

INVESTOR OBLIGATIONS AND DUTIES IN ASIAN MARKETS

6



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Opinions expressed in this report do not necessarily reflect the views of contributors and their institutions.

CONTENTS

Forewords	03
Executive Summary	07
Options for Action	08
Introduction	10
Market Analysis	14
• China	14
• Hong Kong SAR, China	21
• India	26
• Malaysia	34
• Singapore	39
• South Korea	43
Appendices	48
• PRI Signatories, UNEP FI Members and SSE Partner Exchanges in the Six Markets	48
• Key Investor Actors in the Six Markets	50
• Interviewees, Reviewers and Panellists	53

THE PROJECT

In January 2016, the Principles for Responsible Investment (PRI), the United Nations Environment Programme Finance Initiative (UNEP FI) and The Generation Foundation launched a three-year project to clarify investors' obligations and duties in relation to the incorporation of environmental, social and governance (ESG) issues in investment practice and decision-making. This follows the publication in September 2015 of Fiduciary Duty in the 21st Century by the PRI, UNEP FI, the UNEP Inquiry and the UN Global Compact.

The project has three components:

- Working with investors, governments and intergovernmental organisations to develop and publish an international statement on investors' obligations and duties.
- Publishing and implementing roadmaps on the policy changes required to achieve full ESG integration in investment practices across eight countries (Australia, Brazil, Canada, Germany, Japan, South Africa, UK and US).
- Extending research into fiduciary duties to six Asian markets: China, Hong Kong, India, Malaysia, Singapore and South Korea.

RESEARCH APPROACH

This report is based on an analysis of investment practice and investor obligations and duties in six Asian markets: China, Hong Kong, India, Malaysia, Singapore and South Korea.

The findings presented here are based on:

- interviews with over 50 asset owners, investment managers, lawyers and regulators across the six markets;
- a comprehensive review of law and policy on investor obligations and duties – including fiduciary duty – in each of these six markets;
- convening and participating in roundtables in Hong Kong, Shanghai and Mumbai;
- a global peer review in July 2016 where the draft report was reviewed by global experts on Asian investment markets and responsible investment.

DEFINITIONS

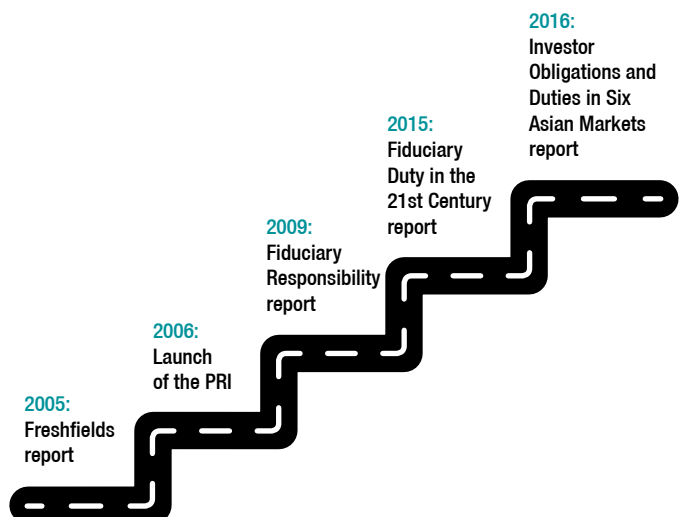
ESG integration is defined as the systematic and explicit inclusion by investment managers of environmental, social and governance factors into traditional financial analysis.

Active ownership is the use of the rights and position of ownership to influence the activity or behaviour of investees. This can be applied differently in each asset class. For listed equities it includes both engagement and (proxy) voting (including filing shareholder resolutions). For other asset classes (e.g. fixed income), engagement may still be relevant while (proxy) voting may not.

Engagement refers to interactions between the investor and current or potential investees (which may be companies, governments, municipalities, etc.) on ESG issues. Engagements are undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosure.

Responsible investment is an approach to investing that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

Note: The report refers to Hong Kong SAR, China as Hong Kong through the course of this document to support readability.



FOREWORDS



Junki Kim, Chief of the National Assembly Budget Office, Republic of Korea

JUNKI KIM

There has been significant development in responsible investment over the past decade, in particular in terms of the number of investors who integrate non-financial indicators, such as environmental, social and governance (ESG) factors, into their investment decision-making processes. Since the United Nations-supported Principles for Responsible Investment (PRI) was established in 2006, the number of signatories has reached over 1500, highlighting the commitment of an increasing number of organizations to sustainable business. Moreover, the global scale of responsible investment has grown to USD 21 trillion in 2014, constituting 30.2 percent of global assets under management¹.

While many countries are actively adopting responsible investment practices, South Korea has not yet implemented these to the fullest extent. Even after the introduction of Principles for Responsible Investment, only 1.36 percent of the total assets under management of public pension funds have been committed to responsible investment as of 2015. The process for responsible investment still remains unsystematic, and ESG factors are not well known to pension fund managers.

South Korea has created four public pension funds since the 1960s. The challenges pertaining to the funds' sustainability have emerged as a key issue. For example, the Military Personnel Pension fund and the Government Employees' Pension fund were exhausted in 1973 and 2001, respectively. The National Pension fund is expected to be depleted by 2053 and the Private School Teachers' Pension fund by 2028, according to the assessment undertaken by the National Assembly Budget Office. At this juncture, responsible investment is particularly important because of its potential to improve the sustainability of public pension funds, in particular given that they often hold assets over the medium and long-term. Responsible investment will help public pension funds enhance the long-term sustainability of investee firms. This will help these funds to improve their long-term financial returns and deliver on their wider public obligations.

Against this backdrop, the report discusses the current state of responsible investment in six Asian economies, notably South Korea, China, Hong Kong, India, Malaysia and Singapore. It highlights the challenges to ensuring the effective implementation of responsible investment, and provides policy and regulatory options to promote responsible investment. It also explains how responsible investment can be an effective tool for increasing long-term returns. We sincerely hope that this can provide guidance to those who are committed to manage the public pension system in a sustainable way and are ready to facilitate responsible investment in their countries.

1. Global Sustainable Investment Alliance, 2014 Global Sustainable Investment Review, 2014, http://www.gsi-alliance.org/wp-content/uploads/2015/02/GSIA_Review_download.pdf



*Dr. Ma Jun, Chief Economist,
People's Bank of China*

DR. MA JUN

Green finance is a strategic goal of China's 13th Five Year Plan - and private capital will need to account for over 85% of required green investments. Harnessing the expertise and resources of the domestic and international investors is therefore key. Already the green bond market is growing strongly, alongside the development of a range of green equity market indices and action to integrate environmental factors by China's credit rating agencies. In addition, under China's Presidency of the G20, finance ministries and central banks have examined ways to make the financial system more effective in mobilising green investment, highlighting the key role that can be played by institutional investors both in terms of capital allocation and risk management.

I see this report as an important building block for our ongoing engagement with the international investment community. It highlights useful options both for market practitioners and policy makers to take. There is much that we can learn from each other in order to build the necessary capacity and expertise along the investment chain – and thereby change practice so that ESG factors become a part of routine investment management.





Chitra Ramkrishna, Managing Director & CEO, National Stock Exchange of India

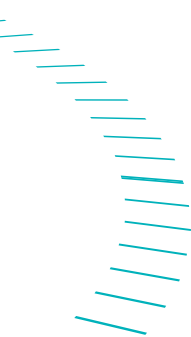
CHITRA RAMKRISHNA

This report provides financial actors from growth countries with the opportunity to describe how they believe the financial system should contribute to sustainable development. Two themes are clear. The first is that investors' focus on financial returns should not be at the cost of irreparable damage to the environment or to our economies. The second is that the transition to a low-carbon and sustainable economy is in the long-term interest of all stakeholders.

The report also makes it clear to Indian issuers that their ability to raise funds from international investors will require them to adopt environment social and corporate governance (ESG) best practices in their day-to-day operations. It will also require them to move beyond compliance to wholeheartedly integrating these issues in their core business strategies and ambitions.

Stock exchanges play a crucial role in this process. Building on a number of progressive legislative and policy developments in India and in collaboration with the United Nations Sustainable Stock Exchanges (SSE) initiative, the National Stock Exchange of India (NSE) is actively promoting the adoption of sustainability policies and practices by listed companies. These efforts are critical to ensure that we bring together responsible issuers and long-term investors to participate in the Indian growth story.

It is my view that investors must take account of sustainability factors in investment practice as an integral part of their fiduciary duties and towards their wider obligations to society in order to ensure the long-term stability of our financial system.





Eric Raynaud, Chief Executive Officer, Asia, Pacific, Member of Group Executive Committee, BNP Paribas

ERIC RAYNAUD

The past decade has seen a welcome change in the investment landscape across the globe. From financial institutions to companies and individual investors, investment decisions are made with a greater awareness of a broader societal context.

In today's financial world, investment professionals, regulators and policy makers are increasingly assessed by their commitment and actions to drive economic development and act in the best long-term interests of all their stakeholders. Our ability to conduct business in a responsible manner that incorporates environmental, social and governance (ESG) issues is a prerequisite for good business. The future success of any business will not be measured only in terms of quantitative results, but also by its contribution to sustainable and responsible economic development, and by the trust that our customers, shareholders and society have in our institutions.

In this regard, BNP Paribas stands fully behind the United Nations Environment Programme Finance Initiative, the Principles for Responsible Investment and The Generation Foundation and their efforts in tabling sustainability finance and investment on the global agenda. We are delighted to support the creation of this important publication about fiduciary duty and ESG integration in Asia.

Building on 2015's Fiduciary Duty in the 21st Century report and methodology, *Investor Obligations and Duties in Six Asian Markets* contains critical insights and recommendations on how the region's financial services industry can integrate ESG issues into investment and regulatory processes in six major Asian markets, namely China, Hong Kong, India, Malaysia, Singapore and South Korea, in a consistent approach, whilst respecting local cultural context.

BNP Paribas is committed to redefining the role it plays in society to drive sustainability into its business practices. Last year, world leaders reached the Paris Agreement at COP 21 on climate change, and launched the Sustainable Development Goals. This report will greatly assist clear policy development in the region's financial services industry that will help our industry find the right direction for a positive future.

EXECUTIVE SUMMARY

In China, Hong Kong, India, Malaysia, Singapore and South Korea there are compelling national interest reasons for policy makers to promote the incorporation of environmental, social and governance factors into investment practice. Issues include addressing air quality, improving citizens' long-term health, reducing inequality, providing for an ageing population and attracting the international capital necessary to meet economic growth targets.

Investing prudently requires ESG factors to be considered in investment decision-making and to be part of the dialogue between investors and companies. This is consistent with the legal framework in all the markets studied in this report.

However, despite growing awareness of responsible investment, many investors have yet to fully integrate ESG factors into their investment decision-making processes. Public policy and regulation are a key influence. Currently, these markets have few formal requirements to integrate ESG factors, but investor obligations and duties are dynamic concepts that continuously evolve as society changes.

By working together, policy makers and investors can shape investment frameworks to clarify the obligations and duties investors owe to beneficiaries – obligations to embed ESG factors into investment decision-making, ownership practices, and ultimately, the way in which companies are managed.

This report aims to bridge the needs of policy makers and investors in order to support the integration of ESG factors in investment markets. Policy makers, investors and stakeholders interviewed for this report identified the following barriers to ESG integration: diverging views on how to define ESG issues; a perception that integrating ESG factors will compromise investment performance; difficulty in engaging companies on ESG factors given the structure of the corporate sector, e.g. many large companies being family-run; few regulatory mechanisms requiring investors to integrate ESG factors or report on sustainability issues; and low-quality ESG disclosure by companies.

Based on a review in each country of investment practice, current regulation and over 50 interviews with policy makers, investors and stakeholders, this report makes recommendations for investors and policy makers.

To deliver prudent returns over the long-term, investors should:

- build their knowledge of the investment case for integrating ESG factors to drive long-term value creation, including developing an evidence base to demonstrate how ESG factors affect the financial performance of companies;
- encourage ESG disclosure and high standards of ESG performance in the companies or other entities in which they are invested;
- select, appoint and monitor investment managers and service providers (such as brokers, investment consultants and data providers) based on the quality of ESG integration in business models;
- publicly commit to responsible investment in order to provide policy makers with the confidence to act.

To build investment markets that contribute to long-term development, policy makers could consider:

- clarifying that ESG factors are an explicit part of investor obligations and duties;
- introducing stewardship codes and corporate governance codes, and monitoring outcomes, with requirements for investors to actively engage with the companies in which they are invested, including on ESG factors, and to report on this engagement;
- requiring investors to disclose the processes they have in place to integrate ESG factors and monitor how such process affect the financial and sustainability performance of companies;
- strengthening requirements by companies to disclose consistent, comparable and reliable reporting of ESG factors as part of annual reporting;
- leading by example through the actions of sovereign wealth, provincial wealth, state and national funds to develop national champions for ESG integration.

The integration of ESG factors in these markets is at an early stage. The global importance of Asia's markets means the pace of change matters to investors the world over.

OPTIONS FOR ACTION

CHINA

INCREASE PENSION FUNDS' ESG FOCUS

The government could have all state pension funds (Pillars Ia and Ib), the National Social Security Fund (including its licensed fund managers and custodians), enterprise annuity plans and mutual funds take account of ESG issues, encourage high standards in investee companies and report on how they are doing so.

EXPAND GREEN FINANCE

The government, through organisations such as the People's Bank of China, is developing comprehensive policies to support the greening of China's financial system. The demand from financial institutions for green investment is growing and can be further strengthened.

SUPPORT RESEARCH

The Ministry of Human Resources and Social Security, the People's Bank of China, the stock exchanges and the investment industry could work together to support high-quality academic research into ESG issues.

INTRODUCE A STEWARDSHIP CODE AND MONITOR STEWARDSHIP OUTCOMES

The Ministry of Human Resources and Social Security could work with the investment industry to develop a code setting out institutional investors' stewardship responsibilities.

CONTINUE TO ENHANCE CORPORATE PRACTICE

Significant steps have been taken by central and provincial governments to reduce pollution and improve energy efficiency in Chinese firms. This should be continued and extended across all sectors and sustainability issues. This will focus investors' attention on company performance and increase the pressure on companies to adopt environmental management systems and controls to manage their environmental and sustainability impacts effectively.

ENHANCE CORPORATE DISCLOSURE

The Shanghai and Shenzhen stock exchanges, together with the China Securities Regulatory Commission (CSRC), could analyse and report on the disclosures being provided by listed companies.

HONG KONG SAR, CHINA

EXPLORE NATIONAL REGULATORY CLARIFICATION

The Hong Kong government could investigate clarifying the Securities and Futures Ordinance and the Mandatory Provident Fund Schemes Ordinance to ensure collective investment schemes and MPF schemes take account of ESG issues, encourage high standards in investee companies and report on how they are doing so.

EXPAND GREEN FINANCE

The government could develop comprehensive policies to support green finance, including implementing the recommendations made in the Financial Services Development Council's Green Finance Working Group report.

ENSURE THE EFFECTIVE IMPLEMENTATION OF THE PRINCIPLES OF RESPONSIBLE OWNERSHIP

The Securities and Futures Commission could work with the investment industry to ensure the effective implementation of the Principles of Responsible Ownership.

ENHANCE CORPORATE DISCLOSURE

The Hong Kong Stock Exchange and the Securities and Futures Commission could analyse and report on the disclosures being provided by listed companies and could work together to improve the quality of these disclosures.

SUPPORT RESEARCH

The Securities and Futures Commission, the Mandatory Provident Fund Schemes Authority, the Hong Kong Stock Exchange and the investment industry could work together to support high-quality academic research into ESG issues.

INDIA

EXPLORE NATIONAL REGULATORY CLARIFICATION

The Indian government could investigate clarifying the Pension Fund Regulatory and Development Authority Act 2013 to encourage investors to take account of ESG issues, promote high standards in investee companies and report on how they are doing so.

BOOST DOMESTIC DEMAND

The National Pension System Trust could require all pension fund managers charged with managing National Pension System funds to take account of ESG issues, encourage high standards in investee companies and report on how they are doing so.

INTRODUCE A STEWARDSHIP CODE AND MONITOR STEWARDSHIP OUTCOMES

The Securities and Exchange Board of India (SEBI) and the Pension Fund Regulatory and Development Authority (PFRDA) could jointly develop a code setting out institutional investors' stewardship responsibilities.

ENHANCE CORPORATE DISCLOSURE

SEBI could improve its oversight of the disclosures being provided by the top-500 listed companies against the nine pillars of India's National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business. Stock exchanges should engage investors and listed companies to enhance the quality of corporate disclosure and expand the reporting scope beyond regulatory requirements.

SUPPORT RESEARCH

Policy makers, national academic institutions and the investment industry could work together to support high-quality academic research into ESG issues.

MALAYSIA

EXPLORE NATIONAL REGULATORY CLARIFICATION

The Malaysian government could investigate clarifying each of the Employees Provident Fund Act 1991, the Retirement fund Act 2007, the Financial Services Act 2013, the Islamic Financial Service Act 2013 and the Capital Markets and Services Act 2007 to have all pension funds and investment managers take account of ESG issues, encourage high standards in investee companies and report on how they are doing so.

ENSURE THE EFFECTIVE IMPLEMENTATION OF THE MALAYSIAN CODE FOR INSTITUTIONAL INVESTORS

The **Securities Commission of Malaysia** could work with the investment industry to ensure the effective implementation of the Malaysian Code for Institutional Investors.

ENHANCE CORPORATE DISCLOSURE

Bursa Malaysia and the Securities Commission of Malaysia could analyse and report on the disclosures being provided by listed companies and could work together to improve the quality of these disclosures.

SUPPORT RESEARCH

The Securities Commission of Malaysia, Bursa Malaysia and the investment industry could work together to support high-quality academic research into ESG issues.

SINGAPORE

INCREASE SOVEREIGN FUNDS' ESG FOCUS

Lead by example through the actions of Temasek and GIC on ESG integration.

