Andrew Wong
+65 6530 4736
WongVKAM@ocbc.com

Ezien Hoo, CFA
+65 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA
+65 6722 2533
WongHongWei@ocbc.com

Toh Su N
+65 6530 8355
TohSN@ocbc.com

Disclosures in Sustainable Finance – Addressing Words that Speak Louder than Actions

Europe in the driver's seat: As sustainable finance and ESG investing grows, so has the need for improvements in the quality and consistency in disclosure. As we cover later on in our Financial Institutions outlook (pg. li-lvi), regulatory impetus for sustainable finance disclosure (amongst others) is driven mostly out of Europe through various regulations and mechanisms as part of the European Commission's focus on sustainable finance. This commenced in 2015 with the global adoption of the UN 2030 agenda including the 17 Sustainable Development Goals ("SDGs") and the Paris Agreement that focused on mitigating the effects of Climate Change.
Since then, developments have become more targeted and specific through:

(1) The Financial Stability Board's Taskforce for Climate-Related Financial Disclosures ("TCFD") to improve the effectiveness of climate-related disclosures) in 2017;
(2) The European Union's ("EU") Action Plan on Sustainable Finance - adopted in March 2018, ten reforms across four legislative proposals sought to drive capital towards sustainable financing by managing financial risks associated with sustainability (environmental and social) issues and improving transparency;
(3) The European Green Deal of 2019 and European Green Deal Investment Plan of 2020 that seeks to make Europe the first climate neutral continent by 2050 and establish the investment plan to achieve it respectively; and
(4) Publication of the EU's Taxonomy Regulation in June 2020 that established the conditions for an economic activity to qualify as being environmentally sustainable. This becomes effective and is expected to be passed into EU law in 2022.

Building Momentum: As the quality of regulatory efforts has improved, so has the quantity of efforts in 2021. This recognizes not only an improvement in knowledge and increased familiarity but also some increased urgency to address weather related events and the impact of climate change. As our commodities and macro-economic analyst wrote in a series of three articles on COP26, 2021 will be remembered as a critical turning point for the climate. The COP26 held across late October and early November ultimately represents a step forward in addressing climate risks, albeit a case of two steps forward but one step back.
Key developments in 2021 include:

(1) Launch in April 2021 of the Net-Zero Banking Alliance by banks globally, representing over 40% of global banking assets that are committed to achieving net-zero emissions across their lending and investment portfolios by 2050;
(2) Adoption of the EU's Sustainable Finance Package to improve financing for sustainable activities in Europe; and
(3) Sustainable Finance Disclosure Regulation that discourages greenwashing and promotes responsible and sustainable investments, effective from March 2021.

Holding hands together: What is interesting to note is that the myriad of regulations and legislation do not stand alone but instead work together to achieve the global ideals first established by the Paris Agreement and SDGs. An important development in this puzzle is the Sustainable Finance Disclosure Regulation ("SFDR") that was first introduced in 2019 and came into effect on 10 March 2021. SFDR was initiated by the High-Level Expert Group on sustainable finance ("HLEG") that was established in 2016 and is made up of 20 senior experts from civil society, the finance sector, academia and observers from European and international institutions. Its broad mandate was to deploy sustainability concepts throughout the European financial system by advising the European

Commission on how to improve the flow of public and private capital to sustainable investments and maintain financial system stability against environmental risks.

Making disclosure a requirement and regular: The SFDR establishes mandatory disclosure obligations for asset managers and other financial market players and is designed by the European Commission to work with Taxonomy Regulation and other regulations as part of the abovementioned EU Action Plan on Sustainable Finance. This obligation is expected to improve the quality and transparency of information for sustainable funds investment by disclosing how ESG/sustainability factors and risks are integrated in the investment process for ESG related products at both the entity and product levels. Another obligation for asset managers and financial market participants is the need to disclose their analysis of 50 key sustainability factors and how their investments address potential adverse impacts from these factors.

Using these two parameters, SFDR will assist in the classification of funds into three broad categories – including funds that have no sustainability focus, funds that are supportive of key sustainability agendas (environment, social and governance considerations) and funds that are focused on sustainable investments. Disclosure of the parameters will make asset managers also accountable for the labels they provide to their funds. Implementation will be done in phases depending on the type of information to be disclosed – level 1 disclosures (entity level disclosures for asset managers and other financial market players on policies that identify and address sustainability impacts and risks in its investment decision making process) came to effect on 10 March 2021, while level 2 ones (additional entity but also product level disclosures that include a Principal Adverse Impact ("PAI") statement) will come into effect on 8 July 2022. PAIs seek to quantify the potential negative sustainability impact from the investment being offered across the 50 key sustainability factors mentioned above. Level 3 disclosures which integrate SFDR with EU Taxonomy Regulation is expected to come into effect on 1 January 2023.

A small step in regulations, one giant leap for Sustainability? While SFDR applies to financial market participants based in the EU or those outside the EU that market to EU clients, SFDR likely provides a template for the implementation of other sustainable disclosure measures globally. We expect the impetus for this to grow, particularly as the urgency surrounding key sustainable issues such as climate risk rise. Although these changes create additional administration, processes and costs for fund managers through additional disclosures, it also provides more and clearer information for investors. The ongoing refinement in, and requirement for, sustainability disclosure is a credit positive in our view as greater discipline, consistency and transparency in disclosures will drive higher confidence in sustainable investing and hence capital flows. As touched on in "Getting to Know the Sustainable Bond Market and Sustainability Linked Bonds", knowledge is power and the additional disclosures together with improving Taxonomy regulation should reduce greenwashing concerns and will assist in performing in-depth analysis of issuers, products and the financial market participants that are selling them.

Climate risk stress tests appear to be a useful and necessary component of the overall package of sustainable finance related regulations. The ultimate challenge however will come from interpreting the results and gaining confidence in their accuracy. The absolute accuracy of the results may not be as important as the process however, especially if it hastens Financial Institutions' actions in driving impactful sustainable finance activities. This may ultimately fulfil the aims of the sustainable finance related regulations jigsaw puzzle, even if it does so in an indirect way.

Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Please note that Bond Recommendations are dependent on a bond's price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Explanation of Bond Recommendation

Overweight ("OW") – The bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Neutral ("N") – The represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Underweight ("UW") – The represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Toh Su N
Credit Research Analyst
TohSN@ocbc.com

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons held financial interests in the following above-mentioned issuers or companies as at the time of the publication of this report: Singapore Airlines Ltd, GuocoLand Ltd, Oxley Holdings Ltd, Frasers Centrepoint Trust, Suntec Real Estate Investment Trust, Mapletree Commercial Trust, Frasers Hospitality Trust, United Overseas Bank Ltd, CapitaLand Integrated Commercial Trust, AIMS APAC REIT, Lendlease Global Commercial REIT, Ascott Residence Trust.

Co.Reg.no.:193200032W