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Information Paper

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To: Holders of Capital Markets Services Licence for Fund Management under the Securities and Futures Act 2001 (the "SFA"); and
Trustees approved under Section 289 of the SFA

GOOD DISCLOSURE PRACTICES FOR RETAIL ESG FUNDS

1 With effect from 1 January 2023, MAS introduced disclosure and reporting guidelines for retail ESG Funds[1] being offered in Singapore to mitigate greenwashing risks (Circular No. CFC 02/2022: Disclosure and Reporting Guidelines for Retail ESG Funds or the "**ESG Funds Circular**"[2]). The ESG Funds Circular sets out MAS' expectations on how existing requirements under the Code on Collective Investment Schemes and the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 apply to retail ESG Funds, and the disclosure and reporting guidelines applicable to these funds.

2 As of 10 June 2026, there are a total of 189 ESG Funds. This information paper sets out good disclosure practices that ESG Funds may adopt in their adherence with paragraphs 11 to 14 of the ESG Funds Circular. These observations are drawn from MAS' ongoing review of prospectuses and periodic reports of authorised and recognised ESG Funds, and have been further supplemented by observations from thematic inspections on selected managers of ESG Funds conducted in 2025.[3] The thematic inspections covered a review of the managers' public disclosures of their ESG Funds against their frameworks, practices and controls. This information paper also considers the November 2025 IOSCO report on ESG Indices as Benchmarks.

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[1] An ESG Fund is an authorised or recognised scheme which uses or includes environmental, social and governance ("**ESG**") factors as its key investment focus and strategy, and represents itself as an ESG-focused scheme.

[2] Accessible at: https://www.mas.gov.sg/regulation/circulars/cfc-02-2022---disclosure-and-reporting-guidelines-for-retail-esg-funds.

[3] As part of the update on 10 June 2026, amendments were made to paragraphs 3-7, 9, 10 and 14.

3 In sharing good disclosure practices, this information paper aims to promote clear, substantiable disclosures to facilitate investors' understanding of the key features and risks of an ESG Fund. Examples have been included to illustrate good disclosure practices where relevant and should not be taken as prescriptive. These disclosures should in turn be supported by appropriate policies and processes to ensure effective implementation of the ESG Fund's stated ESG investment focus and strategy and mitigate greenwashing risks.

Good Disclosure Practices

(A) Investment focus and strategy

Define ESG-related terms clearly

4 **It is good practice for managers to clearly define what these terms mean in the context of the ESG Fund.** When the description of an ESG Fund's investment focus and strategy includes vague and subjective terms such as "*favourable/improving ESG characteristics*", "*sustainable leaders" or "strong sustainability profile"*, investors do not get adequate insight into the type of ESG investments or strategies that the ESG Fund is seeking to employ. Investors and the manager may also have different interpretations of what such terms mean, e.g. what is considered a "sustainable leader" or how an underlying investment may be considered to have a "strong sustainability profile". Clear definitions will help facilitate greater alignment of expectations and empower investors to make informed investment decisions.

5 **The placement of such definitions should be contained in the same section of the prospectus describing the ESG Fund's investment focus and strategy.** Alternatively, it would be useful to cross-reference the explanation to the appropriate section of the prospectus. This is to assist investors in easily locating information they may reasonably require to understand the ESG Fund's investment focus and strategy. An example where terms such as "sustainable leaders" and "sustainable improvers" are clearly defined upfront is shown below.

Example 1:

"The fund invests at least 90% of its assets in companies that have been identified as sustainable leaders and improvers based on our proprietary research framework. Sustainable leaders are viewed as companies with the best-in-class ESG credentials that have strong management of their most material environmental and social risks and opportunities, while improvers are typically companies with average ESG management practices with potential for improvement."

Clearly set out how ESG criteria or metrics are used

6 Where ESG criteria or metrics (including ESG ratings or scores) are used to measure the attainment of an ESG Fund's ESG focus or in its investment selection process, it is good practice to include clear, accurate, and complete descriptions of such ESG criteria and metrics and the extent to which they are to be used. This would facilitate accountability to investors and minimise potential greenwashing by providing clear yardsticks by which investors can assess whether an ESG Fund has met its claims.