EXPLORE NATIONAL REGULATORY CLARIFICATION

The government could investigate amending the Securities and Futures Regulations (Licensing and Conduct of Business) to require all investment managers and relevant intermediaries to take account of ESG issues, encourage high standards in investee companies and report on how they are doing so.

INTRODUCE A STEWARDSHIP CODE AND MONITOR STEWARDSHIP OUTCOMES

The Monetary Authority of Singapore could continue to work with the investment industry to introduce a code setting out institutional investors' stewardship responsibilities and to monitor stewardship outcomes.

ENHANCE CORPORATE DISCLOSURE

The Singapore Stock Exchange (SGX) should continue its plans to have all listed companies produce sustainability reports.

SUPPORT RESEARCH

The government and the investment industry could work together to support high-quality academic research into ESG issues.

SOUTH KOREA

EXPLORE NATIONAL REGULATORY CLARIFICATION

The government could investigate amending the National Finance Law, the enabling legislation for each of the state pension funds, and the Financial Investment Services and Capital Markets Act (FISCMA) to have public and private pension funds and investment managers take account of ESG issues.

DEVELOP A STEWARDSHIP CODE

The Financial Services Commission could work with the investment industry to develop a code setting out institutional investors' stewardship responsibilities.

ENHANCE CORPORATE DISCLOSURE

The Financial Services Commission and the Korea Exchange could work together to extend the Green Posting System requirements to cover the range of ESG issues that are of relevance to companies.

SUPPORT RESEARCH

The government and the investment industry (through industry bodies such as the Korea Sustainability Investing Forum) could work together to support high-quality academic research into ESG issues.

INVESTORS

In addition to the actions proposed to policy makers, investors across the six markets should: build their knowledge of the investment case for integrating ESG factors; encourage ESG disclosure and high standards of ESG performance in the companies or other entities in which they are invested; select, appoint and monitor investment managers and service providers (such as brokers, investment consultants and data providers) based on the quality of ESG integration in business models and should publicly commit to responsible investment in order to provide policy makers with the confidence to act.

INTRODUCTION

This report on six Asian markets presents analysis of the extent to which environmental, social and governance (ESG) factors are integrated in investment decision-making as part of the obligations and duties investors owe to their end beneficiaries.

Based on analysis in each country – of investment practice, current regulation and interviews with policy makers, investors and stakeholders – and the institutional knowledge of the PRI, UNEP FI and The Generation Foundation, we present options to advance ESG integration.

The report aims to bridge the needs of policy makers and investors in order to support the integration of ESG factors in investment markets. We do not recommend a single way to implement investor obligations and duties given the very unique national priorities and investment markets. Rather, we look to begin partnerships with policy makers, investors and stakeholders to support the transition to a greener economy and a more sustainable society.

Our key message is that while there are currently few formal requirements to incorporate ESG factors in investment practice, this is changing. Governments are increasingly focusing on how financial markets can support public policy goals, such as addressing air quality, improving the long-term health of citizens, reducing inequality, providing for an ageing population – and attracting the international capital that is necessary to meet the economic growth targets in many of Asia's markets.

In 2015 the United Nations launched the Sustainable Development Goals²: a framework agreed by governments for all private and public actors, including investors, to embed sustainability at the heart of their activities, and providing all stakeholders with a common strategy for sustainable development and growth over the next decade.

This report's focus is the retirement system, including the role of public funds where they provide supplementary resources to cover social security needs. The report reflects on policy changes and on the response of domestic and international investors. Its focus is the obligations and duties investors owe to their end beneficiaries.

Investor obligations and duties

This report builds on the 2015 landscape study, Fiduciary Duty in the 21st Century. Fiduciary duty is generally recognised as a common law concept in markets where investment decisions are made by trustees on behalf of beneficiaries.

Fiduciary duties exist where a person or an organisation exercises some discretionary power in the interests of another person, in circumstances that give rise to a relationship of trust and confidence. They are of particular importance in asymmetrical relationships, situations where there are imbalances in expertise and where the beneficiary has limited ability to monitor or oversee the actions of the entity acting in their interests.

GLOBAL STATEMENT ON INVESTOR OBLIGATIONS AND DUTIES

In 2016, the PRI, UNEP FI and The Generation Foundation launched a Global Statement on Investor Obligations and Duties. The Statement argued that investors have three core duties:

- to act with due care, skill and diligence, in line with professional norms and standards of behaviour;
- to act in good faith in the interests of their beneficiaries and clients, including avoiding conflicts of interest, or where such conflicts are unavoidable, to balance and disclose such conflicts;
- to take account of ESG factors in their investment processes and decision-making, to encourage high standards of environmental, social and governance performance in the companies or other entities in which they are invested, and to support the stability and resilience of the financial system.

Fiduciary duty is a legally recognised term in Hong Kong, India and Malaysia. While the term is familiar to legal scholars in China, South Korea and Singapore, it does not have legal application in these markets.

2. <https://sustainabledevelopment.un.org>

Obligations and duties are a broader concept, recognised in common law and civil law countries throughout the investment chain.

The obligations and duties that apply to investors differ between countries and between investors. They emerge from different sources: they may be defined in the deeds or other documents that define the purpose of the organisation, in the contracts these institutions have with their clients or beneficiaries, and in law (which, depending on the jurisdiction, could include statutes, case law, trust law, fiduciary law or corporate law).

Across all six markets, this report finds that investors have the same broad obligations and duties, including

Loyalty:

- Acting honestly and in good faith
- Avoiding conflicts of interest
- Ensuring that assets are kept safe, including avoiding embezzlement and theft
- Delivering on the goals of the pension fund
- Treating beneficiaries fairly

Prudence:

- Investing in a prudent manner – taking due account of the risks associated with particular investments and the portfolio as a whole – which includes the integration of ESG factors.

In each of the six markets, investors have varying degrees of discretion as to how they invest the funds they control. For example, some investors are often expected – formally or informally – to support national policy goals.

Investing prudently requires decision-makers to take account of all financially material factors, including ESG factors. This is a concept consistent with the legal framework in all the markets studied in this report. However, despite growing awareness of ESG issues' relevance, most investors have yet to integrate ESG issues consistently and systematically into their investment processes.

WHY SHOULD INVESTORS FOCUS ON ESG FACTORS?

By analysing ESG factors in their investment process, investors can make a fuller assessment of the risks and opportunities associated with particular investments. This allows them to make better informed investment decisions. It also contributes to higher quality dialogue between companies and their investors on drivers of long-term value creation, provides incentives to companies to improve their governance and management of ESG factors, and encourages investors to proactively seek out opportunities presented by these issues.

The changing landscape of investor obligations and duties

Investor obligations and duties are a dynamic concept that continue to evolve as society changes. The interpretation of investor obligations and duties of investors is influenced by the introduction of stewardship codes, corporate reporting and formal requirements for asset owners to integrate ESG factors in investment decision-making.

In the six markets studied in this report, particular importance is attached to the role played by large, and often public, pension funds. For example, the 2015 amendment to the South Korean National Pension Service Act requires the National Pension Service to take account of ESG factors in its investment processes or to explain why it is not doing so. This has led the National Pension Service to start monitoring investment managers' approach to integrating ESG factors. In turn, local investment managers have started to develop their ESG capabilities in order to bid for contracts.

In addition to regulation and public policy, interviewees identified the following reasons for increased awareness by investors of ESG factors:

- capital required for commercial opportunities, such as infrastructure projects;
- competition between Asian markets on green finance;
- companies such as Unilever and Nestle cancelling palm oil contracts in Indonesia;
- requirements by international asset owners investing with Asian investment managers.

The 2014 Asia Sustainable Investment Review, prepared by ASrIA, found that sustainable investment is growing, but remains small in a global context:

- US\$44.9 billion of assets in Asia (ex-Japan), as of December 2013, are managed using one of more sustainable investment strategy.
- Sustainable investment assets grew by 22% per year in 2011, 2012 and 2013.
- Despite this growth, this represents less than 1% of global assets that use some form of sustainable investment strategy.

Making progress

While awareness is growing, our research identified barriers to explicit and systematic integration of ESG factors in investment decision-making and in the dialogue between investors and companies. We recommend options to address these barriers based on our experience in markets outside Asia and from interviews with policy makers, investors and stakeholders in the markets studied for this report. Common barriers are:

- **Lack of formal regulatory mechanisms that require investors to take account of ESG factors in their investment processes.** This creates a perception that regulators see ESG factors as less important than other risks.

- Options for action:

1. *Investors should publicly commit to responsible investment to provide policy makers with the confidence to act.*
2. *Policy makers could clarify that ESG factors are part of investor obligations and duties.*
3. *Policy makers could lead by example by the actions of sovereign wealth, provincial wealth, state and national funds to develop national champions for ESG integration. We find that public pension funds strongly influence the actions of private pension funds.*

- **Difficulty in engaging companies on ESG factors due to the nature of the corporate sector and low-quality ESG disclosure by companies.** The structure of companies can limit investors' ability to engage on ESG factors.

- Options for action:

1. *Policy makers could require companies to disclose consistent, comparable and reliable reporting of ESG factors as part of their annual reports.*
2. *Investors should encourage ESG disclosure and high standards of ESG performance in the companies or other entities in which they are invested.*
3. *Stock exchanges should engage investors and listed companies to enhance the quality of current disclosure and help expand the reporting scope beyond regulatory requirements.*
4. *Policy makers could strengthen their expectation of investors and companies by introducing stewardship and corporate governance codes with requirements for investors to actively engage with the companies in which they are invested, including on ESG factors, and to report on this engagement.*

- **Lack of knowledge of the investment case for integrating ESG factors to drive long-term value creation and a perception that ESG factors are an ethical preference – separate to fundamental investment analysis – that compromise returns.** There is a lack of expertise among investors on how company performance on ESG factors might be used in investment research and decision-making processes. There were similar comments about regulators and policy makers, in particular in relation to their understanding of responsible investment, and the role that investors can play (beyond the provision of capital). Weaknesses in corporate disclosure on ESG factors have also limited the ability of research providers to analyse the relationship between corporate practices and investment performance. This, in turn, has reinforced investors' views that these issues are not important drivers of investment value.

- Options for action:

1. *Policy makers could align regulation and policy on ESG factors with national policy priorities, such as attracting international capital.*
2. *Policy makers could require investors to disclose the processes they have in place to integrate ESG factors and monitor how ESG factors affect the financial performance of companies.*
3. *Investors should build their knowledge of the investment case for integrating ESG factors to drive long-term value creation and develop an evidence base to determine how ESG factors affect the financial performance of companies.*

A summary of codes, policies and regulations cited by interviewees for this report demonstrate the significant growth in policy makers' interest in ESG factors in recent years:

Country	Target	Institution	Title	Classification	Year
China	Companies in Shanghai	Shanghai Municipal Bureau	Shanghai Municipal Local Standards on Corporate Social Responsibility	Voluntary	2008
China	Companies	Shanghai Stock Exchange (SSE)	Guidelines on Listed Companies' Environmental Information Disclosure	Voluntary	2008
China	Companies	Shenzhen Stock Exchange	Social Responsibility Instructions to Listed Companies	Voluntary	2008
China	Companies/Financial Sector/Provinces	National People's Congress	Energy Conservation Law	Mandatory	2008
China	Companies	Ministry of Environmental Protection	Guidance Opinions on Strengthening the Oversight of Public Companies	Voluntary	2008
China	Companies/Federations	11 National Industrial Federations and Associations	Guidelines on Social Responsibility for Industrial Corporations and Federations	Voluntary	2011
Hong Kong	Companies	Hong Kong Securities Exchange (HKEX)	ESG Guidance	Voluntary	2015
Hong Kong	Companies	Hong Kong Securities Exchange (HKEX)	ESG Listing Rule (in progress)	Comply or Explain	2017
Hong Kong	Investors	Securities and Futures Commission (SFC)	Principles of Responsible Ownership	Voluntary	2016
India	Companies	Ministry of Corporate Affairs	Corporate Social Responsibility Voluntary Guidelines	Voluntary	2009
India	Companies	Ministry of Corporate Affairs	National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business	Voluntary	2011
India	Companies	The Institute of Company Secretaries of India	Guidance Note on Non-Financial Disclosures	Voluntary	2011
India	Companies	Ministry of Corporate Affairs	Companies Bill (particularly section 135)	Mandatory	2013
India	Companies	Securities and Exchange Board of India (SEBI)	Business Responsibility Report Regulation Circular	Mandatory	2012, updated 2016
Malaysia	Companies	Bursa Malaysia (MYX)	Sustainable Reporting Guide	Voluntary	2010, updated 2015
Malaysia	Companies	Securities Commission (SC)	Malaysian Code on Corporate Governance	Voluntary	2012, updated 2014
Malaysia	Companies	Bursa Malaysia (MYX)	ESG Guidance and Listing Rule	Mandatory	2015
Malaysia	Investors	Securities Commission Malaysia	Malaysian Code for Institutional Investors	Voluntary	2014
Singapore	Investors	Monetary Authority of Singapore	Stewardship Code	Voluntary (in progress)	2016
Singapore	Companies	Monetary Authority of Singapore	2011 Code on Corporate Governance	Voluntary	2012
Singapore	Companies	Singapore Stock Exchange (SGX)	Sustainability Reporting Guidelines	Voluntary	2011, will be updated 2017
Singapore	Companies	Singapore Stock Exchange (SGX)	Sustainability Listing Rule	Comply or explain	2016
South Korea	Investors	Financial Services Commission (FSC)	Stewardship Code (in progress)	Voluntary	2016
South Korea	National Pension Service	National Assembly of the Republic of Korea	National Pension Service Act	Mandatory	2015
South Korea	Companies	Financial Services Commission (FSC)	Green Posting System	Mandatory	2012

CHINA

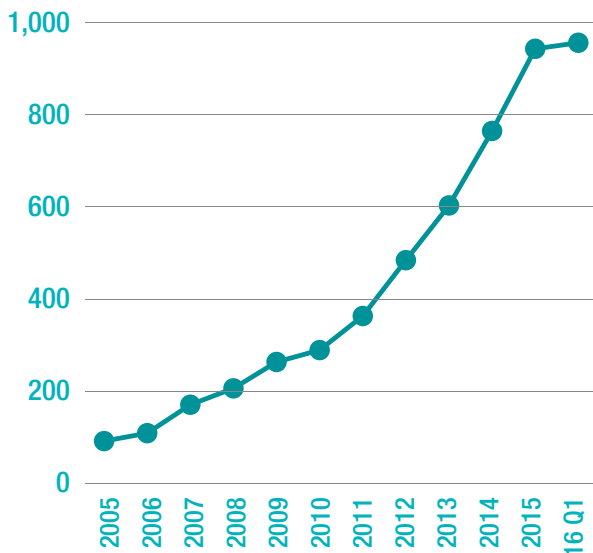
MARKET ANALYSIS:



NOMINAL GDP (\$BN)³
 NOMINAL GDP (RMB (¥) BILLION)⁵
 POPULATION (MILLION)⁷
 GDP PER CAPITA (RMB (¥) /CAPITA)⁸
 LABOUR FORCE (MILLION)¹¹
 % EMPLOYMENT RATE¹²
 % POPULATION OVER 65¹³
 N/A - Not available

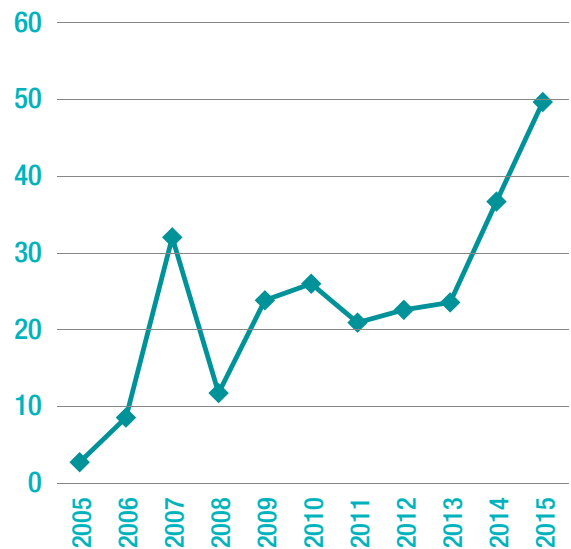
	2012	2013	2014	2015	2016
NOMINAL GDP (\$BN) ³	8,471.4	9,518.6	10,430.7	10,982.8	11,383.0 ⁴
NOMINAL GDP (RMB (¥) BILLION) ⁵	53,474.5	58,973.7	64,069.7	68,392.5	73,121.7 ⁶
POPULATION (MILLION) ⁷	1,354.0	1,360.7	1,367.8	1,374.6	1,381.5 ⁸
GDP PER CAPITA (RMB (¥) /CAPITA) ⁸	39,493	43,340	46,841	49,754	52,931 ¹⁰
LABOUR FORCE (MILLION) ¹¹	752.92	754.40	756.30	757.15	N/A
% EMPLOYMENT RATE ¹²	74.10%	73.80%	73.70%	73.50%	N/A
% POPULATION OVER 65 ¹³	8.81%	9.06%	9.37%	9.73%	N/A

CHINA, TOTAL INVESTMENT OF PENSION FUNDS (¥ BN)



Source: [OECD Pension Markets in Focus 2015](#), [National Pension Funding Data 2015](#), [National Pension Funding Data 2016Q1](#)

CHINA, MARKET CAPITALIZATION (¥ BN)



Source: [Data - The World Bank](#)

3. [IMF, World Economic Outlook Database, April 2016](#)
 4. [Estimate, IMF, World Economic Outlook Database, April 2016](#)
 5. [IMF, World Economic Outlook Database, April 2016](#)
 6. [Estimate, IMF, World Economic Outlook Database, April 2016](#)
 7. [IMF, World Economic Outlook Database, April 2016](#)
 8. [Estimate, IMF, World Economic Outlook Database, April 2016](#)

9. [IMF, World Economic Outlook Database, April 2016](#)
 10. [Estimate, IMF, World Economic Outlook Database, April 2016](#)
 11. [Data - The World Bank](#)
 12. [Ibid.](#)
 13. [Ibid.](#)

Between 1991 and 2012, China's GDP grew by an average of over 10% per annum and average per capita income increased more than eightfold. China is now the world's largest holder of foreign exchange reserves, second largest economy and second largest destination for foreign direct investment.

