

11 February 2022

Markets Policy and Infrastructure Department
Monetary Authority of Singapore
10 Shenton Way, MAS Building
Singapore 079117

Responses to the consultation questions were submitted [online](#)

RE: Industry Consultation on Proposed Disclosure Requirements for Retail ESG Funds (the “Consultation Paper”)

Dear Sirs,

BlackRock, Inc. (BlackRock)¹ is pleased to have the opportunity to respond to the Consultation Paper, issued by the Monetary Authority of Singapore (MAS).

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We support the MAS' efforts to enhance disclosure requirements in respect of retail funds with ESG focus being offered in Singapore. We believe transparency is key to addressing greenwashing concerns and we encourage the MAS to provide guidance for funds to adopt a standard terminology framework in describing sustainable investing strategies, to complement the enhanced disclosure and reporting requirements proposed in the Consultation Paper.

We welcome the opportunity to comment on the issues raised by this response and will continue to contribute to the thinking of the MAS on any issues that may assist in the final outcome.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

Emily Woodland
Co-Head of Sustainable Investing - APAC

Winnie Pun
Head of Public Policy - APAC

¹ BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

Responses to questions

A. MAS seeks comments on proposals set out in the table under paragraph 2.1 of the consultation paper.

1) Proposal 1 on Scope of Coverage

We support the proposed scope of coverage on all retail funds which adopt ESG or sustainability-focused investment approaches and hold themselves out to be ESG or sustainability-related funds.

We agree that at this stage, when material gaps in data and consistent methodologies still exist for certain asset classes, markets and strategies, the MAS' approach of limiting the scope to only those funds that make sustainability claims or that are marketed as being sustainable (as opposed to attempting to impose additional sustainability disclosure requirements on all funds generally) is appropriate. Indeed, we strongly believe that a fund which makes sustainability claims should be able to substantiate those claims and hence fully support the MAS enhancing requirements in this area.

2) Proposal 2 on Fund Naming / Labelling

Whilst we agree that an ESG Fund that references ESG or similar terms in its name should reflect such ESG focus or characteristic in its investment portfolio in a substantial manner, we would strongly advise against prescribing a minimum threshold of assets, such as the 70% threshold in Proposal 2. Given the wide range of ESG-related investment objectives and approaches available, the practical reality is that it may not be possible or appropriate for every ESG Fund to categorise each of its holdings as being an "ESG security" or otherwise in order to meet this 70% bar.

We note that neither the EU's Sustainable Finance Disclosure Regulations nor HK SFC's ESG Funds Circular explicitly states a minimum threshold, and we would urge the MAS to reconsider as well. Instead of a numeric threshold which may not be compatible with the nature of many ESG Funds, we suggest relying on the principles-based guidance already provided under Chapter 4 of the CIS Code, that a scheme's name should be appropriate, not be undesirable and not be misleading, and in particular the name of a scheme is appropriate if it reflects the scheme's geographical focus, asset type and sector focus and is in line with the scheme's investment objective, approach, and investment universe. In our view, this is sufficient to signal the need for all funds, including ESG Funds, and their names to remain true to label.

Furthermore, we note that similar challenges around quantifying a portfolio's sustainable attributes in AUM terms are also present in the following proposals:

- Proposal 3(ii)(c): "minimum asset allocation into assets deemed to meet the ESG investment focus of the fund"
- Proposal 5(ii): "the fund's proportion of ESG-related investments"

We suggest these requirements be modified to provide flexibility to cater to a wider range of sustainable investing strategies and ESG objectives.

3) **Proposal 3 on Prospectus Disclosures**

We generally agree with the requirements in this proposal (but please see our suggestion under Proposal 2 above, to provide flexibility when quantifying ESG-related investments).

Terminology framework for sustainable investing strategies

For disclosure on investment strategy (Proposal 3(ii)), we fully support the MAS providing guidance for funds to adopt a standard terminology framework in describing sustainable investing strategies, such as what the MAS suggests as examples in Proposal 3 (i.e. ESG exclusionary investing, ESG inclusionary investing, ESG thematic and impact investing). In our view, a common ground terminology framework is essential to give investors a consistent and comparable understanding of the types of sustainable investing solutions available to them.

