

**MEMO# 34247**

August 10, 2022

# Asia ESG: MAS Releases Disclosure Requirements for Retail ESG Funds

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TO: ICI Global Members

ESG Task Force

Global Regulated Funds Committee

Global Regulated Funds Committee - Asia SUBJECTS: ESG

International/Global RE: Asia ESG: MAS Releases Disclosure Requirements for Retail ESG Funds

On 28 July 2022, the Monetary Authority of Singapore (MAS) published a circular on disclosure and reporting guidelines for retail ESG funds ("Circular"),[\[1\]](#) following its industry consultation in January 2022.

Effective from 1 January 2023, the Circular sets out the prospectus and periodic disclosure requirements for retail ESG funds, as well as additional information to be provided on the manager's website. The Circular also elaborates on the MAS' expectations regarding the naming of these funds.

The Hong Kong Securities and Futures Commission (HKSF) also requires ESG funds to make similar disclosures, and we have drawn some key comparisons between the Hong Kong and Singapore rules in this memorandum.[\[2\]](#)

We are pleased that the MAS did not adopt disclosure requirements for ESG Funds linked to the Singapore Green Taxonomy as proposed by the Green Finance Industry Taskforce (GFIT) in its consultation earlier this year.[\[3\]](#) ICI Global is engaging with the MAS on the implications of the proposed taxonomy on asset managers and potential disclosure requirements for the industry. We will continue to keep members informed of developments in this area.

## Scope of Retail ESG Funds

The Circular applies to authorized or recognized retail funds[\[4\]](#) that (i) use or include ESG factors as their key investment focus and strategy, and (ii) represent themselves as ESG-focused schemes ("ESG Funds"). In other words, ESG factors should "significantly influence" the selection of investment assets of an ESG Fund.

One notable difference between the MAS Circular and the SFC Circular is the treatment of negative screening and ESG integration strategies. The MAS will not consider a fund to be an ESG Fund if it only uses negative screening or merely incorporates ESG factors in its investment process alongside other financial factors. By contrast, these funds could be regarded by the SFC as ESG Funds, as long as the funds are able to demonstrate that ESG factors are the "key investment focus", despite solely using a negative screening strategy.

We understand from our members that it may be challenging to prove that a fund using only ESG exclusions has ESG as its "key investment focus," so practically speaking, the Singapore and Hong Kong rules may have the same outcome in terms of which funds are considered ESG Funds.

## **Naming of ESG Funds**

A fund that references ESG or similar terms (e.g., "sustainable" and "green") in its name should reflect such focus in its investment portfolio in a substantial manner. In this regard, such fund should invest at least two-thirds of its net asset value in investments that are aligned with its ESG investment strategy. This is slightly lower than the 70% threshold the Hong Kong SFC requires.[\[5\]](#)

Where it is neither possible nor practicable for a manager to determine a fund's net asset value that is invested in accordance with ESG investing approaches, MAS expects the manager to explain in the offering documents how the fund's investments are substantially ESG-focused.

## **Deemed Compliance for Certain UCITS Funds**

The MAS will consider recognized funds' compliance with the relevant ESG rules in their home jurisdictions, if any, in assessing compliance with the disclosure requirements set out in the Circular. In particular, similar to the HKSF Circular,[\[6\]](#) UCITS funds that fall within the scope of ESG Funds (refer to Section 1 above) and are making disclosures under Article 8 or Article 9 of the EU's Sustainable Finance Disclosure Regulation (SFDR), will be deemed to have complied with the following disclosure requirements in the Circular.

## **Disclosures in Prospectuses**

An ESG Fund should disclose the following information in its prospectus:

- the fund's ESG focus;
- relevant ESG criteria or metrics used to measure the attainment of the ESG focus;
- a description of the investment strategy used to achieve the 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;
- any relevant ESG criteria, metrics, or principles considered in the investment selection process;
- minimum asset allocation into assets used to attain the ESG focus of the fund; and
- risks associated with the fund's ESG focus and investment strategy.