The large population is ageing. The number of people aged 65 and over is expected to rise from 130 million in 2015 to over 330 million by 2050. The old-age dependency ratio (the number of people aged 15 to 59, for each person aged 60 and over) is expected to decline from 6.2 in 2005 to 2.0 in 2040.

Rapid economic growth has created challenges for China, especially in relation to inequality, urbanisation, corruption and environmental pollution. Success in balancing economic growth, sustainable development and social stability will depend on developing green industries, increasing the proportion of energy from renewable resources, improving energy efficiency and reducing pollution.

To meet the goals in its 13th Five Year Plan, China will need to turn to the domestic and international capital markets to provide the approximately US\$500 billion per year needed between 2016 and 2020¹⁴. This marks a significant change given that, at present, China's financial system is currently predominantly bank-based – around 70% of new financing in 2015 came from bank loans¹⁵.

The government's priorities include increasing the sophistication and depth of its financial system, and increasing the financial system's contribution to the country's development. In April 2015 the China Society for Finance and Banking (an academic institution sponsored by the People's Bank of China) launched the Green Finance Committee (GFC), a multi-sectoral group tasked with investigating green finance reforms. The GFC's areas of research include green banks, green bonds and responsible investment.

China's pension systems have seen far-reaching structural reforms since 1997. The government has developed a more formal pension system, consolidating historic pension arrangements at the provincial level. A National Social Security Fund (NSSF) has been established to cover exceptional social security and pension needs.

FACTBOX: THE NATIONAL SOCIAL SECURITY FUND (NSSF)

The NSSF was established in August 2000 to cover future pension insurance and other social security expenditure. It is funded by fiscal transfers from the central government budget, transfers of state-owned assets, fund investment proceeds and funds raised through other channels approved by the State Council. Some provinces have also entrusted some of their pension assets to the NSSF.

It is managed by the National Council for the Social Security Fund in accordance with the regulations issued by the State Council, the Ministry of Finance (MoF) and the Ministry of Human Resources and Social Security (MoHRSS).

The assets of the NSSF have grown significantly since its inception. By the end of 2015, the market value of the NSSF's assets was ¥1.65 trillion (US\$250 billion), making it by far the biggest institutional investor in China's pension sector.

The NSSF has more flexibility on asset allocation than any other pension fund. At the end of 2011, the NSSF had allocated 51% of its assets to fixed income, 32% to equities, 16% to industrial investments and 1% to cash and cash equivalents. Since it can directly invest only in bank deposits and government bonds, the NSSF needs to appoint licensed fund managers and custodians approved by the MoHRSS for all other investments. At 31 December 2011, direct investments accounted for 58% of its total assets, with the balance being managed by appointed third parties including 18 domestic fund managers and 32 foreign ones.

As part of China's presidency of the G20 in 2016, a Green Finance Study Group was established to "develop options on how to enhance the ability of the financial system to mobilize private capital for green investment."¹⁶ Co-chaired by China and the UK, and with the support of UNEP as secretariat, the study group gathered experience from G20's member countries, key international institutions as well as observer nations, the private sector and a range of knowledge partners.

14. See the data and estimates provided in International Institute for Sustainable Development (IISD) (2015), *Greening China's Financial System* (IISD and UNEP Inquiry into the Design of a Sustainable Financial System).

15. *Ibid*

16. *Communique – G20 Finance Ministers and Central Bank Governors Meeting, 26-27 February 2016, Shanghai.* <http://www.g20.org/English/>

OPTIONS FOR ACTION IN CHINA

INCREASE PENSION FUNDS' ESG FOCUS

The government could have all state pension funds (Pillars Ia and Ib), the NSSF (including its licensed fund managers and custodians), enterprise annuity plans and mutual funds take account of ESG issues, encourage high standards in investee companies and report on how they are doing so.

FACTBOX: THE RURAL PENSION SYSTEM

The trend of young people from the countryside moving to the cities for work leaves the rural elderly vulnerable to losing traditional family support. In 2008, the government promised that the entire rural population would be covered by a viable pension system by 2020. Under the proposed rules, rural residents aged 16 and over, who are neither students nor currently participating in the state pension system for urban workers, are eligible to join the programme on a voluntary basis, with the promise of pension payments starting from age 60.

It comprises two elements. The first is a basic social pool pension provided by government that will provide at least ¥55 per month to each individual. The second is an individual account pension where government will make a contribution of at least ¥30 per year, with individuals choosing to contribute between ¥100 and ¥500 per year. The monthly pension benefit, payable from age 60, will be 1/139 of the individual account balance, assuming that at least 15 years' contributions have been paid. As an incentive to participate in the new scheme, rural residents who are already over 60 can immediately receive the basic social pool pension benefit provided that their child(ren) participate in the new system and make contributions to their individual accounts.

Despite an increase in attention being paid to ESG issues, progress among asset owners and mutual funds in incorporating these issues into investment practices and processes remains slow, and there has been almost no involvement by Chinese pension funds or mutual funds in initiatives such as the Principles for Responsible Investment.

The motivation for asset managers to incorporate ESG factors largely comes from wanting to manage assets for development banks or international investors, and therefore needing to be able to demonstrate that they can meet these organisations' due diligence and ESG requirements.

One challenge is around the lack of attention given to skills and knowledge gaps across actors that make it difficult to translate policy requirements and engineering data into terms that are useful to investors.

State pension funds (Pillar Ia and Ib)

State pension funds are subject to general duties of loyalty, prudence and care, and are expected to act in a way that supports the Chinese government's objective of maintaining social stability. Despite their long-term objectives of providing funds for future generations, they are not required to take account of ESG factors in their investment processes or to engage with the companies and other entities in which they invest.

Until 2016, state pension funds could only invest in government bonds and bank deposits (except for any part of the individual account money entrusted to the NSSF), but in 2015 the government announced that from 2016, up to 30% of Pillar Ib assets could be invested in domestic listed shares.

FACTBOX: THE URBAN PENSION SYSTEM

The urban pension system is designed to be a hybrid defined benefit and defined contribution system. Two Ministry of Human Resources and Social Security (MoHRSS) documents (Document 26, July 1997; Document 38, December 2005) provide its foundation.

- Pillar Zero provides support payments for individuals in extraordinarily straitened circumstances to ensure a minimum income. It is funded by government, with the benefits provided by the Ministry of Civil Affairs.
- Pillar Ia provides a basic social pool pension. It is financed through mandatory contributions by employers, who contribute approximately 20% of total payroll¹⁷, and administered by the provincial social security bureaux. After a working lifetime, urban retirees will receive a pension of about 30% of the average of their indexed individual wage and the local average wage, assuming at least 15 years' contributions have been paid.
- Pillar Ib is a mandatory individual account system funded by employees who contribute 8% of their monthly salary, subject to a maximum and a minimum level. The amount cannot be accessed until retirement when the account balance is converted to a monthly pension by dividing the balance by an annuity factor of 139 at the age of 60. Those who fail to make contributions for 15 years receive the moneys accumulated in their individual account as a lump sum at the time of retirement.
- Pillar II comprises voluntary, defined contribution, supplementary retirement plans that were set up by eligible employers after regulations governing enterprise annuities (EA) establishment and investment were issued in 2004. Both employers and employees can make voluntary contributions to the plan. Contributions by an enterprise are limited to a maximum of 8.33% of annual wages.
- Pillar III comprises various other types of voluntary funded scheme, set up by employers, which do not conform to the EA format, including group pension insurance contracts.
- Pillar IV which relates to voluntary informal family care inherent in Chinese Confucian traditions as well as other social security support such as subsidised health care and housing.

The National Social Security Fund

The National Social Security Fund (NSSF) is expected to keep assets safe and increase their value. It is also subject to general rules about loyalty and care, including ensuring that there is no embezzlement, no taking of improper benefits, and no insider trading. When delegating investment management or investing offshore, investment management agreements are expected to require the investment manager or service provider to: comply with the principle of good faith, avoid conflicts of interest, meet agreed investment targets, be open to independent audit and meet any specific investment restrictions (e.g. on the total investment in individual companies, on the percentage of the fund to be held in equities).

Enterprise annuity plans

An employer providing an Enterprise annuity plan must appoint a trustee (which could either be a special council of the employer or an independent trustee) to oversee the management of these assets. Trustees and investment management companies are expected to act honestly and in good faith, not commingle assets or funds, not embezzle assets, and treat investors fairly. These trustees and investment management companies have a more explicit duty of care and diligence than for other types of pension funds¹⁷.

Mutual funds

Mutual funds tend to have a very short-term focus, although they are starting to pay more attention to environmental risks as a result of stronger enforcement of environmental legislation and increasing penalties for non-compliance making regulatory compliance an increasingly important business issue.

“Our 2014 survey of mutual funds in China report concluded that ESG and responsible investment are not particularly important considerations for funds. However, we did find that these funds do pay attention to issues such as energy security, carbon intensity, energy efficiency and pollution. This interest is primarily driven by risk management rather than ethical considerations.”

Peiyuan Guo (General Manager, SynTao)

17. It is not clear, however, that these are legally defined as trust relationships. If they are, then PRC trust law (which has similar fiduciary obligations to trust law in common law jurisdictions) would apply; that is, trustees would be subject to best interests, due diligence and good faith requirements. However, interviewees noted that Chinese regulation is not clear on this point, and there have been no cases or statements from government to clarify this point.

“There are signs of growing investor interest in environmental issues and risks, as more data becomes available and as research organisations publish reports on corporate environmental impacts and risks.”

Yuan Yan (Green Finance Project Manager, Institute of Public & Environmental Affairs)

EXPAND GREEN FINANCE

The government, through organisations such as the People’s Bank of China, is developing comprehensive policies to support the greening of China’s financial system. The demand from financial institutions for green investment is growing and can be further strengthened.

Policy makers can consider:¹⁸

- promoting green finance principles and responsible investment practices by institutional investors, including public financial institutions, and continuing to strengthen implementation of green credit policies in banking;
- building capacity among investment professionals and regulators on green finance, building on existing platforms such as PRI and UNEP;
- facilitating knowledge sharing on environmental and financial risks and encouraging companies and investors to develop risk analysis methodologies and stress testing for green issues;
- supporting the efficient supply of green assets providing incentives to grow the market for green securities, including green bonds, including fiscal incentives to accelerate the development of green finance markets;
- expanding the scope of integration of environmental factors by key intermediaries such as stock markets, credit rating agencies, and sell-side equity research and investment consultants. Expanding also the scope of green insurance, strengthening environmental liability insurance regulations and improve investors’ stress testing on environmental risks;
- improving the measurement of green finance activities and their impacts.

China could also lend weight to efforts to promote international co-operation on investment issues. It has already started this process by launching the One-Belt-One-Road Initiative, creating a new Working Group on Trade and Investment within the framework of its G20 Presidency and by co-chairing the G20 Green Finance Study Group with the UK since 2016.

SUPPORT RESEARCH

The Ministry of Human Resources and Social Security (MoHRSS), the People’s Bank of China, the stock exchanges and the investment industry could work together to support high-quality academic research into ESG issues.

Scepticism about the business or investment case for better ESG risk management persists, with most pension funds seeing them as purely ethical issues.

ESG research providers, investment banks, credit rating agencies and industry bodies could all play a part in increasing the quantity of robust China-specific data and analysis. They could also help develop case-studies that showcase best practice examples from Chinese investors that have taken account of ESG issues.

INTRODUCE A STEWARDSHIP CODE AND MONITOR STEWARDSHIP OUTCOMES

The MoHRSS could work with the investment industry to develop a code setting out institutional investors’ stewardship responsibilities.

A stewardship code could include requirements for investors to:

- monitor corporate ESG performance;
- engage with companies to encourage better ESG performance and use of voting rights;
- report on how they are doing so.

Once such a code has been adopted, the MoHRSS should monitor and regularly report on the implementation of the code.

18. Adapted from *The International Institute for Sustainable Development (2015), Greening China’s Financial System (The International Institute for Sustainable Development and UNEP Inquiry into the Design of a Sustainable Financial System)*.

“It is important that global investors recognise that for the same topics or narrative, we might mean different things in China, and that developments thrive in different ways for the same good cause that we seek. It is therefore not necessarily the case that Asian companies or investors are lagging. For example, a Chinese state-controlled company is establishing a real time emissions monitoring system to ensure that local communities are aware of the company’s environmental impact on a 24/7 basis. Some others publish details of their global procurement system to enhance transparency and to lower bribery and corruption risk within the company. In some ways, these disclosures are far ahead of those provided by leading global companies based in the West.”

Christine Chow (Associate Director, Hermes Investment Management)

CONTINUE TO ENHANCE CORPORATE PRACTICE

Significant steps have been taken by central and provincial governments to reduce pollution and improve energy efficiency in Chinese firms. This should be continued and extended across all sectors and sustainability issues. This will focus investors’ attention on company performance and increase the pressure on companies to adopt environmental management systems and controls to manage their environmental and sustainability impacts effectively.

The structure of the Chinese institutional investment market has important implications for the relationship between investors and listed companies and for corporate governance frameworks.

The diversity in ownership may limit the ability of investors to influence companies’ management practices on environmental and social issues: only about 15% of the shares of Chinese companies are held by institutional investors, with most of the remaining shares held by individual investors.

In addition, many of the largest listed companies have a government-linked block holder that owns a sufficient proportion of the voting shares to control the corporation, and whose strategic goals (e.g. maintain employment to support social stability) may not coincide with those of other investors in the company (e.g. cut jobs to reduce costs).

ENHANCE CORPORATE DISCLOSURE

The Shanghai and Shenzhen stock exchanges, together with the China Securities Regulatory Commission (CSRC), could analyse and report on the disclosures being provided by listed companies.

Over 1,000 Chinese companies now produce corporate responsibility or equivalent reports, driven by revisions to the Chinese Guidelines on the Annual Report of Listed Companies, encouragement from domestic stock exchanges (specifically, the Shenzhen Stock Exchange's Social Responsibility Instructions to Listed Companies and the Shanghai Stock Exchange's Guide on Environmental Information Disclosure), encouragement from international stock exchanges such as the Hong Kong Stock Exchange disclosure requirements which cover more than 800 Chinese firms, and the expectation that A-share listed companies will produce sustainability reports.

FACTBOX: CORPORATE DISCLOSURE

- **Revisions to the Chinese Guidelines on the Annual Report of Listed Companies (2013)**
Encourage companies to provide information on social responsibility performance and on the important suppliers and clients of the company.
- **Social Responsibility Instructions to Listed Companies (Shenzhen Stock Exchange, 2006)**
Encourage companies to improve the quality of social responsibility reports.
- **Guide on Environmental Information Disclosure for Companies Listed on the Shanghai Stock Exchange (Shanghai Stock Exchange, 2008)**
Encourage companies to disclose corporate responsibility information in their annual reports.
- **Governance Principles for Listed Companies (China Securities Regulatory Commission, 2002)**
Require listed companies to, while maintaining sustainable growth and maximising the interests of shareholders, pay attention to the welfare, environmental protection, public interest matters and so forth of the community where they are located, and to attach importance to their corporate social responsibility.

“Public disclosure of environmental performance is seen by the Chinese government as one way of addressing the environmental legislation enforcement gap. China has been strengthening the requirements for companies to disclose their environmental performance, including real time disclosure requirements.”

Yuan Yan (Green Finance Project Manager, Institute of Public & Environmental Affairs)

The launch of ESG indices by the Shenzhen Stock Exchange, by the Shanghai Stock Exchange and by the China Securities Index Company (CSI) have also incentivised some companies to better manage and report on their ESG performance. The Shanghai Stock Exchange's launch of a labelled green bond market has helped to standardise the reporting requirements for issuers, in turn attracting more investors.

While there has been a significant increase in the number of companies reporting on corporate responsibility and sustainability issues, most continue to focus on good news stories, provide limited if any data on performance, and do not discuss the materiality or significance of ESG issues to their business.

Enhancing disclosure could involve supporting efforts to ensure the comparability and consistency of the data being reported, analysing whether and how this reporting is affecting corporate practice, financial and sustainability performance and considering whether these data need to be assured in a similar manner to other financial reporting.

The CSRC could encourage the Shanghai and Shenzhen stock exchanges to work with companies and investors to help build their knowledge of ESG reporting, to encourage improvements in ESG reporting, to strengthen investor-company dialogue on ESG issues, and to officially partner with the Sustainable Stock Exchanges initiative¹⁹.

