

Greenwashing: Singapore's next frontier of investor protection

Selective disclosure or decoupling of ESG products is becoming an issue of concern and various organisations are working on disclosure standards to combat it. **BY LAWRENCE LOH AND YVONNE YOCK**

THE just-concluded COP26 did not offer much in terms of progress on the sustainable finance landscape. This landscape warrants our attention due to recent greenwashing brouhaha such as the DWS Group scandal. Owned by Deutsche Bank, DWS Group is facing investigation by the US Securities and Exchange Commission and federal prosecutors, as well as regulators in Germany. Its former sustainability chief claimed that the firm had difficulty implementing its environmental, social, and governance (ESG) blueprint and on occasion portrayed a rosier picture to investors.

The greenwashing of ESG investment products is progressively becoming an issue of concern and various organisations are working on disclosure standards to combat it.

Hot on the heels of COP26, the IRFS Foundation Trustees announced 3 new initiatives.

Firstly, it will create an International Sustainability Standards Board (ISSB), the aim of which is to establish excellent sustainability disclosure standards to cater to investors' information needs. Secondly, it will unify sustainability disclosure standards of the Climate Disclosure Standards Board and the Value Reporting Foundation (which comprises the Integrated Reporting Framework and the SASB Standards). Thirdly, it will publish mock-up climate and general disclosure guidelines put forth by the Technical Readiness Working Group, a group formed by the IRFS Foundation Trustees to tackle preliminary work for the ISSB.

Similarly, the CFA Institute has come up with a global ESG disclosure standard for investment products to safeguard investors against greenwashing. The aim of the ESG disclosure standard for investment products centres on the ESG approaches used in an investment product.

At the regulatory level, the Board of the International Organization of Securities Commissions (IOSCO) released a set of recommendations regarding the regulation of ESG-related products. It also made recommendations for financial and investor education in the realm of sustainability.

To put greenwashing in perspective, it refers to the action of leading consumers into believing that a business's environmental practices are environmentally positive or that the product or service sold by a business offers positive environmental benefits.

NEW DISCLOSURE STANDARDS

Greenwashing involves either selective disclosure or decoupling. Selective disclosure is embellishing information related to positive environmental performance and concealing information about negative environmental performance. Decoupling entails putting a positive spin on the communication of the firm's corporate social actions despite having a negative corporate social actions performance.

Greenwashing in the context of ESG products includes misleading marketing materials that oversell the sustainability aspect, contrary ap-



Given the prevalence of greenwashing in the finance sector, the various initiatives by Singapore regulators are a key step forward. However, as Singapore investors increasingly demand more ESG investment products, there is also a fear that the needs of investors will not be met, and their interests not protected. PHOTO: PIXABAY

proaches to the screening of companies for portfolio inclusion, and portfolios with companies that have low ESG scores.

Companies might also contribute to greenwashing through their corporate sustainability report when they selectively disclose only favourable content or fail to get their disclosures verified. Our Centre for Governance and Sustainability at NUS found in our *Corporate Sustainability Reporting in ASEAN Countries* report published in 2020 that only 15 per cent of listed companies in Asean countries seek external assurance for their sustainability report.

We followed up with a report focusing on a sample of 566 companies listed on the SGX with *Sustainability Reporting Review 2021*. We found that all companies reported favourable aspects of ESG achievements, but only 66 per cent mentioned unfavourable aspects even if these are critical. While 18.4 per cent of sampled companies are getting internal assurance for their sustainability report, only 2.8 per cent sought external assurance.

The Monetary Authority of Singapore (MAS) recognises the importance of sustainable investing and financing in combating climate change. A blueprint for sustainable investing and financing has been developed. This includes first, the creation of a Green Finance Industry Taskforce (GFIT) taxonomy for Singapore-based financial institutions; second, the launch of Project Greenprint which aims to incorporate data and technology to marshal financing for ESG projects; and third, compulsory climate-related financial disclosures for companies listed in Singapore.

The GFIT taxonomy aims to safeguard against greenwashing by categorising economic activities according to whether they are green or otherwise. The categorisation of economic activities, according to the GFIT taxonomy, will ensure that financial institutions are on the same page when it comes to understanding what constitutes a "green" product in their

ning of this year, there is a disparity between Singapore investors' belief in the importance of consideration of sustainability, environmental and ethical issues in their investment decision, and their actions. Those surveyed pointed to the dearth of sustainable investment products that cater to their needs and the immense cost of ESG products as barriers.

Given the prevalence of greenwashing in the finance sector, the various initiatives by Singapore regulators are a key step forward. However, as Singapore investors increasingly demand more ESG investment products, there is also a fear that the needs of investors will not be met, and their interests not protected.

The Financial Conduct Authority (FCA) in the United Kingdom is cognisant of this and has, just this month, launched a public consultation on the feedback regarding sustainable investment products disclosure requirements.

The purpose of this consultation is to foster confidence in the market, boost clarity for retail investors, and fulfil the information requirements of institutional investors. The FCA hopes to obtain feedback from the public consultation that will enable retail investors to make informed choices about sustainable investment products.

The FCA public consultation will include a discussion on the classification and labelling of sustainable finance products and the disclosure standards for retail and institutional investors. In terms of disclosure standards, the FCA intends to leverage what has been done by organisations such as the CFA Institute, British Standards Institution and IOSCO.

Singapore can do well to be aligned with what the FCA is doing with the public consultation. Indeed, this will foster trust in sustainable finance products among local investors, as well as identify areas for improvement in the current sustainable finance landscape.

A NEED TO FOSTER TRUST

There is indeed a growing interest in ESG investing among investors in Singapore. According to a survey by HSBC Asset Management at the begin-

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