-line teams – that is, not just over sustainability teams but also RFP and Client Reporting Teams etc. While Compliance, Risk and Legal Teams do not necessarily need to know sustainability topics in-depth, some member firms have found that they need to be able to identify the risks that sustainability reporting, integration and products etc can create in order to provide oversight of first-line functions.

SUSTAINABILITY IN AN ORGANISATION'S RISK MANAGEMENT

Managing the divergence between global versus local

There may be differences in terms of the maturity of and attitude towards sustainability or ESG in different markets. For global asset managers, this may result in divergence in the sustainability practices or communication on a global versus local level.

To balance the need for common messaging and for local adaptations where required, it is important to build tangible global baselines and frameworks that are easily understandable among cross-functional teams such as having standardised definitions and language around key sustainability concepts and approaches being implemented. Only then can local adaptions be made where appropriate.

GOOD PRACTICE

Define a sustainable investment process or definition from a firm perspective and map these internal standards to different local and regional regulatory requirements. This practice has to be carefully managed because there can be a gap between, for example, the definition of a green-category product from a firm perspective and the definition of a sustainable or ESG-labelled product from a regulatory perspective, including SFDR Article 8 or 9, the United Kingdom's Sustainability Disclosure Requirements ("SDR") Sustainable / Transition product labels, or ESG Funds in Hong Kong and Singapore.

Adopting industry standards and leveraging industry initiatives

Notwithstanding a firm's efforts to develop its own baselines and frameworks, we suggest that this occurs in the context of and leveraging external globally recognised resources and best practices. To the extent possible, we support consultative and collaborative efforts to create these industry standards rather than trying to reinvent the wheels with internal frameworks that do not align with industry best practice *(see examples in the Appendix)*.

Mitigating the risk of greenwashing in marketing activities

Lack of understanding of sustainability may mean sustainability messages or claims get distorted or convey inaccurate ideas, if sustainability specialist team are not involved in reviewing them. This can increase the risk of unintentional greenwashing or even greenhushing, leading to growing regulatory and reputational risks. It also does not help to build investor confidence in sustainable investment, if claims are seen as not fitting the actual investment approach.

Good Practice 1

Marketing and communication guidance. Consider various anti-greenwashing rules and reports issued by regulators in key markets for the purpose of developing or enhancing anti-greenwashing-related policy / guidance for sustainability marketing and communication activities. Any guidance should set out the basic requirements, such as ensuring any claims can be substantiated by evidence, as well as do's and don'ts, including examples of statements that pose higher greenwashing risk and how to appropriately adjust the language to reduce greenwashing risk.

Good Practice 2

Regular training and regulatory updates. ESG / sustainability teams can develop training sessions to first-line employees who are responsible for preparing marketing materials containing sustainability related claims. Compliance/Legal may consider introducing annual greenwashing training, including tests on statements to ensure employees stay up-to-date with the latest definitions and expectations around greenwashing risks.

Compliance/Legal or ESG teams may regularly update any new rules/reports to the first-line to keep them aware of the evolving anti-greenwashing landscape and the risk and consequence of greenwashing misconduct.

Good Practice 3

Collaboration in product development. Product development and investment teams can involve sustainability teams from the inception of new ESG-related product ideas.

Building Sustainability Skillsets across the Organisation

Sustainability Skills Assessment
Reviewing a firm's sustainability skill requirements may be especially relevant for those firms with higher levels of sustainability ambitions, to inform training needs and hiring considerations. Market-wide standardisations of sustainability skills sets may be useful for understanding the knowledge required for building the credibility of specialists and for hiring purposes.

Apart from external certifications discussed in the section on Training *(see below)*, we note the efforts of Asian regulators. For example, the Monetary Authority of Singapore ("MAS") together with The Institute of Banking & Finance have identified twelve Sustainable Finance Technical Skills and Competencies [1] ("SF TSCs") that elaborate common standards of proficiency, knowledge and abilities needed to perform different job roles in sustainable finance. Most recently, they have jointly published The Sustainable Finance Jobs Transformation Map[2] ("JTM") which considers the impact of sustainability trends on financial services jobs in Singapore and emerging skills that the workforce will need to serve global sustainable financing demands.

Good Practice 1

Firm-wide sustainability skills assessment. Obtain buy-in from management and functions for an organisation-wide mapping and analysis on the applicability of standardised skill sets to the firm, with broader implications for sustainability strategy setting and workforce planning (training and hiring).

Good Practice 2

Sustainability in hiring process. Some firms have started incorporating sustainability elements into the hiring process to align with the firm's overall sustainability commitment. For example, a sustainability-focused firm may want to ensure new Portfolio Managers or sales leads are aligned with the firm's sustainability credentials.

Training
With sustainability becoming an integral part of many core functions across the asset management industry, providing robust sustainability training to all staff members essential to adopting sustainability.