¹⁹. <http://www.sseinitiative.org/>

HONG KONG SAR, CHINA

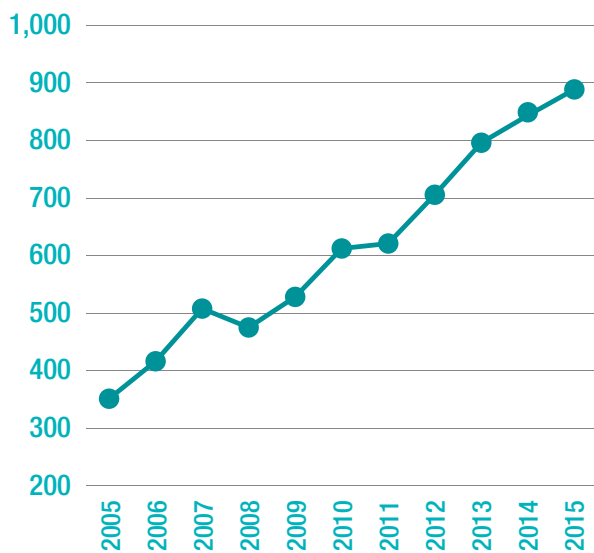
MARKET ANALYSIS:



NOMINAL GDP (\$BN)²⁰
 NOMINAL GDP (\$HK BILLION)²²
 POPULATION (MILLION)²⁴
 GDP PER CAPITA (\$HK/CAPITA)²⁶
 LABOUR FORCE (MILLION)²⁸
 % EMPLOYMENT RATE²⁹
 % POPULATION > 65³⁰
 N/A - Not available

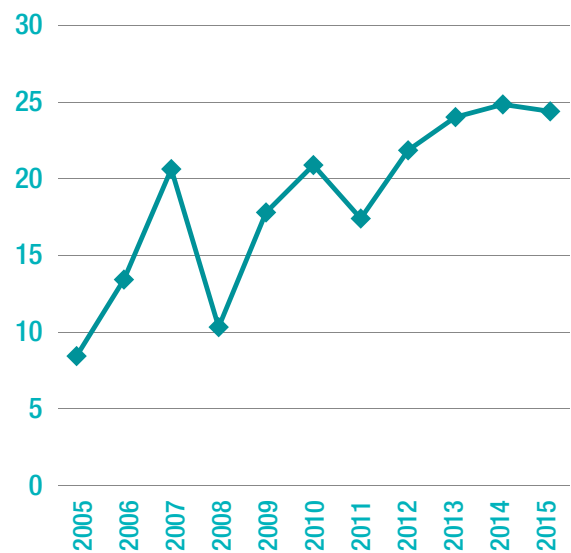
	2012	2013	2014	2015	2016
NOMINAL GDP (\$BN) ²⁰	262.6	275.7	291.2	309.9	322.4 ²¹
NOMINAL GDP (\$HK BILLION) ²²	2037.1	2138.0	2258.2	2402.5	2505.8 ²³
POPULATION (MILLION) ²⁴	7.18	7.22	7.27	7.31	7.36 ²⁵
GDP PER CAPITA (\$HK/CAPITA) ²⁶	283,796	296,049	310,772	328,594	340,619 ²⁷
LABOUR FORCE (MILLION) ²⁸	3.72	3.78	3.80	3.83	3.94
% EMPLOYMENT RATE ²⁹	67.00%	68.00%	68.40%	69.10%	N/A
% POPULATION > 65 ³⁰	13.70%	14.21%	14.72%	15.39%	N/A

HONG KONG, TOTAL INVESTMENT OF PENSION FUNDS (HK\$ BN)



Source: [OECD Pension Markets in Focus 2015](#), [OECD Pension Markets in Focus 2016\(Preliminary\)](#)

HONG KONG, MARKET CAPITALIZATION (HK\$ BN)



Source: [Data - The World Bank](#)

20. IMF, [World Economic Outlook Database, April 2016](#)

21. Estimate, IMF, [World Economic Outlook Database, April 2016](#)

22. IMF, [World Economic Outlook Database, April 2016](#)

23. Estimate, IMF, [World Economic Outlook Database, April 2016](#)

24. IMF, [World Economic Outlook Database, April 2016](#)

25. Estimate, IMF, [World Economic Outlook Database, April 2016](#)

26. IMF, [World Economic Outlook Database, April 2016](#)

27. Estimate, IMF, [World Economic Outlook Database, April 2016](#)

28. [Data - The World Bank](#)

29. *Ibid.*

30. *Ibid.*

Financial services are a key pillar of Hong Kong's economy. According to the World Federation of Exchanges, Hong Kong has the second largest stock exchange in Asia and the sixth largest stock exchange in the world (in terms of market capitalization in US\$).

Hong Kong is the largest renminbi market outside Mainland China, and is widely seen as the global hub for renminbi trade and banking services, financing, asset management, clearing and settlement. Earlier this year, the Financial Secretary recognized the growing attention being given to green finance opportunities, both globally but also as part of the commitments made by Chinese government in its 13th Five Year Plan. In his budget speech, he acknowledged that Hong Kong, as a competitive capital market and potential provider of green financial products, can actively participate in the growth of green finance opportunities.

In 2014, Hong Kong's financial services sector accounted for 16.6% of GDP and, in 2015, 6.5% of the total working population of Hong Kong was employed in the finance and insurance sectors³¹.

There are three main types of investment fund in Hong Kong: collective investment schemes (investment funds that are offered to the public), constituent funds under the Mandatory Provident Fund system and government funds. The most important government fund is the Hong Kong Monetary Authority (HKMA) Exchange Fund. Its primary objective is to influence the exchange value of the currency of Hong Kong, but it may also be used to maintain the stability and integrity of Hong Kong's monetary and financial systems.

FACTBOX: HONG KONG'S PENSION SYSTEM

Hong Kong's pension system comprises a public pillar that provides a safety net for those in need, a mandatory defined contribution system (the MPF system) and voluntary pension savings.

Employers choose which Mandatory Provident Fund (MPF) scheme they and their employees contribute to. At present, there are 38 MPF schemes offered by sponsors, most of which are affiliated with banks, insurance companies and asset managers. Schemes are defined contribution with 5% contributions from employers and employees (subject to the minimum and maximum of HK\$7,100 and HK\$30,000 of salary per month). MPF schemes must, among other conditions, maintain a minimum of 30% exposure to Hong Kong Dollars, use credit ratings, and not gear up their investments.

Collective investment schemes can be set up as trusts or as mutual funds. They are authorised by the Securities and Futures Commission (SFC) under Section 104 of the Securities and Futures Ordinance (Cap 571, Laws of Hong Kong). For those established as trusts, the paramount duty of investment managers is to maximise the financial return of the fund for the present and future beneficiaries. For mutual funds, the assumption is that the purpose of the relationship between the custodian and the investor is for financial benefit.

Mandatory Provident Fund (MPF) schemes are authorised by the SFC but are also approved and regulated under the Mandatory Provident Fund Schemes Ordinance (Cap 485, Laws of Hong Kong). The primary duty of MPF schemes' trustees is to act in the interest of the scheme members and not in the trustees' own interest. Trustees are regulated by the Mandatory Provident Fund Schemes Authority (MPFA) and are subject to a series of onerous capital and other requirements (insurance, competency, skills). This means that, in practice, only institutions can be trustees.

Fiduciary duty is a core element of Hong Kong's legislation. The trustees of collective investment schemes established as trusts and of mandatory provident funds are expected to be loyal (e.g. to avoid conflicts of interest and related-party transactions) and prudent (e.g. to monitor fund managers, managers, to conduct due diligence). Trustees are expected to be 'fit and proper' persons, and are expected to invest as a prudent person would.

For collective investment schemes established as funds, custodian investment managers are expected to exercise the care, skill and diligence of a reasonable, competent and careful investment manager in their position when analysing potential investments.

In relation to environmental, social and governance (ESG) issues, unless there are explicit requirements in trust deeds or equivalent documents, trustees or decision makers are not allowed to exclude investment opportunities on the basis of ESG concerns, personal ethical beliefs, or the views of any particular beneficiary or class of beneficiary alone. While trustees would be expected to take account of financially material ESG issues, there are no formal obligations or case law that require them to do so.

31. Hong Kong Financial Services Development Council [FSDC] (2016), *Hong Kong as a Regional Green Finance Hub*. FSDC Paper No. 23 (FSDC, Hong Kong). <http://www.fsd.org.hk/sites/default/files/Green%20Finance%20Report-English.pdf>

“Trustees who administer the schemes, and appoint and oversee investment managers are regulated by MPFA. Trustees have fiduciary duties which are the same as those in English trust law. These are supplemented by formal statutory duties under Pensions Law, with these duties being very similar to those under ERISA (acting in members’ best interests, duty of prudence, etc).”

Darren McShane (Chief Regulation and Policy Officer & Executive Director, Mandatory Provident Fund Schemes Authority (MPFA), Hong Kong)

“There is the potential for investors to be more active and to act as a force for change. However, it is important that investors respect local conditions, cultures and approaches. They should understand how Asian boards make decisions, and focus on boards’ competence and ability to challenge/engage with management, not just on whether directors are independent or not. Ultimately, investors need to acknowledge that many firms in Hong Kong have been successful because of the role played by the founding/controlling families.”

Pru Bennett (Director, Head of Blackrock Investment Stewardship, Asia Pacific)

OPTIONS FOR ACTION IN HONG KONG

EXPLORE NATIONAL REGULATORY CLARIFICATION

The Hong Kong government could investigate clarifying the Securities and Futures Ordinance and the Mandatory Provident Fund Schemes Ordinance to ensure collective investment schemes and MPF schemes take account of ESG issues, encourage high standards in investee companies and report on how they are doing so.

The analysis of ESG issues in investment research remains in its infancy. There are various reasons, including the absence of explicit regulatory requirements for investors to pay attention to ESG issues in their investment processes, the emphasis of most asset owners on short-term financial performance, and the lack of demand from asset owners for asset managers to adopt responsible investment policies or to take a longer-term view on ESG issues. There are some signs of change, with stranded assets being a particular area of focus.

International investors often ask about ESG issues in their requests for proposals and in their on-going monitoring of investment managers. Managers that have managed money for these institutions have developed some expertise in analysing ESG issues. There can be tensions between the research needs of international investors and the research process of domestic investors. International investors often rely on questionnaires, as they lack the detailed market and corporate knowledge of their domestic counterparts, but these questionnaires may not be relevant to all companies or may not provide a complete picture of risks or opportunities.

European and North American investment managers often pay less attention to these issues when operating in Hong Kong than they adopt in their home markets. Alongside the lack of asset owner demand, they cite the cost and time required to meet companies, and the difficulties in making change through engagement.

In line with the recommendation made in the Financial Services Development Council’s paper on green finance, the government could encourage the Hong Kong Monetary Authority (HKMA) to study future risks to the investment portfolio through an ESG lens. HKMA could publish figures indicating how much of the Exchange Fund is currently invested in green products and adopt a policy of gradually increasing this amount, in addition to implementing responsible investment practices across the portfolio³².

32. <http://www.fsdc.org.hk/sites/default/files/Green%20Finance%20Report-English.pdf>

“Government or regulatory policy could be an important driver of change. However, it is also important for the Government and regulators to see clear evidence that a focus on ESG issues drives investment value.”

Ka Shi LAU (Managing Director & CEO, BCT Group)

“ESG issues are not covered in MPFA-related legislation or guidance on investment. The main reason is that the legislation is aimed at providing simple, clear guidance focusing on the basic risks that investors face.”

Darren McShane (Chief Regulation and Policy Officer & Executive Director, Mandatory Provident Fund Schemes Authority (MPFA), Hong Kong)

EXPAND GREEN FINANCE

The government could develop comprehensive policies to support green finance, including implementing the recommendations made in the Financial Services Development Council’s Green Finance Working Group report.

The Hong Kong Financial Secretary’s annual budget speech in February 2016 highlighted the Chinese government’s 13th Five Year plan, and committed the government to publicising Hong Kong’s competitive capital market and expertise in developing green financial products, and to exploring the feasibility of developing green bonds³³.

The Financial Services Development Council set up a high-level Green Finance Working Group that in May 2016³⁴ offered a series of recommendations on how Hong Kong might consolidate its leading position in green finance. These included issuing green bonds by government and public sector issuers, establishing a Green Finance Advisory Council to provide on-going focus and assistance, hosting a global conference on green finance and investment, building a cohort of green finance professionals of green finance professionals and establishing a Green Labelling Scheme for projects and securities.

ENSURE THE EFFECTIVE IMPLEMENTATION OF THE PRINCIPLES OF RESPONSIBLE OWNERSHIP

The Securities and Futures Commission could work with the investment industry to ensure the effective implementation of the Principles of Responsible Ownership.

In March 2016, the Securities and Futures Commission (SFC) introduced the Principles of Responsible Ownership. These are voluntary, non-binding principles and guidance to assist investors to determine how best to meet their ownership responsibilities. The Principles state that investors’ ownership responsibilities include voting, monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance. The Principles also state that investors should encourage their investee companies to have policies on ESG issues and should engage with these companies on significant ESG issues “that have the potential to impact on the companies’ goodwill, reputation and performance.”

The Securities and Futures Commission could help ensure the effective implementation of the Principles by regularly reviewing and reporting on the implementation of the Principles, and by encouraging investment organisations to effectively implement the Principles.

“One of the reasons for introducing the Principles of Responsible Ownership was that investors have a right to better information. SFC wanted to create a culture where investors feel that they have a right to ask for this information.”

Hong Kong Securities and Futures Commission (SFC)

ENHANCE CORPORATE DISCLOSURE

The Hong Kong Stock Exchange and the Securities and Futures Commission (SFC) could analyse and report on the disclosures being provided by listed companies, and could work together to improve the quality of these disclosures.

The Companies Ordinance (Cap 622, Laws of Hong Kong) requires all Hong Kong incorporated companies to include in their directors’ reports a discussion on the company’s environmental policies and performance and the company’s compliance with relevant laws and regulations. Since January 2016, the Hong Kong Stock Exchange has required all Hong Kong listed companies to provide general ESG disclosures on a comply-or-explain basis and to report on a series of defined key performance indicators.

33. http://www.budget.gov.hk/2016/eng/pdf/e_budgetspeech2016-17.pdf, para 105.

34. Hong Kong Financial Services Development Council [FSDC] (2016), *Hong Kong as a Regional Green Finance Hub*. FSDC Paper No. 23 (FSDC, Hong Kong). <http://www.fsd.org.hk/sites/default/files/Green%20Finance%20Report-English.pdf>

There has been a significant increase in the number of companies reporting on corporate responsibility and sustainability issues. However, these disclosures are of relatively poor quality, and tend to be inconsistent and incomplete. These weaknesses in reporting limit investors' ability to take account of these issues in their investment processes.

The Hong Kong Stock Exchange could support efforts to ensure the comparability and consistency of the data being reported, by analysing whether and how this reporting is affecting corporate practice and performance and considering whether these data need to be assured in a similar manner to other financial reporting.

The Hong Kong Stock Exchange could continue to work with companies and investors to help build their knowledge of ESG reporting, to encourage improvements in ESG reporting, to strengthen investor-company dialogue on ESG issues and to officially partner with the Sustainable Stock Exchanges initiative³⁵.

“ESG reporting is relatively new in Asia for companies, but the trend will grow, especially as global investors demand more information for their risk assessment, whether they are SRI funds or not. SRI funds are also relatively new in Asia but this trend will also grow. Capacity-building in understanding sustainability and its importance will take time but it has already begun and experience is being built-up in Asia.”

Christine Loh Kung-wai (Under Secretary for the Environment, Hong Kong)

SUPPORT RESEARCH

The Securities and Futures Commission, the Mandatory Provident Fund Schemes Authority, the Hong Kong Stock Exchange and the investment industry could work together to support high-quality academic research into ESG issues.

There is a lack of domestically focused academic research demonstrating that a focus on ESG issues will enhance investment performance. Many investment institutions still see incorporating ESG as being about negative screening, and do not acknowledge the investment case for analysing and fully integrating ESG issues in investment decision-making.

ESG research providers, investment banks, credit rating agencies and industry bodies could all play a part in increasing the quantity of robust Hong Kong-specific data and analysis. They could also help develop case-studies that showcase best practice examples from Hong Kong investors that have taken account of ESG issues.

“There is a talent gap in Asia. At present, there are relatively few investment professionals that can conduct robust engagement with companies on ESG issues. This is however changing and there are now a handful of investment managers that are leading the way.”

Ronie Mak (Managing Director, RS Group)

35. <http://www.sseinitiative.org/>

INDIA

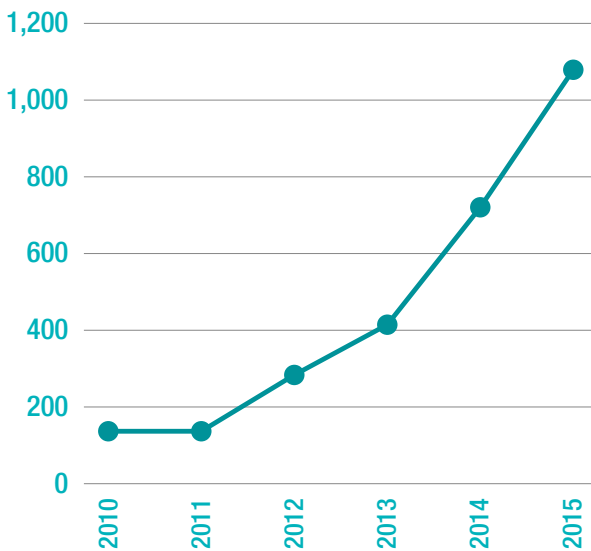
MARKET ANALYSIS:



NOMINAL GDP (\$BN)³⁶
 NOMINAL GDP (INR/BN)³⁸
 POPULATION (MILLION)⁴⁰
 GDP PER CAPITA (INR/CAPITA)⁴⁴
 LABOUR FORCE (MILLION)⁴⁸
 % EMPLOYMENT RATE⁴⁹
 % POPULATION OVER 65⁵⁰
 N/A - Not available

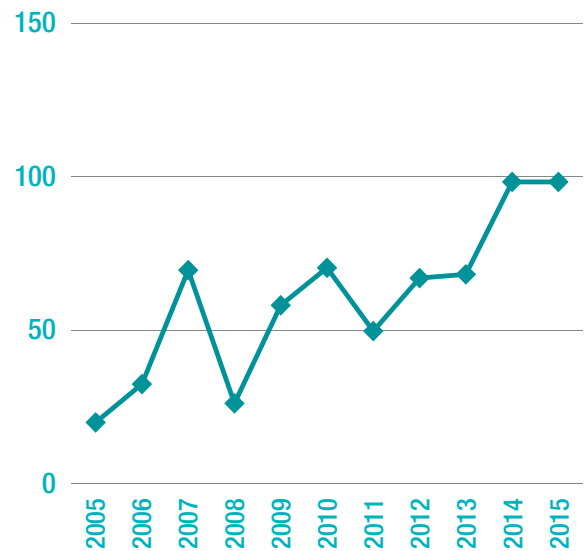
	2012	2013	2014	2015	2016
NOMINAL GDP (\$BN) ³⁶	1,829.0	1,863.2	2,042.6	2,090.7	2,288.7 ³⁷
NOMINAL GDP (INR/BN) ³⁸	99,513.4	112,727.6	124,882.1	136,318.2	152,429.7 ³⁹
POPULATION (MILLION) ⁴⁰	1,243.0	1,259.4	1,275.9 ⁴¹	1,292.7 ⁴²	1,309.7 ⁴³
GDP PER CAPITA (INR/CAPITA) ⁴⁴	80,059	89,512	97,876 ⁴⁵	105,452 ⁴⁶	116,384 ⁴⁷
LABOUR FORCE (MILLION) ⁴⁸	463.24	469.58	476.50	483.95	N/A
% EMPLOYMENT RATE ⁴⁹	54.90%	54.60%	54.40%	54.30%	N/A
% POPULATION OVER 65 ⁵⁰	5.08%	5.17%	5.27%	5.38%	N/A

INDIA, TOTAL INVESTMENT OF PENSION FUNDS (INR BN)



Source: [OECD Pension Markets in Focus 2015](#), [OECD Pension Markets in Focus 2016\(Preliminary\)](#)

INDIA, MARKET CAPITALIZATION (INR TR)



Source: [Data - The World Bank](#)

36. [IMF, World Economic Outlook Database, April 2016](#)
 37. [Estimate, IMF, World Economic Outlook Database, April 2016](#)
 38. [Estimate, IMF, World Economic Outlook Database, April 2016](#)
 39. [IMF, World Economic Outlook Database, April 2016](#)
 40. [Estimate, IMF, World Economic Outlook Database, April 2016](#)
 41. [Ibid.](#)
 42. [IMF, World Economic Outlook Database, April 2016](#)
 43. [Estimate, IMF, World Economic Outlook Database, April 2016](#)

44. [Ibid.](#)
 45. [IMF, World Economic Outlook Database, April 2016](#)
 46. [Estimate, IMF, World Economic Outlook Database, April 2016](#)
 47. [Ibid.](#)
 48. [Data - The World Bank](#)
 49. [Ibid.](#)
 50. [Ibid.](#)

India is the world's second most populous country (with over 1.3 billion people), and seventh largest economy. It is one of the world's fastest-growing economies, but 800 million people live on less than US\$2 a day. Delivering rapid, sustainable and more inclusive growth is therefore the central goal of India's 12th Five Year Plan (2012-2017).

