



ASIA SUSTAINABLE
FINANCE INITIATIVE

2019 Annual Report



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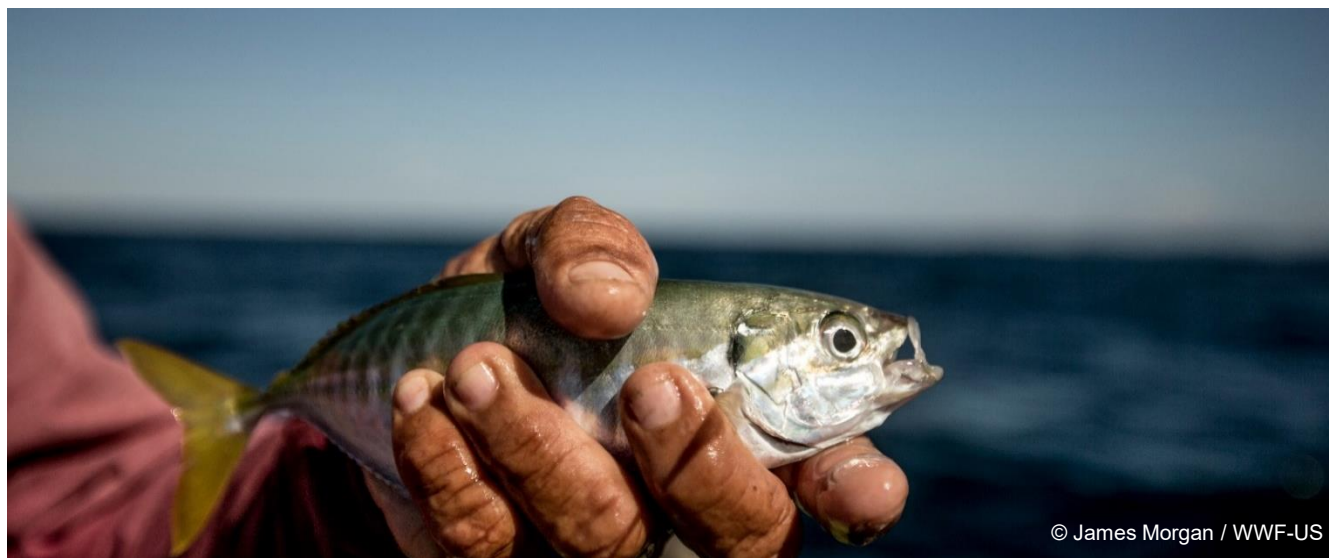
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Asia's science-based sustainable finance initiative

Asia is a region at risk, where the world's battle against climate change will be won or lost.



11%

Of Asia's GDP could be wiped out by the end of the century if climate change is left unchecked

30%

Of national wealth in Asia depends on natural capital

\$4.2T

from the development of sustainable land management practices could be yielded in Asia in the next 10 years – almost 4 x the projected costs

Asia's prosperity – and global climate outcomes – will depend on how we address sustainability challenges in the region today. Asia is particularly vulnerable to climate change, and its economies, founded on industries like manufacturing, fisheries and agriculture, are all heavily dependent on healthy natural capital and the ecosystem services these provide. Decarbonising the region's economies and safeguarding its natural capital is therefore the challenge of this decade.

And while the threats are immense, so too are the opportunities. Following the 2019 Asia-Pacific Climate week in Bangkok, the UNFCCC [emphasized](#) that Asia could lead the global transition to the low carbon economy of the future, by strategically investing in and incentivising the development of renewable energy and other new technologies. Further still, UN Environment [estimates](#) that the development of sustainable land management practices in Asia could yield upwards of US\$4.2T in the next 10 years, almost 4 times the projected costs.

ASFI supports Asia’s finance sector to drive science-based sustainable finance.

To respond to these risks and opportunities, the Asia Sustainable Finance Initiative (ASFI) was established in January 2019 by WWF, alongside 8 other science-based knowledge partners and a core group of industry advisors. Based in Singapore, ASFI brings together industry, academic, and science-based resources to harness and amplify the power of the finance sector to create resilient economies that deliver on the Sustainable Development Goals (SDGs) and the Paris Agreement. ASFI supports the integration of Environmental, Social, and Governance (ESG) best practices via six focus areas:

Standards	Research & Tools	Capacity Building
Regulations & Guidelines	Engagement	Green Financial Solutions

Knowledge partners

ASFI’s Knowledge Partners are at the cutting-edge of their respective fields in sustainability and sustainable finance. Together, these organizations develop and share expertise, tools and resources to support financial institutions operating in Asia to stay ahead of the quickly advancing sustainable finance curve.



Collaborating Organisation:



We extend a warm welcome to the Knowledge Partners and Collaborating Organisation who joined us in 2019.

Advisory group

The ASFI Advisory Group provides strategic guidance on industry priorities and developments to ensure ASFI meets the most pressing needs of financial institutions.



2019 rewind: the growing recognition of the climate and natural capital crises

Climate change climbs to the top of the global agenda.

\$180B

of estimated economic losses in
Asia from climate change in
three years

As 2019 came to a close, humanity's vulnerability to climate and natural capital risks was more apparent than ever. Unprecedented bushfires ravaged much of Australia – with economic costs of AUD 100 billion - while flash floods and mudslides consumed Jakarta, Indonesia. Morgan Stanley estimated in 2019 that Asia suffered \$180 billion in economic damages from climate-related disasters over the previous three years, while global economic losses amounted to over \$650 billion.