Such a terminology framework is fundamentally different from, but can complement and enhance, a fund labelling or product classification framework. A baseline set of terms to describe sustainable investing strategies typically employed by ESG Funds would form the basis of a common understanding amongst all stakeholders (including policymakers, product providers, investors, financial media) and enhance transparency so that investors can make better informed product choices.

That said, it is important that the terms are not overly prescriptive or too granular, in order not to hamper product innovation, but should be high level enough that they will flexibly accommodate sub-categories as necessary. Investors are not monolithic in their motivations for seeking products with ESG characteristics and we support a framework which encourages a full suite of sustainable product options to be made available to meet client needs.

We note that a number of initiatives have already been underway for some time for industry coalescence around such a framework. For example, the terminology put forward by the Investment Company Institute (ICI) in their whitepaper "[Funds' Use of ESG Integration and Sustainable Investing Strategies: An Introduction](#)", released in July 2020, as well as that put forward by the Institute of International Finance (IIF) in their whitepaper "[The Case for Simplifying Sustainable Investment Terminology](#)", released in November 2019, provide a picture of industry efforts to promote greater use of clear, comparable and consistent terminology criteria.

BlackRock recommends the following three high-level categories of sustainable investing strategies:

- ESG Exclusionary Investing, also called "screened" whereby products may exclude companies and/or sectors that do not meet given sustainability criteria or align with products' specific sustainability objectives.
- ESG Inclusionary Investing, also called "ESG broad" or "ESG thematic" whereby products seek positive sustainability outcomes in addition to financial returns by aligning investment theses with ESG factors, either systematically or fundamentally.

Note that some product providers may incorporate sub-categories (e.g., optimized, etc.) within this middle bucket to facilitate a more accurate picture of the way different products align their investments with ESG factors and to what extent. As mentioned above, we suggest the MAS provide flexibility for sub-categories as considered appropriate by the provider.

- Impact Investing², whereby products aim to create positive and quantifiable environmental and/or social impact in addition to financial returns; impact investing must be intentional, material, additional, and measurable³.

It should be noted, however, that products may fall into more than one of the above three categories based on the ways that sustainability-related factors, goals, and objectives are integrated into products' respective investment objectives and strategies.

We strongly believe that consistent language when it comes to sustainable investing strategies as outlined above, when coupled with clear and robust disclosures in accordance with the MAS' proposals as set out in the Consultation Paper, meaningfully enhances transparency in a way which empowers investors in their asset allocation decision-making across a wide range of personal, financial and sustainability-related motivations.

Such transparency is also, in our view, key to addressing greenwashing concerns. As a product provider it is certainly in our interest to help minimise greenwashing, as greenwashing claims undermine the industry's credibility. Greater transparency supports investor familiarity and trust, which may in turn facilitate greater investor participation in sustainable investing.

4) **Proposal 4 on Additional Disclosures**

We suggest that this requirement be clarified to state that "other means" of disclosure can include disclosure in the offering documents, fund fact sheets, or via links to an external provider's website (such as that of an index provider).

5) **Proposal 5 on Periodic Reporting**

Proposal 5 mentions disclosure in both semi-annual and annual reports. We note, however, that the SFDR requires ongoing reporting only in annual reports. Given how extensively UCITS are distributed in Singapore, we suggest that the MAS harmonises disclosure and reporting obligations as far as possible. We note that the corresponding requirement in HK SFC's ESG Funds Circular mirrors SFDR one.

As for the contents of ongoing reporting, as currently drafted Proposals 5(i), 5(ii) and 5(iii) appear to be strict obligations. Given the broad range of sustainability themes, strategies and metrics relevant to ESG Funds, we suggest the MAS provides a degree of flexibility by inserting the phrase "as appropriate" – this will leave room for fund managers to determine in their professional judgement the reporting that is most relevant for the fund in question. We note that a similar approach was taken by the SFC in its ESG Funds Circular (please refer to paragraph 19(a) of that circular). For example, as discussed under Proposal 2, the extent of a portfolio's ESG-related investments may be challenging to quantify in AUM terms. Further, while we agree that a fund which expressly uses shareholder voting and engagement to achieve its ESG objectives should have specific disclosures as such, we also recognise that many products rely on a centralized team that conducts voting and engagement for all portfolios; hence fund managers should be given the flexibility to rely on disclosures made at the asset manager level, rather than reporting at the fund level.