7 Key areas which managers could consider disclosing as a matter of good practice include:

(i) Sources of ESG criteria or metrics, including whether these are proprietary or from third-party providers. Where ESG ratings or data from third-party providers are used, managers are encouraged to consider using providers that have voluntarily adopted the Singapore Code of Conduct for ESG Rating and Data Product Providers, or such similar code which is based on the IOSCO's Good Practice Recommendations for ESG Rating and Data Product Providers.

(ii) Calculation methodologies and description of underlying data used, such as -

- the measurement objective of any ESG criteria or metrics used in the assessment, including an explanation of how such criteria serve to achieve the ESG Fund's investment objectives where relevant;
- how these criteria or metrics are weighted in the assessment;
- the principal sources of information used and how the absence of information is treated; and
- how frequently underlying data, as well as ESG criteria and metrics used, are updated;

(iii) Minimum ESG rating or score that investments must meet, such as -

- Specifying the minimum ESG rating or score (where applicable), along with the minimum proportion of the ESG Fund that must be invested in such investments. Where a fund sets a minimum ESG rating or score to determine which investments it may invest in, the annual report can report on the actual proportion of the ESG Fund that met the minimum ESG rating or score;
- Where the ESG rating or score is not the only determinant of the ESG Fund's investment approach to achieving its ESG focus, the extent to which ESG ratings or scores are used and the consideration of any other relevant factors;

(iv) Alternative criteria or due diligence processes in place where investments can be made without meeting a minimum ESG rating or score, such as –

- Where investments may be made prior to a full assessment being conducted to determine the applicable ESG rating or score, a description of (a) the proxy ESG criteria used for initial assessment pre-investment, (b) expected timeline to complete a full ESG assessment post-investment and (c) divestment procedures should the investment be assessed to not meet the minimum ESG rating or score.
- For investments that do not meet the minimum ESG rating or score (comprising up to one-third of the scheme's net asset value), a description of the due diligence process used to ensure that such investee companies follow good governance practices and do not compromise the environmental or social objectives of the scheme[4];

(v) Basis for sustainability targets set (if any), including –

- What the sustainability target is, if there are milestones that ESG Fund must meet, and when the ESG Fund intends to meet such target and milestones;
- How the ESG Fund intends to meet the sustainability target or milestones, including how ESG criteria or metrics will be used in investment selection;
- How the manager will measure the progress of the ESG Fund in meeting such target or milestones; and
- Any assumptions used in the setting of the target or the measuring of the ESG Fund's progress in meeting such target.

8 Good disclosure practices in this regard can be observed in Examples 2 and 3 below. Example 2 explains the ESG metric used – Weighted Average Carbon Intensity (WACI) - and provides details on the methodology and frequency of its calculation. Example 3 provides clear descriptions on how the ESG score is to be used in the scheme's investment selection

[4] In accordance with footnote 6 of the ESG Funds Circular.

process, including the minimum ESG score investments must meet and corresponding assessment criteria.

Example 2:

"The fund seeks to have a lower WACI than the reference benchmark. The WACI metric measures a portfolio's exposure to carbon-intensive companies, expressed in tons CO2e/$M revenue. Scope 1 and Scope 2 greenhouse gas (GHG) emissions are allocated based on portfolio weights. The calculations do not include cash, derivatives and unrated investment instruments. The WACI of the fund and the reference benchmark are calculated at quarter end using the average of all business days' values in the quarter."

Example 3:

"A proprietary ESG score (1 indicates best in class and 5 indicates laggard) is assigned to each underlying investment. Companies eligible for inclusion must have an ESG score of 3 or better. As an example, an underlying investment with an ESG score of 3 would have been assessed to have the following: generally good governance with some minor concerns, management of environmental and social risks are mixed and no evidence of financially material controversies."

(B) Reference benchmark

9 In the case of an ESG Fund which tracks an ESG index or references one for performance measurement purposes, managers may wish to consider additional disclosures to address aspects of ESG indices used as benchmarks that differ from traditional financial benchmarks which investors may not be as familiar with.[5] For example:

- potentially greater frequency of changes to index methodology, given the frequent evolution of ESG frameworks and definitions;
- more detailed explanation of benchmark methodologies, as ESG benchmark methodologies may be more complex and less familiar to investors; and

[5] For further details, see IOSCO report on ESG Indices as Benchmarks (accessible at: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD804.pdf). The Report assesses the applicability of IOSCO's Principles of Financial Benchmarks to ESG indices used as benchmarks and provides a comparative analysis of the key characteristics and vulnerabilities of ESG indices relative to traditional financial benchmarks.