India does not have the same demographic challenges many countries in the region are experiencing. Its population is expected to grow from 1.16 billion today to 1.66 billion in 2050, and has a median age of 24 years.

The Indian government has sought to simplify the country's complex and fragmented pension system – public and private – over the past decade, broadening coverage and moving to a more sustainable funding model.

FACTBOX: NATIONAL PENSION SYSTEM (NPS)

Founded: 2004; Type: defined-contribution; Contributions: employer 10%, employee 10%; Subscribers: 10 million (mandatory – new entrants to central and most state governments (except armed forces), voluntary – all citizens (since 2009)); AUM: 1 trillion rupees.

The National Pension System Trust (NPS Trust) is responsible for managing assets and funds in the interest of beneficiaries, including supervising fund managers and other intermediaries regarding conflicts of interest.

At present, three managers (SBI Pension Funds Private, UTI Retirement Solutions and LIC Pension Fund) manage the funds of government employees, and seven (the three listed above plus ICICI Prudential Pension Funds Management Company, Kotak Mahindra Pension Fund, Reliance Capital Pension Fund and HDFC Pension Management Company Limited) manage the funds of other subscribers.

Fiduciary duty is recognised in Indian law. It is generally understood to include the duty of loyalty (including acting in good faith, and avoiding conflicts of interest) and the duty of prudence (including acting with due care and skill, conducting due diligence, and acting in the best interests of beneficiaries). The exact formulation of investors' duties differs between the different types of fund and the specific legislation that applies (Table 1), although the differences in wording are primarily a function of when the legislation was developed.

Three market characteristics affect the degree to which investors incorporate ESG issues in their investment processes:

- the regulations on which assets institutional investors (particularly pension funds) can invest in and on the governance processes that need to be in place;
- most investors invest primarily in government bonds and securities;
- regulatory bodies have only recently started to consider ESG and sustainability issues.

FACTBOX: OTHER PENSION SCHEMES

The National Pension Service (NPS) is not the only pension fund in India. Other schemes include the Central Civil Service Pension Scheme, Atal Pension Yojana (a government-backed pension scheme targeted at the unorganised sector), the Contributory Fund Scheme and the All India Provident Fund.

Workers in the organised portion of the private sector are covered by mandatory plans operated by the Ministry of Labour's Employees' Provident Fund Organisation (EPFO). It has three major schemes, which are mandatory for employees earning less than INR15,000 per month and optional for others:

- the Employees' Pension Scheme – Type: defined benefit; Contributions: employers 8.33%, government 1.16%;
- the Employees Provident Fund Scheme – Type: defined contribution; contributions: employers 3.67%, employees 12%;
- the Employees' Deposit Linked Insurance Scheme – Type: life insurance; contributions: employers 0.5%.

Certain occupational groups have their own mandatory provident funds, which have about 2 million members. Employers can decide to opt out of the mandatory schemes and establish Exempted Funds, provided that benefits at least match those offered by the EPFO plans and the EPFO agrees.

There are also voluntary pension schemes, which are available in the organised sector as well as for self-employed and other workers.

OPTIONS FOR ACTION IN INDIA

EXPLORE NATIONAL REGULATORY CLARIFICATION

The Indian government could investigate clarifying the Pension Fund Regulatory and Development Authority Act 2013 to encourage investors to take account of ESG issues, promote high standards in investee companies and report on how they are doing so.

FACTBOX: SEBI AND PFRDA

Mutual funds, alternative investment funds, real estate investment trusts (REITs) and infrastructure investment trusts are governed by the Securities Exchange Board of India (SEBI). SEBI is responsible for the regulation, governance, operation and management of these funds, and issues guidance and codes of conduct for each type of fund. Funds can be set up as either trusts or companies. Most are set up as trusts (due to tax advantages), which are governed by the Indian Trusts Act, 1882.

Pension funds are largely subject to duties and obligations under the Pension Fund Regulatory and Development Authority (PFRDA), established in 2013 to regulate all of the intermediaries in the pensions system, including pension funds, and to ensure the orderly growth and development of the pension market. The PFRDA Act describes the basic functions of the PFRDA as “to promote old age income security by establishing, developing and regulating pension funds, to protect the interests of subscribers to schemes of pension funds and for matters connected therewith or incidental thereto.” PFRDA provides regulation and guidance to pension funds in three areas: the asset classes that can be invested in, the types of instruments that can be invested in and the funds’ governance (including requirements for these funds to have investment committees, boards, risk committees and audit processes) and decision-making processes (e.g. due diligence requirements).

There are currently no formal obligations on investors to take account of ESG issues, either in their investment processes or in their engagement with companies. Nor are they required to report on how, if at all, they have taken these issues into account. The only case where investors could be expected to account for these issues would be if there was a clear contravention of the law that could reasonably be expected to be foreseen and could have had a direct effect on profits. Furthermore, domestic asset owners pay limited attention to ESG issues in their asset manager appointment, due diligence or monitoring processes, usually because they see managing environmental and social issues as the responsibility of the asset manager. The result has been that the investment industry has made little progress in integrating ESG issues into investment research and decision-making or into engagement.

“Environmental and social issues are not explicitly identified as matters to be considered in pension investment regulation in India today. However, they are accounted for, in the sense that if a company violates legislation then such a violation affects financial performance. In addition it makes financial sense to look at these issues as they can impact long-term financial performance and value.”

Mr Hemant G. Contractor (Chairman, Pension Fund Regulatory and Development Authority)

Development finance institutions and large international asset owners (in particular from North America and Europe) that have strong commitments to responsible investment have had an influence. These institutions have high expectations of their investment managers on ESG-related research, analysis and decision-making, and subject these investment managers to detailed scrutiny. Indian asset managers that have managed money for these institutions have therefore had to develop their capacities and resources to win business. Furthermore, impact investment and sustainability-related investment are growing, and these represent starting points for developing investor understanding of ESG-related themes, risks and opportunities.

“Recent investor surveys have suggested that institutional investors in India prefer to invest in opportunities with a better ESG approach rather than an equally commercially attractive opportunity but with less good ESG performance.”

Chitra Ramkrishna (Managing Director and CEO, National Stock Exchange of India)

Notwithstanding the positive influence of international investors, there are tensions. The first is the perception that many take a different approach when operating in India to the approach they adopt in their home markets: seeing ESG issues as being primarily of relevance to specific ethical funds rather than as wider drivers of investment value and performance. The second is that there may be conflicts between the policies of international investors and India’s development needs.

Some recent legislation – in particular the Securities and Exchange Board of India’s (SEBI’s) Business Responsibility Reporting requirements and the 2013 Companies Act – has increased investor interest in ESG issues. This has been reinforced by the National Stock Exchange of India (NSE) and the Bombay Stock Exchange conducting workshops to train companies on reporting requirements and processes.

However, policy initiatives that see ESG as philanthropy rather than as part of core business can hinder investor interest. The 2013 Companies Act, for instance, requires companies to donate at least 2% of their net profits to designated charitable entities but does not encourage companies to integrate CSR practices in their core business activities.

“Following recent regulatory crackdowns in sectors such as mining and metals, some investors have started to engage with these companies on environmental and social indicators and/or their CSR activities. However, as yet, engagement is a relatively new activity for Indian investors.”

Sumantra Sen (Founder and Chief Executive Officer, Responsible Investment Research Association)

“In order to ensure that they are acting in the best interests of their beneficiaries, pension funds should take account of governance issues in their due diligence processes, in their proxy voting and in their interaction with companies. While environmental and social issues are not explicitly identified as matters to be considered, if a company violates legislation, this should be considered and assessed in due diligence processes of pension funds.”

Sumeet Kaur Kapoor (General Manager, Pension Fund Regulatory and Development Authority)

FACTBOX: LEGISLATIVE DEVELOPMENTS

- **National Voluntary Guidelines on the Social, Environmental and Economic Responsibilities of Business (NVGs) (Ministry of Corporate Affairs, 2011)**

Encourages large companies to manage their performance based on a set of nine pillars. Comply-or-explain requirement to have policies for each principle.

- **Business Responsibility Reporting (SEBI, 2012)**

Requires the top 100 listed companies by market capitalisation to report against the nine pillars. Extended to the top 500 companies by market capitalisation in 2016.

- **Companies Act (Parliament, 2013)**

Requires large companies to establish a CSR committee within senior management to draft policies and monitor activities across the company.

Requires large companies to spend 2% of annual profit on CSR activities.

Codifies directors’ fiduciary duties, requiring all directors to act not only in the best interest of the company but also the community and the protection of the environment.

BOOST DOMESTIC DEMAND

The National Pension System Trust could require all pension fund managers charged with managing NPS funds to take account of ESG issues, encourage high standards in investee companies and report on how they are doing so.

INTRODUCE A STEWARDSHIP CODE AND MONITOR STEWARDSHIP OUTCOMES

SEBI and the PFRDA could jointly develop a code setting out institutional investors' stewardship responsibilities.

A stewardship code could include requirements for investors to:

- monitor corporate ESG performance;
- engage with companies to encourage better ESG performance and use of voting rights;
- report on how they are doing so.

Once such a code has been adopted, SEBI and the PFRDA should monitor and regularly report on the implementation of the code.

ENHANCE CORPORATE DISCLOSURE

SEBI could improve its oversight of the disclosures being provided by the top-500 listed companies against the nine pillars of the NVGs. Stock exchanges should engage investors and listed companies to enhance the quality of corporate disclosure and expand the reporting scope beyond regulatory requirements.

Weaknesses in corporate ESG disclosures make it difficult for investors to make meaningful comparisons between companies.

Enhancing disclosure could involve supporting efforts to ensure the comparability and consistency of the data being reported, analysing whether and how this reporting is affecting corporate practice and performance and considering whether these data need to be assured in a similar manner to other financial reporting.

As partners of the Sustainable Stock Exchange (SSE) initiative, the Bombay Stock Exchange and the National Stock Exchange of India can further engage companies on disclosure of ESG factors and can expand the scope of reporting beyond the top-500 listed companies. Stock exchanges could also strengthen investor-company dialogue on ESG issues.

“A regulatory framework followed by an appropriate regulation is necessary to mainstream ESG issues into investment decision-making processes in India. Though the evidence needed to do so is still in its infancy, SEBI's Business Responsibility Reporting requirements and the 2013 Companies Act are an important and significant step in this direction. Improved ESG disclosures from Indian corporates will enable investors to make more robust assessments of the linkage between the ESG issues and financial performance of a company.”

Sunil Kumar Sinha (Director, India Ratings and Research)

SUPPORT RESEARCH**Policy makers, national academic institutions and the investment industry could work together to support high-quality academic research into ESG issues.**

There is a growing market understanding of the financial materiality of ESG issues, but the perception that focusing on ESG issues can damage investment returns, and that ESG is a compliance requirement rather than a means of strengthening investment performance remains common.

There is a lack of domestically-focused academic research demonstrating that a focus on ESG issues can enhance investment performance. These concerns are compounded by asset managers and owners not being experienced in analysing ESG issues and how they might be integrated into investment research and decision-making processes.

ESG research providers, investment banks, credit rating agencies and industry bodies could all play a part in increasing the quantity of robust India-specific data and analysis. They could also help develop case-studies that showcase best practice examples from Indian investors that have taken account of ESG issues.

“With the growing size of domestic asset managers and the increasing number of regulatory interventions (e.g. the norms for voting policy prescribed by SEBI, the changes in the Companies Act, the strengthening of the rights of minority shareholders, e-voting), asset managers are voicing their views more actively and overall governance standards have improved. However, investors currently don’t focus as much on environmental and social aspects. We expect this to change as Indian regulations and market practices converge on international standards over time.”

Navneet Munot (Chief Investment Officer, SBI Funds Management Private Limited)

TABLE 1: THE DUTIES OF INDIAN INVESTORS

LEGISLATION/ REGULATION	RELEVANT SECTIONS/REGULATIONS
Indian Trusts Act, 1882	<p>Section 15 - Care required from trustee</p> <p>A trustee is bound to deal with the trust-property as carefully as a man of ordinary prudence would deal with such property if it were his own; and, in the absence of a contract to the contrary, a trustee so dealing is not responsible for the loss, destruction or deterioration of the trust-property.</p>
Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012	<p>Conflict of Interest.</p> <p>Regulation 21. (1) The Sponsor and Manager of the Alternative Investment Fund shall act in a fiduciary capacity towards its investors and shall disclose to the investors, all conflicts of interests as and when they arise or seem likely to arise.</p>
Securities and Exchange Board of India (Mutual Funds) Regulations, 1996	<p>Schedule 5, Code of Conduct</p> <p>1. Mutual funds schemes should not be organised, operated, managed or the portfolio of securities selected, in the interest of sponsors, directors of asset management companies, members of Board of trustees or directors of trustee company, associated persons [as] in the interest of special class of unitholders other than in the interest of all classes of unitholders of the scheme.</p> <p>4. Trustees and asset management companies must avoid conflicts of interest in managing the affairs of the schemes and keep the interest of all unitholders paramount in all matters.</p> <p>6. Trustees and asset management companies shall carry out the business and invest in accordance with the investment objectives stated in the offer documents and take investment decision solely in the interest of unitholders.</p>
Pension Fund Regulatory and Development Authority (Pension Fund) Regulations, 2015	<p>Schedule 6, Code of Conduct</p> <p>I. Subscriber Protection (a) Investors/Authority/National Pension System Trust (NPS Trust)</p> <p>A pension fund shall make all efforts to protect the interests of subscribers and shall render the best possible service to the Authority/ National Pension System Trust having regard to the subscribers' needs and the environments and its own professional skills.</p>
Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014	<p>Schedule 6, Code of Conduct For REIT and Parties To The REIT</p> <p>1. REIT and parties to the REIT shall conduct all affairs of the REIT in the interest of all the unit-holders of the REIT.</p> <p>3. REIT and parties to the REIT shall try to avoid conflicts of interest, as far as possible, in managing the affairs of the REIT and keep the interest of all unit holders paramount in all matters. In case such events cannot be avoided, it shall be ensured that appropriate disclosures are made to the unit-holders and they are fairly treated.</p> <p>5. Manager shall carry out the business of the REIT and invest in accordance with the investment objectives stated in the offer document and take investment decisions solely in the interest of unit holders.</p>

LEGISLATION/ REGULATION	RELEVANT SECTIONS/REGULATIONS
<p>Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014</p>	<p>Schedule 6, Code of Conduct For InvIT and Parties To The InvIT</p> <p>1. InvIT and parties to the InvIT shall conduct all affairs of the InvIT in the interest of all the unit-holders of the InvIT.</p> <p>3. InvIT and parties to the InvIT shall try to avoid conflicts of interest, as far as possible, in managing the affairs of the InvIT and keep the interest of all unit holders paramount in all matters. In case such events cannot be avoided, it shall be ensured that appropriate disclosures are made to the unit-holders and they are fairly treated.</p> <p>5. Investment manager shall carry out the business of the InvIT and invest in accordance with the investment objectives stated in the offer document and take investment decisions solely in the interest of unit holders.</p>
<p>Securities and Exchange Board of India (Portfolio Managers) Regulations, 1993</p>	<p>Schedule 3, Code of Conduct</p> <p>9. A portfolio manager shall endeavour to –</p> <p>(a) ensure that the investors are provided with true and adequate information without making any misguiding or exaggerated claims and are made aware of attendant risks before any investment decision is taken by them;</p> <p>(b) render the best possible advice to the client having regard to the client’s needs and the environment, and his own professional skills;</p> <p>(c) ensure that all professional dealings are effected in a prompt, efficient and cost effective manner.</p>
<p>Securities and Exchange Board of India (Investment Advisers) Regulations, 2013</p>	<p>General responsibility.</p> <p>Regulation 15. (1) An investment adviser shall act in a fiduciary capacity towards its clients and shall disclose all conflicts of interests as and when they arise.</p> <p>Schedule 3, Code of Conduct For Investment Adviser</p> <p>1. Honesty and fairness An investment adviser shall act honestly, fairly and in the best interests of its clients and in the integrity of the market.</p> <p>2. Diligence An investment adviser shall act with due skill, care and diligence in the best interests of its clients and shall ensure that its advice.</p>
<p>Employees’ Provident Fund and Miscellaneous Provisions Act, 1952 read with Notification dated April 23, 2015 issued by the Ministry of Labour and Employment and Notification dated May 29, 2015 issued by the Ministry of Labour and Employment.</p>	<p>Direction 8:</p> <p>The investment of funds should be at arm’s length, keeping solely the benefit of the beneficiaries in mind.</p>

