Media Coverage

Sustainable investing should be pushed into the mainstream

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As green bonds gain momentum and stature over time, Singapore has to ensure it is ahead of the curve to secure its credentials as Asia's hub for sustainable finance

The global transition to a low-carbon, clean energy economy is well underway with strides being been made in the global reduction in greenhouse gas emissions . Progress can also be seen through the development of the green bond market.

Until recently a nascent concept, sustainable investing is starting to take root.

The key stakeholders in this - governments, corporations, the financial system - are beginning to realise that the part they play (in the way they allocate capital) will shape the speed of low carbon transition and future economic growth.

A key driving force behind change is the global task force set up by the G20. The Task Force on Climate Related Financial Disclosure, as it is known, was mandated to develop a voluntary framework for companies to disclose the financial impact of climate-related risks. It also calls for greater disclosures on exposure to environmental, social and governance (ESG) risk, as well as provide recommendations on governance, metrics and targets.

Green bonds will become an increasingly important piece of the puzzle as investors move towards a more transparent reporting regime.

In the first half of this year, green bond issuance rose 56 percent over the same period last year.

In 2016, over US$90 billion was raised – more than double the 2015 amount. That included the first ever sovereign green bond, a EUR 750 million issue by Poland.

And in January this year, France issued a EUR 7 billion, 22-year green bond – a milestone in terms of its size and long tenor - and all the more remarkable because investor demand, at more than EUR 23 billion, far outstripped the size of the offering.

Investors are now more than ever factoring sustainability issues into their investment decisions, and chief investment officers are integrating the key themes of Environmental, Social and Governance (ESG) into investments as a matter of urgency.

A recent HSBC study found that 68 percent of surveyed investors planned to increase their low-carbon related investments.

Clearly, the world is experiencing a mindset shift but there are still some obvious hurdles to overcome.

A key challenge relates to companies and investors moving at different speeds.

HSBC's research showed that 53 percent of corporates have a strategy in place to reduce their environmental impact and 68 percent of investors planned to increase their climate-related investment, yet only 34 percent currently hold green bonds in their portfolios. But this is not that surprising, given the green bond market is relatively small, at US$232.2bn issuance outstanding in July.

Another challenge is the lingering skepticism over the “greenness” of specific bonds.

Are proceeds really deployed to finance climate-related or environmental projects? Who assesses whether a particular issue is as “green” as another?

Many investors are wanting to see more consistency and transparency in these areas before dipping a toe in the water.

On the flip-side, issuers shy away from the additional efforts and costs associated with tracking and reporting on use of proceeds and certifying “green” issues.

Despite current perceptions, the advantages of issuing a green bond are actually substantial.

For a start, issuing green bonds allows companies to tap the growing demand for these instruments among pension funds, sovereign wealth funds and other investors who are concerned about their portfolios’ exposure to high-carbon and unsustainable issuers and activities.

Moreover, the launch of a green bond allows an issuer to demonstrate they are aware of and preparing for the long-term challenges of global warming.

There is also mounting evidence that some green bonds trade inside non-green bonds, and are less volatile in times of market stress. These characteristics, coupled with increased investor appetite for low-carbon related investments, could be a catalyst for more companies to issue.

All said and done, the increasing momentum behind green bonds means issuers and investors can no longer afford to ignore them.

But we’re starting to see change.

As of 2016, there were some US$23 trillion of assets professionally managed under responsible investment strategies. That’s up 25 percent since 2014, and represents more than a quarter of all professionally-managed assets globally.

In Singapore, we are starting to see more retail buying of green instruments, as investors become more socially responsible. Corporates are also increasingly thinking about how they can adopt financing strategies to improve the environmental impact of their businesses.

Among the Asian markets, Singapore is making notable progress in the green capital market, where the government has played a key role as an advocate for sustainable financing.

For example, the Singapore Exchange has introduced a new ‘comply or explain’ sustainability reporting requirement, signed up on the Sustainable Stock Exchanges Initiative as a partner exchange, and published a range of sustainability indices.

Efforts have also been undertaken to make Singapore’s capital markets more attractive both to issuers and investors through the introduction of initiatives such as the Asian Green Bond Scheme and the Asian Bond Grant scheme.

This is starting to bear fruit, with City Developments launching the country’s first Singapore dollar green bond in April, followed by the first US dollar offshore offering by DBS in July, and most recently, Manulife’s SGD500 million offering, the first benchmark sized Singapore dollar green bond issue. HSBC was the lead arranger for two of the first three green bonds ever issued in Singapore.

It is clear that changing investor behavior in response to global initiatives around managing ESG risk can only help to raise awareness of and spur interest in green bonds, and as such will be an important catalyst to the development of this market.

While still in its infancy, the presence of a green bond market will no doubt add to the breadth and depth of Singapore’s debt market. Given what’s at stake, Singapore has to ensure it’s ahead of the curve to secure its credentials as Asia’s hub for sustainable financing.

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