- the nature of the ESG data that underpins the benchmark and associated limitations if any, such as greater use of proxy or unaudited data, or use of forward-looking information which may involve expert judgment.

10 It is also good practice to disclose if the manager or its related corporation has any influence on the construction of the index, and the extent of such influence. This will provide investors greater insight as to the level of influence the manager or its related corporation has over the composition of the ESG index against which the ESG Fund's portfolio composition is determined or performance is measured. The example below illustrates a possible way to provide disclosure when a manager has collaborated with an ESG index provider in deciding on the screening criteria to be applied during the construction of the index and continues to be able to provide inputs to index methodology changes on an ongoing basis.

Example 4:

"The manager has worked with the index provider, which is not a related corporation of the manager, in creating the screening criteria and methodology of the ESG Index. From time to time, the manager may engage the index provider in discussions on the implementation of potential changes to the design of the index methodology and provide generic guidance to the index provider on such changes. For the avoidance of doubt, the ESG index's construction and calculations are managed independently by the index provider."

(C) <u>Risks</u>

11 Paragraph 11(d) of the ESG Funds Circular provides that the prospectus of an ESG Fund should disclose risks associated with the scheme's ESG focus and investment strategy. In the case of a recognised ESG Fund, while full details of such risks may be set out in the prospectus of the scheme's home jurisdiction, it is good practice to include a summary of such risks in the Singapore "wrapper" for greater saliency to Singapore investors on risks that are unique to an ESG Fund. This is illustrated in Example 5 below.

Example 5:

"Sub-Funds which have been described above as ESG Funds under the ESG Funds Circular may have limited exposure to some companies, industries or sectors as a result of its ESG investment focus and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria chosen by the manager of the relevant Sub-Fund. As investors may differ in their views of what constitutes sustainable investing, the Sub-Fund may also invest in companies that do not reflect the beliefs and values of any particular investor. Please refer to the section headed "Sustainability Risks" in the home prospectus for more details on such sustainability risks."

(D) <u>Additional Information</u>

Disclosure relating to stakeholder engagement activities

12 Where the manager of the ESG Fund also seeks to attain its ESG focus through stakeholder engagement activities (e.g. active engagement with particular issuers to influence changes in their corporate behaviour), it is good practice (as shown in Example 6 below) to disclose the purpose and extent of such engagement activities, including why and how the manager would carry out such engagement, and when the manager would consider divesting the underlying investment. This would enable investors to better understand the nature and objectives of such stakeholder engagement activities and assess its potential impact on the ESG Fund's underlying investments.

13 Further details of the stakeholder engagement policies as referenced in paragraph 14(d) of the ESG Funds Circular, can be disclosed on the manager's website or by other appropriate means, with the prospectus stating where investors can access such information. In addition, the manager is encouraged to provide updates on such engagement activities, such as actual voting records, on a periodic basis as set out in paragraph 13(c) of the ESG Funds Circular. This could include actual voting records on ESG-related company resolutions.

Example 6:

"Engagement with the fund's investee companies is a key part of the manager's approach at each stage of the fund's investment life cycle (i.e. selecting, retaining and realising investments). It provides a channel through which the manager can:

- *assess and monitor a company's quality and contribution to sustainable development; and*
- *encourage management teams to address any sustainability or ESG issues relevant to its business.*

The manager does this through constructive, non-confrontational and relationship-based verbal and written conversations with representatives of investee companies. The manager also has an active voting programme and votes on all issues at all company meetings where it has the authority to do so. Where engagement has been unsuccessful (for example, where the company does not intend to adopt improved practices or it has adopted a response to the issue which the manager considers insufficient), the manager will not invest or will exit the fund's position in the company in an orderly manner having regard to the best interest of investors."

Conclusion

14 Good disclosure practices enable retail investors to better understand the key features and risks of an ESG Fund, thereby allowing them to make more well-informed investment decisions. We encourage managers to consider the good disclosure practices outlined in this information paper in the preparation of disclosures relating to their ESG Funds, whether in their offer documents, annual reports or marketing materials (including website disclosures), and to ensure they have appropriate internal policies and processes in place to support such disclosures. We will continue to monitor developments in the ESG Fund industry and work with the industry to uplift disclosure practices to mitigate greenwashing risks.