

## PRESS RELEASE

### ***ASIFMA and FOSDA Complete Review of Data Challenges for ESG and Sustainable Finance in APAC***

**Hong Kong, 22 December 2020** – ASIFMA, the financial industry's leading regional trade association, together with the Future of Sustainable Data Alliance (FOSDA), today released the [final report](#) of their year-long review of sustainability data challenges facing the industry in Asia Pacific with the publication of their paper "ASIFMA-FOSDA Report on Data Challenges and Opportunities for ESG and Sustainable Finance in APAC." This follows discussions with industry representatives, standard setting bodies, market participants and industry experts, in addition to online events with regulators and sustainability specialists, and the publication of an interim report.

#### Industry Dialogue

The online discussions facilitated by ASIFMA and FOSDA were attended by 500 participants and stakeholders, and featured representatives of Asia Development Bank (ADB), the International Organisation of Securities Commissions (IOSCO), Japan's Financial Services Agency (JFSA), the International Institute of Green Finance, Hong Kong Exchanges and Clearing (HKEX), the Central University of Finance and Economics (Beijing), the Economist Intelligence Unit (EIU), accounting firms' consulting divisions active in this space as well as practitioners from leading buy and sell side firms and data providers themselves.

"This was an important coming-together over the last 12 months to discuss this important industry challenge and bring it to the fore, and we made significant headway in raising this issue at every opportunity to policymakers in the region who right now are so focused on enabling international finance centres like Singapore and Hong Kong to develop the capabilities to scale green and sustainable finance – though we think the findings and recommendations are just as relevant to the region's other markets, including emerging ones," said Matthew Chan, Head of Policy and Regulatory Affairs at ASIFMA. As part of his role, he heads ASIFMA's advocacy on sustainable finance, one of ASIFMA members' highest-ranking priorities.

#### Covid-19 and Increasing Focus on ESG Factors

"The Covid-19 pandemic highlighted the importance of ESG and sustainable finance, with inflows into high-ESG products up 40% in Q1 2020 globally as ESG continued to become mainstream. At the same time, we know climate risk is rising in Asia, with Bangladesh, China, Indonesia, Japan, India and Vietnam which are all exposed to rising sea levels, with implications for credit risk," continued Mr Chan. "Negative environmental and social impacts are important, also making monitoring of ESG factors increasingly critical to management of financial risk."

#### Financing Gap in Asia

ESG investing in East Asia trails other regions globally with just 5% of AUM invested in sustainable projects, compared to 30% in North America; however, this is changing as institutions such as Japan's Government Pension Investment Fund and MUFG Bank adopt wide-scale ESG criteria, and markets like China, Hong Kong and Singapore look to scale green and sustainable finance markets.

On climate finance alone, a recent Global Financial Markets/Boston Consulting Group [report](#) found that the largest regional climate finance investment needed is in Asia, estimated at USD \$66 Trillion over three

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decades, which is over half the investment required globally to limit temperature increases to 1.5° Celsius. This is driven by the scale and pace of growth of Asia's economies, growing population, increasing urbanisation, and rapid industrialisation.

### Data Challenges

Yet future growth of ESG investment in Asia is inextricably linked to data – its availability, accessibility, reliability and comparability. When asked to nominate the greatest data challenge in ESG and sustainable finance, 56% of respondents to an ASIFMA/FOSDA poll earlier in the year reported 'inconsistent data'. Significantly, there is no standardisation to measurement of E, S, and G factors. Additionally, individual ESG metrics vary not only between industries and markets, but also between firms in the same industry, with the quality of company disclosures differing widely.

"Firms and investors are also navigating a confusing landscape of disclosure frameworks, incentive structures, data collection methods, and assessment in various markets and jurisdictions by both the public and private sectors," added Mr. Chan.

"There is also no single binding global taxonomy, with classification systems for 'green' assets or products differing widely across jurisdictions and industries. The industry wants to see greater harmonisation with a consistent principles-based approach that allows tailoring to each region's specific conditions, including different levels of economic development, and which recognises transitional activities and investments."

In the same poll, a further 35% of respondents cited 'poor quality data' as the greatest data challenge in ESG and sustainable finance. There are many quality third party providers; however, reliance on a single data source can result in volatile indicators over time, and there are concerns regarding compatibility between vendors' methodologies, as well as transparency regarding some methodologies. In some cases, there are concerns about quality of the data provided itself.

### Technology and Capability-development

Technology offers part of the answer, but not all of it. A number of technologies and associated business models are evolving rapidly in this area, spanning AI, robotics, big data, blockchain, and the Internet of Things (IoT) amongst other solutions. But when asked what is needed most to scale ESG and sustainable finance enabling technologies, nearly half of respondents to the ASIFMA/FOSDA poll prioritised 'policy and regulation to support innovation', indicating that market forces alone will not solve these data challenges, even where new technologies are part of the solution.

"Another aspect of this is capacity building. With regard to sustainability, we're really dealing with a complex, multi-dimensional issue and as ASIFMA has highlighted for some time, on sustainable finance, policies and industry efforts are needed to build capabilities across financial and other sectors in relation to scientific, operational, risk, reporting, governance, commercial and technological dimensions of ESG and sustainability," concluded Mr Chan, who himself qualified as an environmental engineer prior to moving into Financial Services. "We raised this particular issue in one of our earlier reports, [Sustainable Finance in Asia Pacific: Regulatory State of Play](#), and it's just as relevant even when we think about data issues."

### Key Recommendations

Based on the review of these issues, ASIFMA puts forward 8 key recommendations, which the industry argues is critical to enabling the development and scaling of sustainable finance:

1. A greater convergence towards a principles-based global (or at least regional) taxonomy
2. Higher, more consistent corporate disclosure standards between jurisdictions and sectors
3. Encouragement of higher standards of analysis, with incentives for more holistic and robust approaches to ESG measurement and analysis
4. Policy and regulation to support innovation and technologies that enable ESG and sustainable finance capabilities
5. A focus on education and skills to support ESG and sustainable finance capability
6. Higher standards and accountability for ESG ratings providers, potentially including regulation, and clear and harmonised requirements for product disclosure
7. Harmonisation between ESG standards and frameworks such as UN SDGs, and policy on climate change and bank supervision at systemic level, including on climate risk
8. Ongoing partnership and dialogue between the public and private sectors, as well as between stakeholders such companies and investors on disclosure and reporting standards

The final FOSDA/ASIFMA report can be downloaded [here](#).

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**About ASIFMA**

[ASIFMA](#) is an independent, regional trade association with over 140 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, 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 United States and [AFME](#) in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

More information about ASIFMA can be found at: [www.asifma.org](http://www.asifma.org).