

ESG Trends Update: Southeast Asia and India



Ranajoy Basu, Partner and Head of Impact Finance and India (London)

Siddhartha Sivaramakrishnan, Partner (Singapore/London)

Laura-May Jones, Trainee Solicitor (London)

McDermott Will & Emery

The ESG regulatory and transactional environment in Southeast Asia and India continues to evolve quickly. Sustainability standards are being incorporated into corporate and financial reporting, social and labor standards are being enhanced across the region, and green and sustainable financing flows remain strong.

Investors are increasingly showing themselves to be willing to challenge board directors on their companies' climate performance, including scrutinizing climate risk management disclosures or emissions-reduction plans. Key governmental policy initiatives include supporting energy transition, reducing environmental barriers to trade, and strengthening environmental risk management.

Climate and Sustainability Reporting in Asia

The UK government Task Force on Climate-Related Financial Disclosures (TCFD's) recommendations are recognised as the leading standard of climate reporting. Following the announcement of TCFD's reporting mandate in October 2021, there has been a surge in global regulatory activity.

In the US, for example, the Securities and Exchange Commission (SEC) recently proposed a new rule based on the TCFD framework that will govern and mandate emissions and climate risk disclosures.

The global regulatory movement comes as a result of significant voluntary uptake by companies – around 3,400 pledged TCFD supporters worldwide. Of these, at least 1,120 companies in Asia have voluntarily adopted TCFD. Asian governments have followed suit to adopt and implement their own mandatory disclosure regimes and reporting requirements based on the TCFD framework.

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Hong Kong

The Hong Kong Exchanges and Clearing Limited (HKEX) published an update to the Environmental, Social and Governance Reporting Guide (the “ESG Reporting Guide [2021 Version]”), which requires listed companies to publish ESG reports alongside annual reports, and the Singapore Exchange (SGX) announced climate disclosure rules in December 2021. These new ESG reporting requirements for Hong Kong and Singapore will impact across Asia. Japan's Financial Services Agency is also working on a proposal for mandatory climate risk disclosure and updated disclosure guidelines.

The Hong Kong Monetary Authority (HKMA) released the supervisory policy manual for climate risk management, which aims to guide authorised financial institutions (AIs) to integrate climate considerations into their governance, strategy, risk management, and

disclosures. The hope is that this approach will afford AIs better resilience against climate risks.

India

The Securities and Exchange Board of India has issued a requirement for the top 1,000 listed companies in India to prepare Business Responsibility and Sustainability Reports (BRSRs). BRSRs are not mandatory for companies outside of the top 1,000 listed, and there is a ‘Comprehensive’ and ‘Lite’ version, for listed and unlisted companies, respectively. The BRSRs aims to consolidate India’s decade-old reporting framework, under which reports have lacked detail and quality. BRSRs require far more detail – 20 reported data points across three sections and nine principles. The new framework adopts the United Nations Sustainable Development Goals (UNSDGs) and is benchmarked to other global ESG reporting frameworks, including TCFD.

Indonesia

The Indonesian financial services authority (OJK) now requires publicly listed companies to prepare a sustainability report, made either separately or as part of their annual report.

Malaysia

The Malaysian Joint Committee on Climate Change is developing an ESG Disclosure Guide for SMEs to help them improve the quality of and access to information on business resilience to ESG-related risks.

Philippines

The Philippines securities regulator has issued requirements for publicly listed companies to submit an annual sustainability report under a ‘comply or explain’ approach. This is expected to be extended to other types of corporations, following the improved coverage and quality of reporting.

Singapore

SGX has introduced a phased approach to mandatory reporting based on the TCFD recommendations. At

present, climate reporting is mandatory for issuers in the financial industry, as well as the agriculture, food, and forest products industry and the energy industry. Other issuers must report in a ‘comply or explain’ basis. From 2024 mandatory climate reporting will also extend to the materials and buildings industry and the transportation industry.

Thailand

Since 2022, it has been mandatory for all publicly listed companies to report their ESG performance via a separate filing within three months of the publication of the company’s financial report.

Vietnam

Vietnam has signed the One Strategic Framework for Sustainable Development Cooperation with the United Nations. This agreement outlines how the United Nations and the Government of Vietnam will coordinate in Vietnam’s sustainable development, and focusses on social development, responding to climate change, disaster resilience, and ensuring environmental sustainability.

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The inclusion of enhanced disclosure standards in different jurisdictions is in the interest of investors, as this could mean better-informed decisions. But it could also lead to the emergence of a multitude of disconnected regional standards for ESG-fund classifications, a challenge for investors in pursuit of a common ESG objective across jurisdictions. There needs to be a harmonized approach as disclosure standards are implemented across Asia.

