Monetary Authority of Singapore
10 Shenton Way MAS Building Singapore 079117
Telephone: (65) 6225-5577

Circular No. CFC 02/2022

28 July 2022

To:

All holders of a capital markets services licence in respect of fund management

Trustees approved under Section 289 of the Securities and Futures Act

Dear Sirs

DISCLOSURE AND REPORTING GUIDELINES FOR RETAIL ESG FUNDS

1 Internationally, there has been growing investor interest in environmental, social and governance ("**ESG**") related investment products. MAS is likewise seeing an increasing number of retail funds with ESG investment focus being offered in Singapore.

2 To mitigate the risk of greenwashing, MAS sets out in this Circular our expectations on how existing requirements under the Code on Collective Investment Schemes ("**CIS Code**") and the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations ("**SF(CIS)R**") apply to retail ESG funds, and the disclosure and reporting guidelines applicable to these funds. The guidelines will facilitate greater comparability in the disclosures made by retail ESG funds, which will in turn allow investors to make more informed investment decisions.

3 MAS will continue to monitor developments in the ESG investing landscape, and update and supplement this Circular as appropriate.

A. Scope of this Circular

4 This Circular applies to an authorised or recognised scheme ("**ESG Fund**") which:

(a) uses or includes ESG factors as its key investment focus and strategy. This means that ESG factors significantly influence the scheme's selection of investment assets; and

(b) represents itself as an ESG-focused scheme.

5 ESG Funds may incorporate sustainable investing strategies in a number of ways. Common strategies where ESG factors significantly influence a scheme's selection of investment assets

include impact investing and ESG inclusionary investing (including broad[1] or thematic[2] strategies). For the purposes of paragraph 4(a), a scheme that only uses negative screening[3], or a scheme that merely incorporates or integrates ESG considerations into its investment process to seek financial returns[4], would not be regarded as having an ESG investment focus.

B. Name of ESG Fund

6 Under Chapter 4.1 of the CIS Code, a scheme's name should be appropriate, and not be undesirable or misleading.

7 Where a scheme's name includes or uses ESG-related or similar terms (e.g. "sustainable", "green"), the scheme should reflect such an ESG focus in its investment portfolio and/or strategy in a substantial manner and comply with the guidelines in this Circular. Conversely, if a scheme's name uses a term which is considered by MAS to be ESG-related but does not comply with the guidelines under this Circular, the name will be deemed inappropriate.

8 In assessing whether a scheme's investment portfolio and/or strategy is focused on ESG in a substantial manner, MAS would consider factors including whether the scheme's net asset value is primarily invested in accordance with the scheme's investment strategy. As a guide, a scheme is normally considered to be "primarily invested" if at least two-thirds[5] of the scheme's net asset value is invested in accordance with the scheme's investment strategy[6].

9 MAS also notes that there may be cases where it is neither possible nor practicable for a manager to determine, at the individual asset level, the proportion of a scheme's net asset value that is invested in accordance with ESG investing approaches, for example, where the scheme adopts a portfolio approach that aims to overweight companies that improve their ESG ratings by a certain quantum over a specified period, with no particular restriction on investing in low ESG rated companies. In such cases, MAS expects the manager to explain in the offering documents how the scheme's investments are substantially ESG-focused.

---

[1] For example, application of best-in-class positive screening and ESG tilts.

[2] For example, strategies with specific focus on ESG outcomes such as low carbon transition.

[3] This refers to the application of a set of filters to determine which companies, sectors or activities are ineligible to be included in a specific portfolio.

[4] For example, a scheme may incorporate ESG factors in its investment process alongside other financial factors. Consequently, ESG is not the main driver of investment decisions but is just one of the factors considered in the investment process.

[5] The two-thirds threshold is generally adopted by the industry in determining whether a scheme is primarily invested based on a particular investment strategy.

[6] The scheme should also have regard to the general principle that its investee companies should follow good governance practices and that they do not compromise the environmental or social objectives of the scheme. Accordingly, the offering documents should also include a description of how the remainder of up to one-third of the scheme's net asset value would be invested.

C. Disclosure requirements

Prospectus

10 The Third Schedule of the SF(CIS)R requires that a scheme's prospectus should disclose its investment objective, focus and approach, as well as the risks of investing in the scheme.