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[1] Sustainable Finance Technical Skills and Competencies, The Monetary Authority of Singapore, and The Institute of Banking & Finance, 2022. https://www.ibf.org.sg/home/for-individuals/resource-tools/sustainable-finance-technical-skills-and-competencies

[2] The Sustainable Finance Jobs Transformation Map, The Monetary Authority of Singapore, The Institute of Banking and Finance, and Workforce Singapore, 2024. https://www.ibf.org.sg/home/for-financial-institutions/resource-tools/sustainable-finance-jobs-transformation-map

It is important that ongoing ad-hoc training is provided throughout the year, especially as regulations and sustainability practices develop. As the firm builds its sustainability expertise, such training will increasingly come from resources outside of the sustainability or ESG team.

GOOD PRACTICE

Training can be a mixture of internally generated and external training. External training can provide non-firm-specific foundational knowledge on topics like sustainable investing, whilst internally generated training can be customised to be directly applicable to the firm's unique situation.

EXAMPLE, EXTERNAL TRAINING

We note certain training courses provided by third parties, such as the PRI Academy's various responsible investment courses, CFA Institute's Certificate in ESG Investing, and Asia Investor Group on Climate Change's ("AIGCC'") series of online training available to all its members.

Some member firms require all investments or distribution/sales teams to take the PRI course, as a baseline.

Performance Reviews

Incorporating certain sustainability criteria into performance reviews for relevant functions where sustainability plays a role, whether explicitly through sustainability-related KPIs or implicitly through required involvement in certain sustainability-related projects, can align with ambitions and desired outcomes around firm-wide sustainability positioning.

Integrating Sustainability / ESG Data

There is a growing set of sustainability-related data from multiple sources needed to address increasingly complex sustainability requirements, including disclosure requirements, Principal Adverse Impacts ("PAIs"), Stewardship and labelling requirements, which may not yet be as integrated as traditional financial data. Collecting and organising this data can lead to time-consuming manual processes which are reliant on sustainability specialist teams. Such resources could be allocated to higher value tasks, which may include data verification and consideration of methodology.

Good Practice 1

The firm acknowledges the benefits that come with integrating and automating sustainability or ESG data. This can lead to improved efficiency, accuracy, and scalability in addressing complex sustainability requirements. The firm then needs to resource appropriately – predominantly through data and technology functions developing appropriate platforms and/or integrating ESG data into existing platforms. Resourcing may only need to be temporary to get the platforms up-and-running or may need to be more permanent for ongoing maintenance and integration as new ESG metrics/data become available. This requirement will clearly be dependent upon the nature and scale of a firm's sustainability ambitions and capabilities.

Good Practice 2

Sustainability specialists will likely still be required to 'sense check' outputs of technology solutions. Alternatively, it may be possible for some data resources to upskill and specialise in ESG data to take on some of the burden, if budgets allow.

Good Practice 3

Voluntary codes of conduct for ESG ratings and data providers have now been established in jurisdictions like Hong Kong and Singapore. These can serve as useful references for asset managers to leverage when conducting due diligence on external providers.

Good Practice 4

It is important to recognise that ESG data can be used for multiple functions, for example, reporting / investment analysis / risk management. Technology solutions can ideally be built in a way to support multiple use cases, ensuring consistency across outputs, scalability and maximising the value of such data.

Concluding Thoughts

Understanding an organisation's sustainability positioning is vital in ensuring that sustainability objectives, efforts and resources are aligned. We have highlighted the consideration of governance structures, division of labour, managing local adaptations against global standards, and the role of sustainability data. An overarching theme is the importance of capacity building in navigating sustainability in asset management.

Size, complexity and operational set up, as well as sustainability positioning, will vary between different asset managers operating across Asia. We do however believe that sustainability-related expectations, whether due to pressures from clients, regulators in Asia and further afield, and other stakeholders, will remain a pertinent and topical issue for asset managers. As such, we hope that the practices identified and implemented by various member firms prove useful for a wider audience across the industry when reviewing their approach to address these challenges.

EXAMPLES

- Green Bond Principles developed by International Capital Market Association ("ICMA") https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles-June-2022-060623.pdf

- Standards developed by Science Based Targets Initiative ("SBTi") https://sciencebasedtargets.org/standards-and-guidance

- Net Zero Investment Framework developed by the Paris Aligned Investment Initiative ("PAII") https://www.iigcc.org/net-zero-investment-framework

- Transition plan guidance developed by the Global Financial Alliance for Net Zero ("GFANZ")
  - Real economy transition plans https://assets.bbhub.io/company/sites/63/2022/09/Expectations-for-Real-economy-Transition-Plans-September-2022.pdf
  - Sectoral pathways for Financial Institutions https://assets.bbhub.io/company/sites/63/2022/06/GFANZ_Guidance-on-Use-of-Sectoral-Pathways-for-Financial-Institutions_June2022.pdf

- Operating Principles for Impact Management developed by the International Finance Corporation ("IFC") https://www.impactprinciples.org/9-principles

- Definition of impact investing from the Global Impact Investment Network ("GIIN") https://thegiin.org/publication/post/about-impact-investing/#what-is-impact-investing

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