MALAYSIA

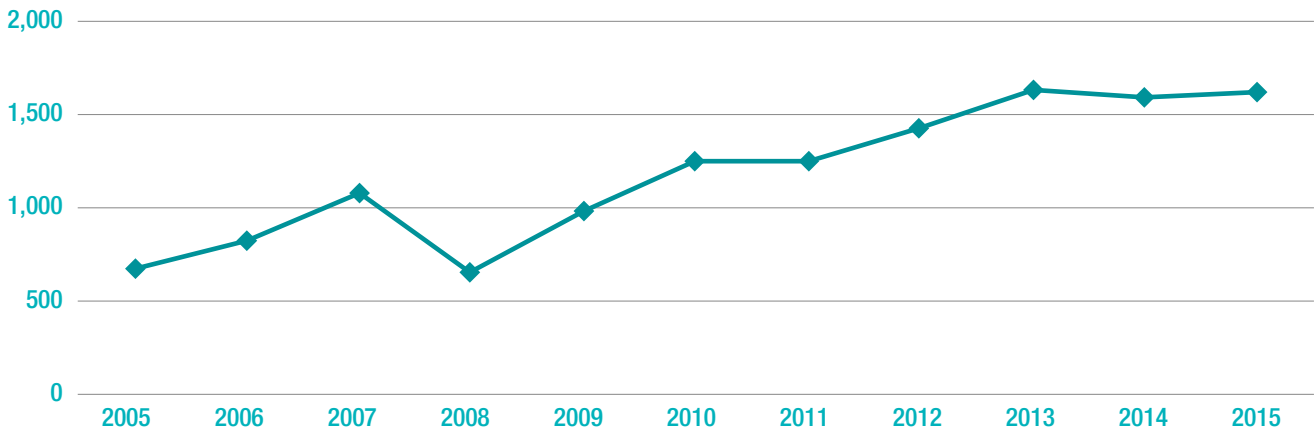
MARKET ANALYSIS:



	2012	2013	2014	2015	2016
NOMINAL GDP (\$BN) ⁵¹	314.4	323.3	338.1	296.2 ⁵²	309.3 ⁵³
NOMINAL GDP (MALAYSIAN RINGGIT (RM) BILLION) ⁵⁴	971.3	1018.8	1106.6	1156.9 ⁵⁵	1261.2 ⁵⁶
POPULATION (MILLION) ⁵⁷	29.518	29.915	30.598	30.996 ⁵⁸	31.523 ⁵⁹
GDP PER CAPITA (MALAYSIAN RINGGIT (RM)/CAPITA) ⁶⁰	32,904	34,057	36,165	37,324 ⁶¹	40,008 ⁶²
LABOUR FORCE (MILLION) ⁶³	13.29	14.17	14.39	14.62	N/A
% EMPLOYMENT RATE ⁶⁴	63.80%	66.20%	66.40%	66.10%	N/A
% POPULATION OVER 65 ⁶⁵	5.12%	5.32%	5.55%	5.78%	N/A

N/A - Not available

MALAYSIA, MARKET CAPITALIZATION (RM BN)



Source: [Data - The World Bank](#)

51. IMF, *World Economic Outlook Database, April 2016*
 52. Estimate, IMF, *World Economic Outlook Database, April 2016*
 53. IMF, *World Economic Outlook Database, April 2016*
 54. Estimate, IMF, *World Economic Outlook Database, April 2016*
 55. IMF, *World Economic Outlook Database, April 2016*
 56. Estimate, IMF, *World Economic Outlook Database, April 2016*
 57. IMF, *World Economic Outlook Database, April 2016*
 58. Estimate, IMF, *World Economic Outlook Database, April 2016*

59. *Ibid.*
 60. IMF, *World Economic Outlook Database, April 2016*
 61. Estimate, IMF, *World Economic Outlook Database, April 2016*
 62. *Ibid.*
 63. *Data - The World Bank*
 64. *Ibid.*
 65. *Ibid.*

Malaysia is a middle-income country with the second highest per capita GDP in ASEAN (the Association of Southeast Asian Nations). Average life expectancy at birth has risen from 59 in 1960 to 72 for males and 60 to 77 for females, and increasing urbanisation means that many retirees cannot rely on family support for their old-age provision.

Malaysia is a global centre for Islamic finance. It issues over half of the world's sukuk and is the world's second largest market in terms of Islamic finance assets under management.

Malaysia's strength in Islamic finance is a direct result of the long-term efforts of Bank Negara Malaysia, the Securities Commission of Malaysia and other government agencies.

The Malaysian government wants to grow the market for Shariah investments by clarifying the links between Shariah and responsible investment. In 2014, the Securities Commission of Malaysia launched the Sustainable and Responsible Investment (SRI) Sukuk Guidelines, and several tax incentives were announced in Malaysia's Budget 2016 to encourage corporates and investors to develop SRI-related sukuk issuance.

Malaysia is a common law jurisdiction and recognises trusts. Trusts and trustees, agency relationships and directors of companies and statutory corporations are subject to fiduciary duties. These include the duties of loyalty (e.g. to avoid conflicts between their duties and personal interests) and prudence (e.g. to exercise care and skill in discharging their functions).

The Employees Provident Fund (EPF) is the national compulsory saving scheme for individuals employed in the Malaysian private and non-pensionable public sector. As at December 2015, EPF had over 14 million members (almost half the Malaysian population). Of these, 6.79 million were active members, representing approximately half of the active workforce.

“Malaysia has been leading the charge in Islamic finance for several years. The government has supported this development side-by-side with conventional finance. Malaysia now has the ecosystem needed to support the growth of Islamic finance: it has pension funds and institutional investors creating the demand for sukuk, a steady stream of corporate, infrastructure and Islamic financial institutions issuers creating the supply, a robust backbone of regulations, capable and innovative legal, Shariah and banking professionals and domestic credit rating agencies. To see a similar growth trajectory for ESG/responsible investment, the government needs to follow a similar path to that which has led to Malaysia's leadership position in Islamic finance.”

Foo Su Yin (Chief Executive Officer, RAM Rating Services Bhd)

FACTBOX: MALAYSIA'S PENSION SYSTEM

- Employees Provident Fund (EPF) – Type: defined contribution; assets under management: US\$170 billion; Contributions: employers 13% (minimum 12%), employees 12% (minimum 8%)

The Employees Provident Fund (EPF) is the national compulsory saving scheme for individuals employed in the Malaysian private and non-pensionable public sector. Beyond EPF, private sector occupational pensions are mostly limited to large employers.

Civil servants and other government-linked employees have their own retirement arrangements. These schemes include the Retirement Fund (Incorporated) Scheme and the Armed Forces Fund Board.

OPTIONS FOR ACTION IN MALAYSIA

EXPLORE NATIONAL REGULATORY CLARIFICATION

The Malaysian government could investigate clarifying the Employees Provident Fund Act 1991, the Retirement Fund Act 2007, the Financial Services Act 2013, the Islamic Financial Service Act 2013 and the Capital Markets and Services Act 2007 to have all pension funds and investment managers take account of ESG issues, encourage high standards in investee companies and report on how they are doing so.

Malaysian investors are generally well-informed on corporate governance issues and take governance into account in their investment research and decision-making. There is growing interest in environmental and social issues. This is seen in increased investor demand for sustainability information, growth in the number and scale of sustainability funds, and growing investor awareness of ESG factors as an investment risk management strategy.

International investors have helped raise market awareness by asking Malaysian asset managers how they take account of ESG issues in their investment practices and processes. Certain domestic asset owners and asset managers are exploring the synergies between their investment processes and the decision-making requirements of Shariah compliant finance and responsible investment.

Progress is limited by three factors. First, there are no formal obligations on investors to take account of ESG issues in their investment research and decision-making or in their company engagement. Second, asset owners and individual investors continue to emphasise short-term financial performance, and to place less emphasis on ESG issues or on longer-term drivers of investment value. Third, international investors tend to focus on corporate governance, and assume that good governance will result in good environmental and social performance. This is often interpreted by Malaysian companies as a signal that international investors are not interested in environmental and social issues.

FACTBOX: INSTITUTIONAL INVESTORS IN MALAYSIA

There are four main categories of institutional investor in Malaysia:

1. Statutory corporations such as the EPF, the Retirement Fund (Incorporated), and the Armed Forces Fund Board. The EPF is governed by the Employees Provident Fund Act 1991. Other statutory funds have their own founding legislation (e.g. the Retirement Fund (Incorporated) is governed by the Retirement Fund Act 2007).
2. Government investment vehicles such as Permodalan Nasional Berhad, Khazanah Nasional Berhad and Perbadanan Nasional Berhad. These are regulated by the Companies Act 1965.
3. Financial institutions, Islamic financial institutions, insurers and Takaful operators. These are regulated by the Malaysian Central Bank (Bank Negara Malaysia) under the Financial Services Act 2013 and the Islamic Financial Services Act 2013.
4. Various investment entities, including collective investment schemes and private retirement schemes. These entities are regulated by the Securities Commission of Malaysia under the Capital Markets and Services Act 2007.

ENSURE THE EFFECTIVE IMPLEMENTATION OF THE MALAYSIAN CODE FOR INSTITUTIONAL INVESTORS

The Securities Commission of Malaysia could work with the investment industry to ensure the effective implementation of the Malaysian Code for Institutional Investors.

The Malaysian Code for Institutional Investors 2014 is a voluntary code which sets out broad principles of effective stewardship for investors. The Code states that institutional investors should disclose their policies on managing conflicts of interest, stewardship and voting. Investors are also expected to monitor and engage with investee companies, and to incorporate corporate governance and sustainability considerations into their investment decision-making processes.

It explicitly references the Malaysian Code on Corporate Governance 2012, which sets out broad principles and specific recommendations on structures and processes which companies should adopt in making good corporate governance an integral part of their business dealings and culture. Recommendation 1.4 of the Code on Corporate Governance advises that the board should ensure the company's strategies promote sustainability.

The Code for Institutional Investors and the Code on Corporate Governance have been accompanied by extensive outreach and engagement programmes with key stakeholders (e.g. senior management and boards of companies). These efforts have played an important role in raising wider market awareness of ESG issues, and in encouraging investors to engage with the companies in which they are invested.

Statutory corporations such as the EPF and the civil servants' Retirement Fund (Incorporated) engage regularly on corporate governance issues with the management of investee companies.

The **Securities Commission of Malaysia** could help ensure the effective implementation of the Code for Institutional Investors by regularly reviewing and reporting on the implementation of the Code, and by encouraging investment organisations to effectively implement the Code.

“Since the Asian financial crisis, the Malaysian government has seen improving corporate governance as key to rebuilding confidence in the capital markets. It has supported efforts to develop codes and standards on corporate governance, and has supported investors' efforts to encourage board and company management to comply with these standards.”

Datuk Shahril Ridza Ridzuan (CEO, Employees Provident Fund (EPF))

ENHANCE CORPORATE DISCLOSURE

Bursa Malaysia and the Securities Commission of Malaysia could analyse and report on the disclosures being provided by listed companies and could work together to improve the quality of these disclosures.

Bursa Malaysia requires listed companies to report on their compliance with the principles and recommendations of the Malaysian Code for Corporate Governance in their annual reports. It also requires companies to provide a sustainability statement in their annual report.

Bursa Malaysia has issued a Sustainability Reporting Guide and Toolkits to assist listed issuers to improve their sustainability-related disclosures to meet the evolving information needs of various stakeholders (e.g. investors, customers, regulators).

These disclosure requirements and supporting materials have been influential; they have helped raise market awareness of ESG issues, and they have encouraged investors to pay more attention to ESG issues in their investment processes.

An increasing number of companies, albeit starting from a low base, have started to report on their sustainability performance. However, these disclosures are of relatively poor quality, and tend to be inconsistent and incomplete. These weaknesses limit investors' ability to take account of these issues in their investment processes.

Another important catalyst for companies to improve their approach to corporate responsibility has been the introduction of the FTSE4Good Malaysian indices in 2014. At the end of June 2016, 39 Malaysian companies were eligible for inclusion in these indices, and other Malaysian companies were working towards meeting the criteria to enable them to qualify for inclusion in the indices.

As an official Partner to the Sustainable Stock Exchanges (SSE) initiative, Bursa Malaysia, in collaboration with the Securities Commission of Malaysia, could support efforts to ensure the comparability and consistency of the data being reported, analysing whether and how this reporting is affecting corporate practice and performance and considering whether these data need to be assured in a similar manner to other financial reporting. It could also involve Bursa Malaysia and the Securities Commission of Malaysia working with companies and investors to help build their knowledge of ESG reporting, to encourage improvements in ESG reporting and to strengthen investor-company dialogue on ESG issues.

“As in other Asian markets, we are seeing some large firms moving from being family owned and driven, to being more institutionally driven. While this has been welcomed by investors, it is important that we do not lose sight of the strengths of family businesses. Many have been very successful and they often have a multi-generational view of the business.”

Datuk Shahril Ridza Ridzuan (CEO, Employees Provident Fund (EPF))

SUPPORT RESEARCH

The Securities Commission of Malaysia, Bursa Malaysia and the investment industry could work together to support high-quality academic research into ESG issues.

There is a lack of domestically focused academic research demonstrating that a focus on ESG issues will enhance investment performance. Many investment institutions still see incorporating ESG as being about negative screening, and do not acknowledge the investment case for analysing and fully integrating ESG issues in investment decision-making.

ESG research providers, investment banks, credit rating agencies and industry bodies could all play a part in increasing the quantity of robust Malaysia-specific data and analysis. They could also help develop case-studies that showcase best practice examples from Malaysia investors that have taken account of ESG issues.

“The Malaysian Securities Commission and Bursa Malaysia have been important drivers of change. Their work has significantly increased investor awareness of ESG issues.”

Angelia Chin-Sharpe (CEO Malaysia, BNP Paribas Investment Partners)

SINGAPORE

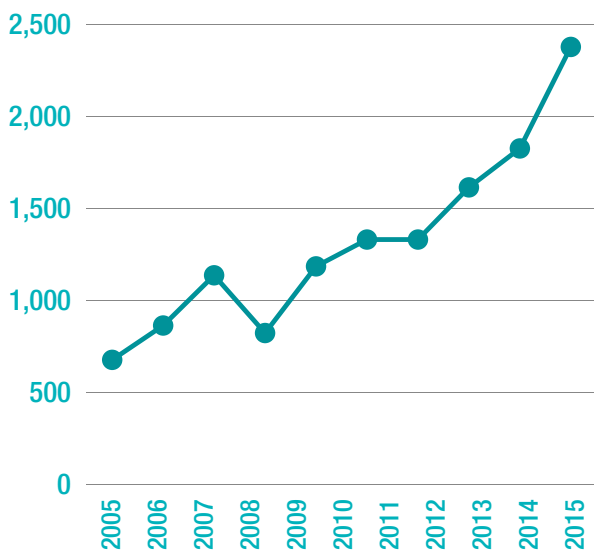
MARKET ANALYSIS:



NOMINAL GDP (\$BN)⁶⁶
 NOMINAL GDP (SINGAPORE DOLLAR (\$S) BILLION)⁶⁹
 POPULATION (MILLION)⁷²
 GDP PER CAPITA (SINGAPORE DOLLAR (\$S)/CAPITA)⁷⁵
 LABOUR FORCE (MILLION)⁷⁸
 % EMPLOYMENT RATE⁷⁹
 % POPULATION OVER 65⁸⁰
 N/A - Not available

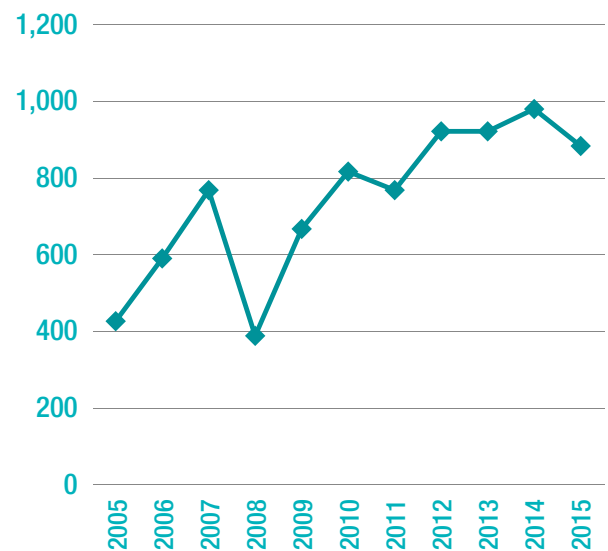
	2012	2013	2014	2015	2016
NOMINAL GDP (\$BN) ⁶⁶	289.9	302.2	306.4	292.7 ⁶⁷	294.6 ⁶⁸
NOMINAL GDP (SINGAPORE DOLLAR (\$S) BILLION) ⁶⁹	362.3	378.2	388.2	402.5 ⁷⁰	413.9 ⁷¹
POPULATION (MILLION) ⁷²	5.312	5.399	5.47	5.535 ⁷³	5.584 ⁷⁴
GDP PER CAPITA (SINGAPORE DOLLAR (\$S)/CAPITA) ⁷⁵	68,205	70,047	70,967	72,711 ⁷⁶	74,131 ⁷⁷
LABOUR FORCE (MILLION) ⁷⁸	3.30	3.36	3.47	3.54	N/A
% EMPLOYMENT RATE ⁷⁹	80.80%	81.40%	83.40%	84.50%	N/A
% POPULATION OVER 65 ⁸⁰	10.28%	10.89%	11.59%	12.32%	N/A

SINGAPORE, TOTAL INVESTMENT OF PENSION FUNDS (\$\$ BN)



Source: MAS Asset / Wealth Management Survey

SINGAPORE, MARKET CAPITALIZATION (\$\$ BN)



Source: Data - The World Bank

66. IMF, *World Economic Outlook Database, April 2016*

67. Estimate, IMF, *World Economic Outlook Database, April 2016*

68. *Ibid.*

69. IMF, *World Economic Outlook Database, April 2016*

70. Estimate, IMF, *World Economic Outlook Database, April 2016*

71. *Ibid.*

72. IMF, *World Economic Outlook Database, April 2016*

73. Estimate, IMF, *World Economic Outlook Database, April 2016*

74. *Ibid.*

75. IMF, *World Economic Outlook Database, April 2016*

76. Estimate, IMF, *World Economic Outlook Database, April 2016*

77. *Ibid.*

78. *Data - The World Bank*

79. *Ibid.*

80. *Ibid.*

Singapore is a regional centre for wealth management, insurance and fund-management businesses, and financial services accounted for 12.5% of GDP in 2014. Government-linked companies play a substantial role in the economy, and the state has significant ownership stakes in strategic sectors such as telecommunications, media, transport, defence, ports, banking, shipping, infrastructure and real estate.