Green Finance Update

Sustainable finance is gaining traction in Southeast Asia and India, and there is increased interest in green bonds across the region. Many governments have established frameworks to deepen sustainable finance and have

launched or are in the process of developing sustainable financing products to incentivize green investment by businesses. This type of activity is helping countries in the region to establish themselves as sustainable investment partners.

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Hong Kong

Hong Kong is an innovator in green bonds, having recently raised \$5.8 billion in Asia’s largest ever green bond issuance, the proceeds of which will be used to finance or refinance projects that provide environmental benefits and support the sustainable development of Hong Kong, as set out under the city’s green bond framework. The government has also launched a subsidised green finance training scheme, to encourage local participation and build the sustainable finance talent pool.

India

India has issued its first sovereign green bonds in the amount of \$1 billion, split equally between two tranches for the current financial year, with the proceeds used to finance or refinance green projects.

Indonesia

OJK has developed a Sustainable Finance Roadmap Phase II (2021-2025) with the aim of enhancing sustainability in the financial services sector. In 2022 President Joko Widodo launched the Green Taxonomy, one of Indonesia’s first policy efforts to incentivize businesses to prioritize green investment.

Malaysia

The Securities Commission Malaysia has introduced an updated SRI-linked Sukuk Framework. The proceeds from an SRI-linked sukuk are now available for general purposes and financial and structural characteristics may differ depending on whether the issuer meets sustainability specifications and KPIs.

Philippines

The International Finance Corporation (IFC) and the World Bank have jointly developed the ‘30 by 30 zero’ program, a new initiative that will help mobilize private financing for more climate-friendly projects in the Philippines. The program is funded by the International Climate Initiative, the government of Germany, and brings together key stakeholders—government and regulators, international finance institutions and commercial banks, and real sector partners—to mobilize support for the shift toward a low carbon economy. Currently, the program is also active in Egypt, South Africa, and Mexico.

Singapore

Singapore has noted that green finance is one of the fastest-growing segments and Singapore now accounts for close to half of the ASEAN green bond and loan market. The Singapore government is keen to fuel the growth of this market and will take the lead by issuing up to \$35 billion in green bonds by 2030 to fund public sector green infrastructure projects.

Thailand

Thailand is developing a sustainable finance taxonomy, the first draft of which was published at the end of 2022.

Vietnam

Vietnam is the second largest issuer of green bonds among ASEAN member states but does not yet have a green bond taxonomy or national index of green bonds.

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ESG considerations will continue to become increasingly prominent in the Southeast Asia and India business environment. Companies will need to make further efforts to identify and address relevant ESG considerations for their businesses and boards will need to scrutinize ESG implementation closely. Increased attention also will need to be paid to enhancing human capital management in light of Asia’s young and growing workforce. That

said, companies and investors should continue to see new ESG-driven business opportunities in Southeast Asia and India in the Asia energy transition, electric transportation and sustainable manufacturing and construction sectors in particular.

Disclaimer: The discussion above is reflecting general market trends and developments. It is not a summary, analysis, or commentary on any local laws. This article cannot be regarded as legal advice.

<Biography>

Ranajoy Basu is recognised as one of the World's leading lawyers in cross-border social impact finance structures, including social and development impact bonds, renewable energy and "green" structured finance transactions. He is recognised as a pioneer in impact investment. His work has included the market-leading 'Educate Girls' bond which was the first development impact bond of its kind. His clients have ranged from GAVI, UNICEF, World Bank, IFC, to governments, financial institutions, funds, charitable institutions, NGOs and microfinance institutions around the world. He has been involved on ground breaking work for Wattpad, Theirworld and The Global Business Coalition for Education.

Siddhartha Sivaramakrishnan represents multinational companies on their cross-border transactions including M&A, corporate governance, and public company reporting and securities matters. Siddhartha also counsels on financial institution regulatory and compliance matters, including cross-border licensing and marketing requirements and insider dealing and market abuse in a number of Asian, including Japan, and European jurisdictions. He also has deep experience in the representation of APAC and EMEA corporations, shareholders and financial intermediaries in a wide range of cross-border corporate finance and transactional matters.

<Overview of McDermott Will & Emery>

McDermott Will & Emery is a global law firm with headquarters in Chicago, Illinois and 23 offices worldwide. Over 1200 strong lawyers, we partner with leaders around the world to fuel missions, knock down barriers and shape markets, working seamlessly across practices and industries to deliver highly effective solutions that propel success.

Our cross-border impact finance team has over a decade of experience advising on a range of impact finance initiatives, including the

establishment of funds, innovative investment structures, development and social impact bonds and other capital market solutions. The team has represented donor governments, United Nations Agencies, global impact funds, foundations and impact investors in developing some of the most pioneering mechanisms delivering finance for a positive social impact around the world. We aim to deliver seamless transaction execution when project managing an impact finance deal.

We get the big picture and are passionate about delivering a positive social impact and being part of the journey with you.