² Increasing rigor and consistency in defining products as impact has been enhanced by the development of global third party standards and metrics including the IFC's Operating Principles for Impact Management, the GIIN IRIS+ metrics and the Impact Management Project's five dimensions of impact

³ For the purposes of this definition, these words are defined as follows. Intentional: investing with the purpose of having impact; Material: core products and services must advance impact goals, such as the Sustainable Development Goals (SDGs); Additional: strategy must provide outcomes that are unlikely to have occurred otherwise; Measurable: impact is quantifiable.

B. MAS seeks comments on the proposed approach to assess compliance of recognised funds.

- 6) **Proposal to consider recognised funds’ compliance with the relevant ESG rules in their home jurisdictions, if any, in assessing their compliance with MAS’ requirements on ESG Funds. In particular for UCITS funds, compliance with the disclosure and reporting requirements under Article 8 or 9 of EU’s Sustainable Finance Disclosure Regulation will be taken into consideration.**

In order to avoid regulatory fragmentation and a situation where the same fund is considered an ESG fund in one jurisdiction but not another, we strongly suggest the MAS consider a “deemed compliance” approach for UCITS that self-certify themselves as being subject to and in compliance with the requirements under Article 8 or Article 9 of the SFDR – i.e. that such funds are deemed to have complied in substance with the disclosure and reporting requirements under the MAS requirements.

In addition, we note that the SFDR Level 2 compliance timeline has now been pushed out to 1 January 2023. Our experience from Hong Kong has been that the delay in SFDR implementation had initially caused considerable difficulty and uncertainty for UCITS marketed in Hong Kong which are required to also satisfy the SFC’s ESG Funds Circular (which ended up coming into effect 12 months earlier than the SFDR). But working with the industry the SFC has since provided pragmatic guidance and flexibility to deal with these hurdles. In light of this, we urge that the MAS provides a transition period for the ESG Fund rules to take effect no earlier than 1 January 2023 (with flexibility to delay or amend if necessary) in order to synchronise, as far as possible, implementation timelines.

C. MAS seeks comments on whether it would be feasible to adopt the GFIT’s proposed taxonomy, when it is completed, as part of the set of requirements for retail ESG Funds.

- 7) **Feasibility in adopting the GFIT’s proposed taxonomy, when it is completed, as part of the set of requirements for retail ESG Funds.**

BlackRock is supportive of efforts undertaken in various jurisdictions to build relevant and inter-operable sustainable taxonomy frameworks. As green taxonomies, including the GFIT taxonomy, develop, we see them having potential to become valuable tools in helping better define the transition to a low-carbon, climate-resilient economy for many sectors, and should help aid corporate and investment decision-making to that end.

At the current stage, however, we consider it premature to assess feasibility to adopt GFIT’s proposed taxonomy as part of the set of requirements for retail ESG Funds. A number of significant hurdles would need to be resolved – first of which would be the need for stakeholders to see a further draft of the GFIT taxonomy after it has taken into account feedback from the first consultation exercise. Plus it is unclear how the proposed “traffic light system” will work when funds are required to aggregate activities to companies and companies to portfolios.

More importantly there is the issue of sequencing. As it stands today, we are still faced with lack of availability, reliability, comparability and consistency of corporate ESG data, especially if we look beyond large cap listed equities to smaller cap and other asset classes and emerging markets. Even as standards are being developed to address these gaps (such as the standard being developed by the IFRS International Sustainability Standard Board), there is no guarantee that the data which will eventually become available will be fit for purpose when funds are required to assess taxonomy-alignment of each portfolio investment.

Finally, the proliferation of taxonomies internationally subjects cross-border funds and fund managers to “taxonomy fragmentation”, where an economic activity carried out by a portfolio company may be green in one jurisdiction may not be green in another jurisdiction. Inter-

operability of taxonomies will need to be addressed before rules are created based on taxonomies.

D. Any other comments.

8) **Additional comments (if any):** Not applicable

Conclusion

We appreciate the opportunity to address and comment on the issues raised by the Consultation Paper and will continue to work with the MAS on any specific issues which may assist in the discussion of the disclosure requirements for retail ESG Funds.