With a low fertility rate and increasing life expectancy, Singapore is amongst those hardest hit by demographic change. The median age of Singapore's population is expected to rise from 37.5 to 53.7 by 2050.

Maintaining Singapore's position as a leading centre for wealth management, insurance and fund management will, given the growth in interest in responsible investment, require it to ensure that its market practices and expectations are aligned with those of its international peers.

High-profile corporate incidents in the region, such as Unilever and Nestlé cancelling palm oil contracts with Indonesian producers due to environmental concerns, have signalled to investors that ESG issues can cost money.

The Association of Banks in Singapore's Guidelines on Responsible Financing (2015) have also been influential. These Guidelines, which also apply to banks' asset management businesses, require banks to disclose their commitment to responsible financing, to allocate resources to support the implementation of responsible financing, to define roles and responsibilities, to ensure governance/internal controls, to raise staff awareness and to build management capacity on responsible financing.

Environmental protection and sustainable development are important policy goals for Singapore. A climate change office has been established within the Prime Minister's office, and significant investments have been made in areas such as transportation, waste management, and smart technologies.

While fiduciary duty is not a legally defined term, certain aspects of the concept are covered in securities legislation, e.g. to avoid conflicts of interest, to protect clients' interests and to act in good faith. The importance of these principles has been confirmed in court cases against banks in the wake of the global financial crisis;

these cases have reaffirmed the importance of acting with due care and skill, and of avoiding conflicts of interest.

International investors – in particular, larger institutions from North America and Europe – have had an influence. They often ask ESG-related questions in their requests for proposals and in their on-going monitoring of investment managers, which is exposing the Singaporean market to trends in other parts of the world.

The domestic investment managers that have managed money for these institutions have developed some expertise in analysing ESG issues, although ESG is often seen as a box-ticking exercise. There is a perception that international investors – in contrast to the approach they adopt in their home markets – see ESG issues as being primarily of relevance to specific ethical funds, rather than as wider drivers of investment value and performance. This difference in emphasis reflects the lack of demand for ESG analysis from Singaporean asset owners, the cost and time required to meet companies and the difficulties in making change through engagement.

FACTBOX: SINGAPORE'S PENSION SYSTEM

- The Central Provident Fund (CPF) – Type: defined contribution; Contributions: employers 17%, employees 20% (up to a maximum of S\$6,000 per month).

Singapore's savings rates have been among the highest in the world since the 1970s, and Singapore's pension system is one of the longest-established in the region. The Central Provident Fund (CPF) is the national mandatory pension scheme used to fund citizens' healthcare and retirement needs.

The CPF invests in government debt, with this money then channelled to the GIC and to the central bank, the Monetary Authority of Singapore.

OPTIONS FOR ACTION IN SINGAPORE

INCREASE SOVEREIGN FUNDS' ESG FOCUS

Lead by example through the actions of Temasek and GIC on ESG integration.

Temasek has acknowledged that ESG factors can have an impact on the long-term sustainability of businesses, and has convened the Ecosperity conference to address the broader issues around sustainability. We find that the actions of publicly owned investment companies strongly influence asset owners and asset managers.

FACTBOX: GIC AND TEMASEK

The government manages the country's reserves through two sovereign wealth funds, GIC Private Limited and Temasek Holdings.

Temasek's initial holdings were government-established industry champions, and it continues to hold majority stakes in several of the nation's largest companies, such as Singapore Airlines, SingTel, ST Engineering and MediaCorp and significant stakes in many others. Over time Temasek has invested the returns from these companies internationally.

GIC receives funds from the national mandatory pension scheme, the Central Provident Fund (CPF).

There is no overarching legislation on how GIC or Temasek should invest or undertake their investment management duties.

EXPLORE NATIONAL REGULATORY CLARIFICATION

The government could investigate amending the Securities and Futures (Licensing and Conduct of Business) Regulations to require all investment managers and relevant intermediaries to take account of ESG issues, encourage high standards in investee companies and report on how they are doing so.

The relative lack of experience with ESG issues and responsible investment among regulators has made them reluctant to propose new legislation or policy in this area.

FACTBOX: REGULATION

- **The Securities and Futures (Licensing and Conduct of Business) Regulations**

Sets out the statutory duties that are imposed on regulated fund managers, including requirements to comply with all laws and rules governing their operations, to mitigate conflicts of interest arising from the management of assets and, where appropriate, to disclose such conflicts of interest to the customer concerned.

- **The Monetary Authority of Singapore**

The primary market regulator, responsible for ensuring the implementation of these regulations.

INTRODUCE A STEWARDSHIP CODE AND MONITOR STEWARDSHIP OUTCOMES

The Monetary Authority of Singapore could continue to work with the investment industry to introduce a code setting out institutional investors' stewardship responsibilities and to monitor stewardship outcomes.

A stewardship code could include requirements for investors to:

- monitor corporate ESG performance;
- engage with companies to encourage better ESG performance and use of voting rights;
- report on how they are doing so

Once such a code has been adopted, the Monetary Authority of Singapore should monitor and report regularly on the implementation of the code.

ENHANCE CORPORATE DISCLOSURE

The Singapore Stock Exchange (SGX) should continue its plans to have all listed companies produce sustainability reports.

From 2018, SGX will require all listed companies to produce sustainability reports at least once a year on a comply-or-explain basis. These reports will be expected to describe companies' sustainability practices with reference to five primary components: material ESG factors; policies, practices and performance; targets; sustainability reporting framework; and the Board statement. Companies will be expected to provide an accurate and balanced view of the risks and opportunities presented by ESG issues to their business.

“Investors cannot rely on questionnaires and self-reporting. They need to spend time with companies, properly understand business models and governance, and ultimately do proper, thorough due diligence.”

David Smith (Head of Corporate Governance, Aberdeen Asset Management Asia)

While companies already report on corporate governance, these disclosures often do not enable investors to meaningfully assess whether, for example, a particular director is independent or not. Disclosures on environmental and social issues tend to be much weaker – many companies do not report and those that do usually focus on philanthropic activities rather than discussing the relevance of sustainability issues to the business as a whole. Where quantitative data are provided, these tend to be of poor quality: the scope and calculation methodologies are often unclear, and it is generally not possible to make meaningful comparisons between companies.

Enhancing disclosure could involve supporting efforts to ensure the comparability and consistency of the data being reported, analysing whether and how this reporting is affecting corporate practice and performance, and considering whether these data need to be assured in a similar manner to other financial reporting.

SGX could also work with companies and investors to strengthen dialogue on ESG issues.

“We tended to get most questions on ESG issues from European LPs [limited partners]. We have, however, seen growing interest over the past 3-4 years from Asian LPs, especially in the investment opportunities presented by ESG issues.”

Steven Okun (Head of Public Affairs, KKR Asia Pacific)

SUPPORT RESEARCH

The government and the investment industry could work together to support high-quality academic research into ESG issues.

There is a lack of domestically focused academic research demonstrating that a focus on ESG issues will enhance investment performance. Many investment institutions still see incorporating ESG as being about negative screening, and do not acknowledge the investment case for analysing and fully integrating ESG issues in investment decision-making.

ESG research providers, investment banks, credit rating agencies and industry bodies could all play a part in increasing the quantity of robust Singapore-specific data and analysis, and developing case studies showcasing best practice examples from Singaporean investors that have taken account of ESG issues.

“One of the most interesting trends has been in the depth of questioning we receive from clients. They have moved beyond simply asking yes/no questions such as whether we are signatories to the PRI. An increasing number now ask detailed question about how we take account of ESG issues in our research and in our decision-making, and about how ESG issues affect the structure and composition of our investment portfolios.”

Nicholas Hadow (Director, Business Development, Aberdeen Asset Management Asia)

SOUTH KOREA

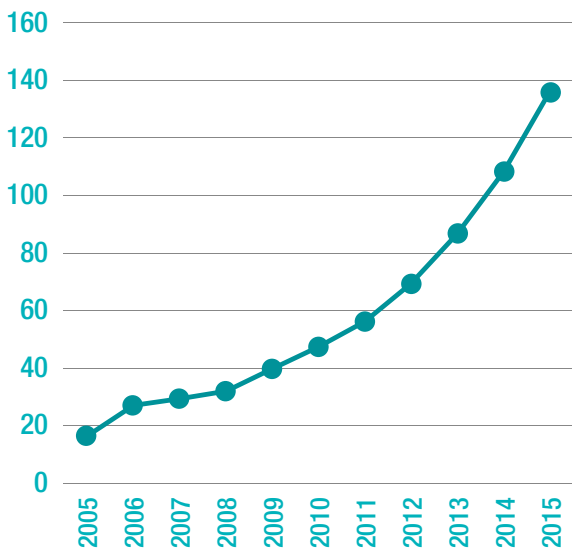
MARKET ANALYSIS:



NOMINAL GDP (\$BN)⁸¹
 NOMINAL GDP (SOUTH KOREAN WON (₩) BILLION)⁸⁴
 POPULATION (MILLION)⁸⁷
 GDP PER CAPITA (SOUTH KOREAN WON (₩)/CAPITA)⁹⁰
 LABOUR FORCE (MILLION)⁹³
 % EMPLOYMENT RATE⁹⁴
 % POPULATION OVER 65⁹⁵
 N/A - Not available

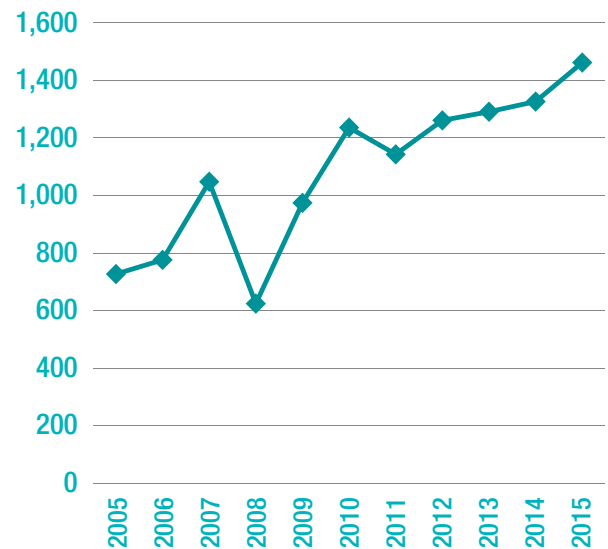
	2012	2013	2014	2015	2016
NOMINAL GDP (\$BN) ⁸¹	1,222.8	1,305.6	1,410.4	1,376.9 ⁸²	1,321.2 ⁸³
NOMINAL GDP (SOUTH KOREAN WON (₩) BILLION) ⁸⁴	1,377,457	1,429,445	1,485,078	1,557,454 ⁸⁵	1,607,795 ⁸⁶
POPULATION (MILLION) ⁸⁷	50.0	50.2	50.4	50.6 ⁸⁸	50.8 ⁸⁹
GDP PER CAPITA (SOUTH KOREAN WON (₩)/CAPITA) ⁹⁰	27,546,685	28,463,855	29,451,835	30,762,052 ⁹¹	31,627,695 ⁹²
LABOUR FORCE (MILLION) ⁹³	23.68	23.96	24.47	24.76	N/A
% EMPLOYMENT RATE ⁹⁴	62.70%	63.10%	64.10%	64.50%	N/A
% POPULATION OVER 65 ⁹⁵	11.77%	12.21%	12.65%	13.07%	N/A

SOUTH KOREA, TOTAL INVESTMENT OF PENSION FUNDS (₩ TN)



Sources: [OECD Pension Markets in Focus 2015](#), [OECD Pension Markets in Focus 2016\(Preliminary\)](#)

SOUTH KOREA, MARKET CAPITALIZATION (₩ TN)



Source: [Data - The World Bank](#)

81. IMF, [World Economic Outlook Database, April 2016](#)

82. Estimate, IMF, [World Economic Outlook Database, April 2016](#)

83. [Ibid.](#)

84. IMF, [World Economic Outlook Database, April 2016](#)

85. Estimate, IMF, [World Economic Outlook Database, April 2016](#)

86. [Ibid.](#)

87. IMF, [World Economic Outlook Database, April 2016](#)

88. Estimate, IMF, [World Economic Outlook Database, April 2016](#)

98. [Ibid.](#)

99. IMF, [World Economic Outlook Database, April 2016](#)

91. Estimate, IMF, [World Economic Outlook Database, April 2016](#)

92. [Ibid.](#)

93. [Data - The World Bank](#)

94. [Ibid.](#)

95. [Ibid.](#)

The National Pension Service of Korea (NPS) is the country's largest investment institution and the third largest pension fund in the world, with approximately ₩555 trillion (US\$500 billion) in assets under management.

According to the Organization for Economic Cooperation and Development (OECD) while South Korea has one of the youngest economies in the world (with 5.6 workers for every retiree), it is also one of the fastest ageing, leading the government to prioritise increasing access to formal retirement savings plans and improving returns on NPS investments.

Modernising South Korea's investment industry was one of the bailout conditions imposed by the IMF in the wake of the 1997 Asian financial crisis. Since then, regulators and policy makers have focused on developing the capacity of market actors, ensuring that the financial system functions effectively and ensuring that savers and beneficiaries' interests are properly protected.

The government wants to increase the amount of capital invested by international investors in South Korea, and is adapting market practices and rules to align with market practices in other markets. Developments in Japan and the United States tend to be particularly closely watched. In relation to responsible investment, the Japanese Government Pension Investment Fund's (GPIF's) decision to sign the Principles for Responsible Investment and the introduction of the Japanese Stewardship Code are both likely to have a significant influence on South Korean policy makers.

All state pension funds (including the NPS) are covered by National Finance Law, which requires pension funds to be profitable, to support financial stability, to act in the public interest, to maintain liquidity, and to operate in a transparent manner (Article 63 of the National Finance Law).

All private sector funds and other financial actors – e.g. asset managers, trust businesses, brokers, dealers – are covered by the Financial Investment Services and Capital Markets Act (FISCMA). The Act requires all financial investment service providers to act in good faith, not to harm investors' interests while advancing their own or a third party's interest, and to manage conflicts of interest. Article 79 (for collective investment managers and mutual funds) and 102 (for trust business servicers) of FISCMA state that these actors have duties of care (fiduciary duty) and duties of loyalty.

A 2015 amendment to the National Pension Service Act requires the National Pension Service (NPS) to take account of ESG issues in investment decisions and, if not, to explain why not. The National Pension Service must consider responsible investment factors such as ESG issues in exercising its voting rights, and must disclose its votes. The NPS has started to monitor asset management and brokerage companies, to conduct its own ESG analysis and to actively vote at AGMs.

This is having an effect across the market. Local asset managers are developing their ESG capabilities to win NPS mandates. Other public sector schemes, despite not being subject to these amendments, are starting to develop and adopt their own responsible investment strategies.

Public pension funds (under Article 64 of the National Finance Law) and private sector investment managers (or funds) (under articles 87, 112 and 186 of FISCMA) are required to actively vote shareholdings to protect their investors' interests, to exert their best efforts in exercising their voting rights, and to disclose their voting records. There are, however, no other obligations on asset owners or asset managers to take account of ESG issues in their investment practices.

The National Assembly Budget Office (NABO) is currently reviewing how the National Pension Service is incorporating ESG considerations following the 2015 amendment to the National Pension Service Act. It is also looking at questions of capacity and market expertise, and at the issues that would need to be addressed before it can officially recommend the integration of ESG issues into investors' fiduciary duties

FACTBOX: SOUTH KOREA'S PENSION SYSTEM

- **The National Pension Service (NPS) – Type: defined contribution; Contributions: employers 4.5%, employees 4.5%**

South Korea's pensions system comprises the state-run NPS, other public sector schemes and occupational schemes (which are progressively replacing the historic severance pay system).

The NPS now covers over half the South Korean labour force, and accounts for over 90% of total pension assets in South Korea. Despite South Korea accounting for less than 2% of global capital markets, NPS invests almost 80% of its assets domestically, but has a target to reduce this to 70% by 2020.

There are approximately 60 other public sector pension schemes which, together, cover approximately 6% of the workforce. They include the Government Employees Pension System, the Military Personnel Pension System and the Teachers' Pension System. They operate on a pay-as-you-go basis, with the government and employees each contributing 8.5% of wages.

Until recently, the severance pay system (where employees were entitled to severance pay after one year of continuous employment) was the main pension scheme. South Korea has introduced legislation that will see a shift from lump sum severance pay system payments to a universal retirement system that supplements social security. From 2016, companies with 300 or more employees will be required to provide company pension plans. This will gradually extend to smaller employers by 2022.

“While FCSMA requires private sector funds to operate in a fair manner and in good faith, and also refers to duty of care and loyalty, there is no specific regulatory guidance on these clauses. A 2003 Supreme Court case concluded that, if an investment decision was prudent at the time it was made, was made in the belief that it was in the best interests of the fund and was made using all available information, then the investment manager could not be considered to be in breach of its fiduciary duties in the event that such decisions resulted in losses.”

Jean Lee, Attorney, Kim & Chang

OPTIONS FOR ACTION IN SOUTH KOREA

EXPLORE NATIONAL REGULATORY CLARIFICATION

The government could investigate clarifying the National Finance Law, the enabling legislation for each of the state pension funds and the Financial Investment Services and Capital Markets Act (FISCMA) to have public and private pension funds and investment managers take account of ESG issues, encourage high standards in investee companies and report on how they are doing so.