Where an ESG Fund uses a benchmark index to measure the attainment of its ESG focus, the fund should explain in the prospectus how the index is consistent with or relevant to the fund's investment focus.

## **Disclosures in Annual Reports**

Further to the disclosures in prospectuses, an ESG Fund should provide the following information in its annual report:

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

## **Additional Disclosures**

Where appropriate, an ESG Fund should disclose additional information to investors or prospective investors on the manager's website or by other appropriate means. The prospectus should state where investors could access the following additional information:

- how the ESG focus is measured and monitored, and the related internal or external control mechanisms put in place to monitor compliance of the fund's ESG focus on a continuous basis;
- sources and usage of ESG data or any assumptions made where data is lacking;
- due diligence carried out in respect of the ESG-related features of the fund's investments; and
- any stakeholder engagement policies (including proxy voting) that can help shape the corporate behavior of the investee companies and contribute to the attainment of the fund's ESG focus.

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## **endnotes**

[1] See CFC 02/2022 Disclosure and Reporting Guidelines for Retail ESG Funds, 28 July 2022, available at <https://www.mas.gov.sg/-/media/MAS/Regulations-and-Financial-Stability/Regulations-Guidance-and-Licensing/Securities-Futures-and-Fund-Management/Regulations-Guidance-and-Licensing/Circulars/CFC-02-2022-Disclosure-and-Reporting-Guidelines-for-Retail-ESG-Funds.pdf>.

[2] See Circular to Management Companies of SFC-authorized Unit Trusts and Mutual Funds - ESG Funds, available at <https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/products/product-authorization/doc?refNo=21EC27> ("HKSF Circular"). Also See ICI Memorandum [33665], dated 7 July 2021, available at <https://www.ici.org/memo33665>.

[3] The GFIT, convened by the MAS, consulted the second version of its proposed taxonomy for Singapore-based financial institutions in May 2022. Among others, it suggests practices on disclosure requirements for both non-financial companies and financial institutions, in order to help regulators and exchanges in thinking about relevant disclosures on taxonomy

alignment. See Identifying a Green Taxonomy and Relevant Standards for Singapore and ASEAN, 12 May 2022, available at <https://abs.org.sg/docs/library/second-gfit-taxonomy-consultation-paper>. Also See ICI Memorandum [34194], dated 24 June 2022, available at <https://www.ici.org/memo34194>.

[4] Authorized Funds are collective investment schemes constituted in Singapore, authorized by the Monetary Authority of Singapore under section 286 of the Securities and Futures Act. Recognized funds are collective investment schemes constituted outside Singapore, recognized by the MAS under section 287 of the Securities and Futures Act. See Securities and Futures Act 2001, available at <https://sso.agc.gov.sg/Act/SFA2001?Provlds=al-#top>.

[5] While not stated explicitly in the HKSF Circular, the Code on Unit Trusts and Mutual Funds requires a fund to invest at least 70% of its net asset value representing the particular objective, investment strategy or geographic region the fund represents. Nevertheless, the SFC acknowledges this 70% threshold may not be applicable to all ESG funds given a wide range of ESG investment strategies. SFC will take a principal approach when assessing whether a fund is primarily invested in investments reflecting its ESG focus. See Code on Unit Trusts and Mutual Funds, at Chapter 7, paragraph 7.42, available at <https://www.sfc.hk/-/media/EN/assets/components/codes/files-current/web/codes/section-ii-code-on-unit-trusts-and-mutual-funds/section-ii-code-on-unit-trusts-and-mutual-funds.pdf>.

[6] UCITS funds that incorporate ESG factors as the key investment focus, and meet disclosure requirements for SFDR Article 8 or Article 9 funds will be deemed to have generally complied with the disclosure requirements set out in the HKSF Circular. The SFC may request clarification on any unclear disclosure. See id.