11 In relation to an ESG Fund, the prospectus should disclose the following:

(a) <u>Investment focus</u>
   i. the scheme's ESG focus (e.g. climate change, low carbon footprint, sustainability, reduction in greenhouse gas emissions);
   ii. the relevant ESG criteria, methodologies or metrics (e.g. third-party or proprietary ratings, labels, certifications) used to measure the attainment of the scheme's ESG focus;

(b) <u>Investment strategy</u>
   i. a description of the sustainable investing strategy used by the scheme to achieve its ESG focus, the binding elements of that strategy in the investment process, and how the strategy is implemented in the investment process on a continuous basis;
   ii. any relevant ESG criteria, metrics or principles considered in the investment selection process (e.g. a climate-focused fund may use climate-related indicators such as carbon footprint, weighted average carbon intensity, greenhouse gas emissions and exposure to carbon-related assets);
   iii. the minimum asset allocation into assets used to attain the ESG focus of the scheme;

(c) <u>Reference benchmark</u>
   i. where the scheme uses a benchmark index to measure the attainment of its ESG focus, an explanation of how the benchmark index is consistent with or relevant to its investment focus;
   ii. where the scheme uses a benchmark index for financial performance measurement only, a statement of that fact; and

(d) <u>Risks</u>
   i. risks associated with the scheme's ESG focus and investment strategy (e.g. concentration in investments with a certain ESG focus, limitations of methodology and data, lack of universal ESG standards or taxonomy, or reliance on third party information sources).

12 Any ESG-related terms used in the prospectus should be clearly defined.

Enhanced reporting and disclosures

<u>Annual reports</u>

13 The annual report of an ESG Fund should disclose the following:

(a) a narrative on how and the extent to which the scheme's ESG focus has been met during the financial period, including a comparison with the previous period (if any);
(b) the actual proportion of investments that meet the scheme's ESG focus (if applicable); and
(c) any action taken by the scheme in attaining the scheme's ESG focus (e.g. stakeholder engagement activities).

Additional information

14 Where appropriate, additional information on the following areas regarding an ESG Fund, its manager or index provider should be disclosed to investors or prospective investors on the manager's website or by other appropriate means[7]:

(a) how the ESG focus is measured and monitored, and the related internal or external control mechanisms that are in place to monitor compliance with the scheme's ESG focus on a continuous basis (including methodologies used to measure the attainment of the scheme's ESG focus, if any);
(b) sources and usage of ESG data or any assumptions made where data is lacking;
(c) due diligence carried out in respect of the ESG-related features of the scheme's investments; and
(d) any stakeholder engagement policies (including proxy voting) that can help shape corporate behaviour of companies that the scheme invests in and contribute to the attainment of the scheme's ESG focus.

D. Application of this Circular to recognised schemes

15 In assessing compliance with the above requirements by recognised schemes, MAS will consider the schemes' compliance with the relevant ESG rules in their home jurisdictions, if any.

16 In particular, UCITS schemes which fall within the scope of ESG Funds as defined in Section A above will be deemed to have complied with the disclosure requirements under Section C above if they are classified as falling under Article 8 or 9 of EU's Sustainable Finance Disclosure Regulation[8]. For the avoidance of doubt, the name of the UCITS scheme should still comply with the requirements under Section B of this Circular.

E. Implementation of this Circular

17 This Circular will take effect on 1 January 2023 ("**Effective Date**").

18 The guidelines in this Circular will apply to prospectuses of ESG Funds that are lodged with MAS on or after the Effective Date. The responsible person of an ESG Fund should indicate in the respective OPERA form 1, 2, 1-A or 2-A that the scheme is an ESG Fund[9], and ensure that the additional disclosures as required under paragraph 14 are made on the manager's website or by

---

[7] The prospectus should state where investors can access such additional information.

[8] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

[9] This will enable users of the OPERA public portal to filter the list of ESG Funds.

other appropriate means by the date of lodgement of the prospectus. For the avoidance of doubt, in relation to the annual report of an ESG Fund, the disclosures under paragraph 13 should cover the financial year ending on or after the Effective Date.

Yours faithfully

(sent via MASNET)

KEE RUI XIONG
EXECUTIVE DIRECTOR
CORPORATE FINANCE & CONSUMER DEPARTMENT