To date, asset managers have conducted little analysis of the ESG performance of South Korean companies. The most significant reason for this is that there are no formal legal obligations on asset managers to take account of ESG issues in their investment processes. This has been compounded by scepticism in the South Korean investment industry about the relevance of ESG issues to investment value and the common assumption that ESG analysis is the same as ethical screening.

“There are no formal requirements for asset managers to take account of ESG issues in their investment practices and processes. The South Korean investment industry is conservative and there is a lack of understanding of the relevance of ESG issues to investment performance. Without strong legal or market drivers, asset managers will remain hesitant to take action.”

Dr Karl Chun Seung Yang (Executive Director, Korea Sustainability Investing Forum (Kosif))

“South Koreans are interested in social and environmental values such as human rights and climate change. However, they generally try to pursue these values through the political process rather than through investment decisions. That is, addressing social problems is seen as the responsibility of public agencies rather than of private market participants.”

Dr Ick Jin (Director, Economic Program Evaluation Division, National Assembly Budget Office)

DEVELOP A STEWARDSHIP CODE

The Financial Services Commission could work with the investment industry to develop a code setting out institutional investors' stewardship responsibilities.

Historically, institutional investors have been reluctant to cast dissenting votes, such as to abstain or vote against management.

The South Korean economy is heavily dependent on conglomerates many of which are family owned or controlled. Many South Korean investors are concerned that an insistence on North American or European norms of corporate governance could undermine the success of these businesses. This has been compounded by the close relationships between South Korean asset managers and many of the companies in which they are invested: many leading financial companies are owned by non-financial companies, potentially making it difficult for financial companies to monitor and engage independently. The reluctance to support active engagement was reinforced by the events around Samsung's merger and acquisition activities in 2015. The actions of Elliott Advisors (a US activist investor) created the perception that Elliott Advisors was attacking Samsung, in turn feeding wider misconceptions about investor activism.

The South Korean government has sought to strengthen corporate governance rules to balance the interests of different stakeholders in companies to ensure that no single stakeholder is dominant. In 2015, the South Korean Financial Services Commission proposed a Stewardship Code to promote more active exercise of voting rights, but such a code has yet to be adopted.

A stewardship code could include requirements for investors to:

- monitor corporate ESG performance;
- engage with companies to encourage better ESG performance and use of voting rights;
- report on how they are doing so.

Once such a code has been adopted, the Financial Services Commission could monitor and regularly report on the implementation of the code.

ENHANCE CORPORATE DISCLOSURE

The Financial Services Commission and the Korea Exchange could work together to extend the Green Posting System requirements to cover the range of ESG issues that are of relevance to companies.

In 2012, the Financial Services Commission established the Green Posting System which requires around 500 firms to publish details of their greenhouse gas emissions and their energy usage. Firms that are listed on the Korean Stock Exchange are required to include this information in their annual reports. Other than the Green Posting System, South Korea does not require companies to report on ESG issues in their annual reports or elsewhere.

There have been improvements in corporate disclosures on ESG issues, often driven by the pressure from international investors. However, the absence of formal reporting requirements on ESG issues means that many companies do not report on their environmental and social performance at all. Furthermore, the data that are reported are seen as unreliable and as not allowing meaningful comparisons to be made between companies.

The Financial Services Commission could encourage the Korea Exchange, as a Partner to the Sustainable Stock Exchanges (SSE) initiative, to work with companies and investors to help build their knowledge of ESG reporting, to encourage improvements in ESG reporting and to strengthen investor-company dialogue on ESG issues.

SUPPORT RESEARCH

The government and the investment industry (through industry bodies such as the Korea Sustainability Investing Forum) could work together to support high-quality academic research into ESG issues.

There is a lack of domestically focused academic research demonstrating that a focus on ESG issues will enhance investment performance. Many investment institutions still see incorporating ESG as being about negative screening, and do not acknowledge the investment case for analysing and fully integrating ESG issues in investment decision-making. These perceptions have been reinforced by high profile examples of some poorly performing funds, in particular the poor financial performance of funds focusing on corporate governance in the wake of the Asian financial crisis.

ESG research providers, investment banks, credit rating agencies and industry bodies could all play a part in increasing the quantity of robust South Korea-specific data and analysis. They could also help develop case-studies that showcase good practice examples from South Korean investors that have taken account of ESG issues.

“We need to consider how the public perceives the language we use. For example, since a large part of the Korean population has experienced the civil war and seen the tensions between South and North Korea, they tend to perceive the terms ‘social’ (in ESG) and ‘social value’ as being related to socialism. What matters at the end of the day will be whether the perception of the public of what social value means gradually improves.”

Dr Ick Jin (Director, Economic Program Evaluation Division, National Assembly Budget Office)

APPENDIX 1

PRI SIGNATORIES, UNEP FI MEMBERS AND SSE PARTNER EXCHANGES IN THE SIX MARKETS

SUSTAINABLE STOCK EXCHANGES (SSE) PARTNER EXCHANGES

Exchange Name	Country
Bombay Stock Exchange (BSE)	India
National Stock Exchange of India (NSE)	India
Korea Stock Exchange (KRX)	South Korea
Bursa Malaysia	Malaysia
Singapore Exchange (SGX)	Singapore

UNEP FI SIGNATORIES

Name	Country	Industry
Bank of Taizhou Ltd	China	Bank
China Development Bank	China	Bank
China Merchants Bank CO.,LTD	China	Bank
Industrial and Commercial Bank of China Limited	China	Bank
Industrial Bank Co. Ltd	China	Bank
Ping An Bank	China	Bank
Peak Reinsurance Company Limited	Hong Kong	Insurance
The Link REIT	Hong Kong	Investment
YES BANK Limited	India	Bank
Infrastructure Leasing & Financial Services	India	Investment
Amgeneral Insurance Berhad (subsidiary member)	Malaysia	Insurance
DGB Financial Group	South Korea	Bank
KEB Hana Bank	South Korea	Bank
Shinhan Bank	South Korea	Bank
The Export-Import Bank of Korea	South Korea	Bank
Hyundai Marine and Fire Insurance Co. Ltd.	South Korea	Insurance
Samsung Fire & Marine Insurance	South Korea	Insurance

PRI SIGNATORIES

Account Name	HQ Country	Signatory Category
Greenland Financial Holdings Group	China	Investment Manager
JD Capital	China	Investment Manager
Lunar Capital Management	China	Investment Manager
SynTao Green Finance	China	Service Provider
ADM Capital	Hong Kong	Investment Manager
Advantage Partners	Hong Kong	Investment Manager
AIF Capital	Hong Kong	Investment Manager
ARCH Capital Management Co. Ltd.	Hong Kong	Investment Manager
Cassia Investments	Hong Kong	Investment Manager
Kerogen Capital	Hong Kong	Investment Manager
MBK Partners	Hong Kong	Investment Manager
Mirae Asset Global Investments (HK)	Hong Kong	Investment Manager
NewQuest Capital Partners	Hong Kong	Investment Manager
Orchid Asia Hong Kong Management Company Limited	Hong Kong	Investment Manager
Daobridge Capital Limited	Hong Kong	Service Provider
Pacific Risk Advisors Ltd (PRA)	Hong Kong	Service Provider
Social Enterprise Research Institute	Hong Kong	Service Provider
SustainAsia Ltd	Hong Kong	Service Provider
IDFC	India	Investment Manager
INDUS Environmental Services Pvt. Ltd.	India	Service Provider
Solaron Sustainability Services	India	Service Provider
Korea National Pension Service (NPS)	South Korea	Asset Owner
Anda Asset Management	South Korea	Investment Manager
Korea Corporate Governance Service (KCGS)	South Korea	Service Provider
Sustinvest Co., Ltd.	South Korea	Service Provider
Corston-Smith Asset Management	Malaysia	Investment Manager
Arisaig Partners (Asia) Pte Ltd	Singapore	Investment Manager
Equis Pte. Ltd	Singapore	Investment Manager
Eurofin Investments Pte Ltd	Singapore	Investment Manager
Golden Rock Capital	Singapore	Investment Manager
Westmount Pacific LLC	Singapore	Investment Manager
Paia Consulting	Singapore	Service Provider

APPENDIX 2

KEY INVESTMENT ACTORS IN THE SIX MARKETS

ASSET OWNERS (EXCLUDING COMMERCIAL BANKS, CENTRAL BANKS AND INSURANCE FUNDS)

#	Firm	Date	Type	Total Assets (US\$ billion)	Country
1	China Investment Corporation	Dec-14	SWF	\$652.70	China
2	SAFE Investment	Dec-14	SWF	\$567.90	China
3	National Pension Service	Mar-15	PF	\$441.02	South Korea
4	Hong Kong Monetary Authority Investment Portfolio	Dec-14	SWF	\$400.20	Hong Kong
5	Government Investment Corporation	Mar-14	SWF	\$342.64	Singapore
6	National Council for Social Security Fund	Dec-14	PF	\$244.86	China
7	Central Provident Fund	Dec-14	PF	\$207.95	Singapore
8	Employee Provident Fund	Dec-14	PF	\$141.35	Malaysia
9	Foreign Exchange Stabilization Fund	Dec-03	OI	\$125.40	South Korea
10	Temasek Holdings	Mar-15	SWF	\$122.53	Singapore
11	Indian Post Savings	Mar-13	OI	\$102.56	India
12	Korea Development Bank	Dec-14	OI	\$102.07	South Korea
13	National Housing Fund	Dec-13	OI	\$98.58	South Korea
14	Korea Investment Corporation	Dec-14	SWF	\$84.70	South Korea
15	Employee Provident Fund Office	Mar-13	PF	\$74.88	India
16	Korea Post Savings Fund	Dec-14	OI	\$55.86	South Korea
17	National Credit Union Federation of Korea	Dec-13	OI	\$53.73	South Korea
18	Khazanah Nasional	Dec-14	SWF	\$41.60	Malaysia
19	Korea Post Insurance Fund	Dec-14	OI	\$41.07	South Korea
20	Korean Federation of Community Credit Cooperatives (KFCC)	Dec-14	OI	\$39.15	South Korea
21	National Agricultural Cooperative Federation	Dec-14	OI	\$29.44	South Korea
22	Pension Trust Fund (KWAP)	Dec-14	PF	\$29.33	Malaysia
23	Korea Securities Finance Corporation (KSFC)	Dec-14	OI	\$21.65	South Korea
24	Korea Teacher's Credit Union	Jun-14	OI	\$17.63	South Korea
25	Tabung Haji (Pilgrim's Fund)	Dec-13	OI	\$16.38	Malaysia
26	SME Start Up and Promotion Fund	Dec-13	OI	\$15.63	South Korea
27	Korea Deposit Insurance Corporation	Dec-14	OI	\$15.11	South Korea
28	Government Employees Pension Fund	Dec-14	PF	\$14.43	South Korea
29	Korea Public Fund Investment Pool	Jun-14	OI	\$14.04	South Korea
30	National Pension Service*	Dec-14	PF	\$11.39	India

31	Teachers' Pension	Dec-14	PF	\$11.12	South Korea
32	Export-Import Bank of Korea	Dec-14	OI	\$9.49	South Korea
33	Industrial Workers' Accident Compensation	Dec-13	OI	\$9.24	South Korea
34	Subsidized School Provident Funds	Aug-14	PF	\$9.21	Hong Kong
35	Coal Miners Provident Fund	Mar-11	PF	\$9.12	India
36	Housing Authority	Mar-14	OI	\$9.05	Hong Kong
37	Employment Insurance Fund	Dec-13	PF	\$8.63	South Korea
38	Military Mutual Aid Association	Jul-14	OI	\$8.50	South Korea
39	Farmland Management Fund	Dec-13	OI	\$7.99	South Korea
40	Hospital Authority Provident Fund Scheme	Mar-14	PF	\$6.97	Hong Kong

Source: [Asian Investor – Asia's Top 300 Asset Owners](#)

ASSET MANAGERS

World Rank	Manager	Assets (US\$ billion)	Country
125	Samsung Group	\$114	South Korea
147	China Asset Mgmt.	\$86	China
162	Pacific Century Group	\$73	Hong Kong
172	E Fund Mgmt.	\$66	China
177	Harvest Fund Mgmt.	\$64	China
188	Hanwha Group	\$59	South Korea
189	Mirae Asset Financial Group	\$59	South Korea
194	Fullgoal Fund	\$56	China
195	Penghua Fund Mgmt.	\$56	China
207	ICBC Credit Suisse Asset Mgmt.	\$52	China
261	Reliance Capital	\$35	India
269	KB Asset Mgmt.	\$33	South Korea
297	Korea ITMC	\$28	South Korea
324	HDFC Asset Mgmt.	\$24	India
329	Religare Enterprises	\$23	India
335	Kyobo Life Insurance	\$23	South Korea
374	Birla Sun Life Asset Mgmt.	\$17	India
403	UTI Asset Mgmt.	\$14	India
411	Value Partners	\$13	Hong Kong
442	Pacific Asia Group	\$11	Hong Kong
447	BOCI-Prudential	\$11	Hong Kong

Source: [Towers Watson 500 Largest Asset Managers \(Year End 2014\)](#)

INSURANCE FUNDS

Firm	Type	Gross Written Premiums (US\$ billion)	Country
China Life	Life	\$54	China
PICC Property and Casualty	Nonlife	\$41	China
LIC	Life	\$39	India
Ping An Life	Life	\$28	China
Samsung	Life	\$27	South Korea
Ping An Property and Casualty	Nonlife	\$23	China
New China Life	Life	\$18	China
Samsung	Nonlife	\$15	South Korea
Hanwha	Life	\$13	South Korea
Kyobo	Life	\$11	South Korea
Nonghyup	Life	\$10	South Korea
HSBC Life	Life	\$6	Hong Kong
AIA International	Life	\$5	Hong Kong
Prudential (HK) Life	Life	\$4	Hong Kong
China Life	Life	\$4	Hong Kong
Prudential	Life	\$4	Singapore
AIA Singapore	Life	\$3	Singapore
Great Eastern Life	Life	\$3	Singapore
Manulife (Int'l)	Life	\$3	Hong Kong
New India	Nonlife	\$2	India
ICICI Prudential	Life	\$2	India
HDFC Standard	Life	\$2	India
NTUC Income	Life	\$2	Singapore
Great Eastern	Life	\$2	Malaysia
SBI Life	Life	\$2	India
Prudential	Life	\$1	Malaysia
Aviva Ltd	Life	\$1	Singapore
ING	Life	\$1	Malaysia
AIA Bhd	Life	\$1	Malaysia
Allianz General Insurance Company (Malaysia) Berhad	Nonlife	\$1	Malaysia

Source: [Insurance Information Institute Country Profiles](#)

APPENDIX 3

The project partners would like to thank all of the interviewees and reviewers for their time and contribution to this report.

Opinions expressed in this report do not necessarily reflect the views of contributors and their institutions.

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Wei Liu	Deputy Director of the Bond Markets	Shanghai Stock Exchange	China
Kate Logan	Green Choice Project Manager	Institute of Public & Environmental Affairs, Beijing	China
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Prasanta Mahapatra	General Manager, Corporate Finance	Securities and Exchange Board of India (SEBI)	India
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Kevin L. Todd	Undisclosed	Kim & Chang	South Korea
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ABOUT THE PROJECT PARTNERS

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The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions. The six Principles were developed by investors and are supported by the UN. They have more than 1,500 signatories from over 50 countries representing US\$62 trillion of assets. They are voluntary and aspirational, offering a menu of possible actions for incorporating ESG issues into investment practices. In implementing the Principles, signatories contribute to developing a more sustainable global financial system. For more information, see www.unpri.org.

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The United Nations Environment Programme Finance Initiative (UNEP FI) is a unique global partnership between the United Nations Environment Programme (UNEP) and the global financial sector founded in 1992. UNEP FI works closely with over 200 financial institutions who have signed the UNEP FI Statements as well as a range of partner organizations to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realize the adoption of best environmental and sustainability practice at all levels of financial institution operations. For more information, see www.unepfi.org.

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The Generation Foundation ('The Foundation') is the advocacy initiative of Generation Investment Management ('Generation'), a boutique investment manager founded in 2004. The Foundation was established alongside Generation in order to strengthen the case for Sustainable Capitalism. Its strategy in pursuit of this vision is to mobilise asset owners, asset managers, companies and other key participants in financial markets in support of the business case for Sustainable Capitalism, and to persuade them to allocate capital accordingly. For more information, see www.genfound.org.

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GLOBAL STATEMENT INTO INVESTOR OBLIGATIONS AND DUTIES

We believe that investors and other organisations in the investment system must:

- Act with due care, skill and diligence, in line with professional norms and standards of behaviour.
- Act in good faith in the interests of their beneficiaries and clients, including avoiding conflicts of interest, or where such conflicts are unavoidable, to balance and disclose such conflicts.
- Take account of environmental, social and governance (ESG) issues, in their investment processes and decision-making, encourage high standards of ESG performance in the companies or other entities in which they are invested, and support the stability and resilience of the financial system.

Many of these obligations and duties are already expressed in various ways under the law in different jurisdictions. However, we recognise that there are gaps and variations in both the specific obligations and duties that are placed on investors, and in the manner in which these are interpreted and implemented in each jurisdiction. We specifically note a lack of explicit mechanisms for investors to take account of ESG issues in their investment processes, in their dialogue with companies, and in their engagement with policy makers.

While many investors meet and frequently exceed these obligations and duties, we believe that effective policy can both clarify these obligations and duties and enhance the effectiveness of existing practices. This is particularly the case in relation to the adequate consideration of ESG issues in long and short-term investment decision-making.

We therefore:

- Call on international and supranational policy makers to clarify investors' obligations and duties, in particular, in relation to the integration of ESG issues into investment practice.
- Call on national policy makers to ensure that their national policies align with this clarification of investors' obligations and duties and to ensure that these policies are effectively implemented.

To sign the statement, please email: policy@unpri.org.