1.5°C

a widening gap between
reality and 1.5°C

Since the IPCC's late-2018 special report, which highlighted the stark differences in risks and impacts between 1.5 and 2 degrees of global warming, it has become clear that to avert a climate emergency, warming must be limited to 1.5 degrees. During the latter half of the year, the UN Climate Action Summit in New York and the COP 25 in Madrid saw global leaders gather to discuss how to enhance the rigor of climate change commitments. However, no consensus was reached, reinforcing the importance for countries to double down on their emission reduction efforts as they prepare their 2020 revisions to their nationally determined contributions (NDCs) as part of their support to the Paris Agreement. Private sector action will also be critical as political gridlock hinders progress on policymaking.

In the meantime, global emissions reached a new historic high in 2019, despite a slowdown in emissions growth. This includes a 5% increase in emissions from land use change such as deforestation. Current policies will lead to a global temperature rise of more than 3 degrees by the end of the century, while the warms that new vehicles and air travel - coupled with Asia's growing middle class, could mean a peak in emissions is still decades away.

4M

people marched for climate
action in September 2019

Pressure is mounting to step up ambition on climate action. Throughout the year, youth climate protests – many inspired by 17 year old Greta Thunberg, Time's Person of the Year – spread across the world, calling on governments and the private sector to take action on climate change. Ahead of the September UN Climate Action Summit, youth led one of the largest climate protests in history, consisting of more than 4 million participants across over 160 countries.

¹ As of 28 February 2018

Climate risks exacerbated by the dangerous decline in critical natural capital.

2019 was also the year that discussions around sustainability issues moved beyond a singular focus on climate risks to include related issues like the degradation of Earth's natural capital – e.g. the plants, animals, water, soil, air, and minerals that provide numerous ecosystem goods and services upon which our economies depend. In May 2019, the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) released a cautionary report, underscoring that “nature is declining at rates unprecedented in human history [...] with grave impacts on people around the world now likely.” For instance, IPBES warned of increased exposure to flood risk due to loss of coastal buffers like coral reefs and mangroves, and reduced agricultural productivity due to degraded soil quality and destruction of pollinator habitats. If not addressed, these declines have the potential to destabilise global financial systems due to their impacts on businesses and society.

25%

of Earth's ice free land
degraded

100x

soil erosion from
agriculture is 10 to 100
times higher than soil
formation rates

20-30%

of human caused emissions
since the 1980s have been
absorbed by the ocean,
causing acidification

The IPCC's 2019 [special report](#) on land reiterated the interlinkage between climate change and land use. On the one hand, unsustainable land use has meant that already, a quarter of our ice free land is degraded and soil erosion from agriculture is between 10 and 100 times higher than soil formation. On the other, the Agriculture, Forestry and Other Land Use (AFOLU) sector drives 23% of global emissions, with the resulting climate change further exacerbating land degradation. With land and forest ecosystems soaking up around a third of all carbon emissions, there is an urgent need to transform the way we use land for food, fuel, and fiber.

Similarly, climate change is crippling ocean ecosystems, many of which offer natural protection against climate change. The IPCC's [special report](#) on the oceans found that the ocean has absorbed about 20-30% of human-caused emissions since the 1980s – causing the ocean to acidify – and 90% of excess heat since 1970. As a result of both acidification and warming, coral reefs will suffer severe losses even if global warming is limited to 1.5 degree, and will be completely degraded at 2 degrees, with significant impacts on fisheries and coastal protection of communities and infrastructure. The impacts for Asia, which is home to [more than a third](#), of the world's coral reefs will be particularly severe.



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2019 rewind: accelerating momentum in sustainable finance

Globally:

Regulators



Financial supervisors and central banks increased their focus on sustainable finance as climate change and natural capital loss became key to financial stability.

- EU member states approved the taxonomy for sustainable activities in December 2019, marking key progress in the deployment of the EU's Sustainable Finance Action Plan.
- The [NGFS](#) now counts 51 members, of which 8 are Asian.
- In April, finance ministers from more than 20 countries launched the Helsinki Principles, a [new coalition](#) aimed at driving stronger collective action on climate change and its impacts.
- Following AXA and WWF's call for the establishment of a [Task Force on Nature Impacts Disclosures](#), France revised its [Article 173](#) – which mandates ESG and climate change reporting for institutional investors – to include exposure to nature-related risks.

Investors



Investors' voices joined together in collective commitments, initiatives, and engagement.

- In 2019, [UN Principles for Responsible Investment \(PRI\)](#) asset owner and investment manager signatories grow by 621 to more than 2900, with 75 of these new signatories being headquartered in Asia Pacific.
- In September a group of 12 asset owners launched the [Net-Zero Asset Owner Alliance](#), representing a collective commitment to achieve carbon-neutral investment portfolios by 2050. The group has since grown to 16 asset owners, representing nearly US\$4T AUM.
- 251 investors representing approximately US \$18T AUM [called on companies](#) to address deforestation and forest fires in the Amazon.
- December, 631 FIs with US\$37T AUM signed the Global Investor [Statement](#) to Governments on Climate Change, encouraging policymakers to strengthen their Paris Agreement commitments and put a meaningful price on carbon.

Banks



Banks across the globe are also making strides to reduce the environmental and social impacts of their lending activities.

- 130 banks representing $\frac{1}{3}$ of global banking assets (US\$47T AUM) have signed on to the [Principles for Responsible Banking](#). Of these, 15 banks are headquartered in Asia.
- 33 banks representing US\$13T AUM have signed UNEP FI's Collective [Commitment](#) to Climate Action, agreeing to align their lending portfolios with a well-below 2°C future, support the low-carbon transition through their business transactions, and hold themselves publicly accountable to show progress.



Growing sector-wide commitments

- 51 financial institutions have now committed to set [Science-Based Targets](#) that will align their financial portfolios with the 1.5°C target
- As of June 2019, 374 financial institutions with US\$118T AUM publicly support the TCFD Recommendations.

Regionally:

Regulators



In line with their international peers, financial regulators across 6 ASEAN [countries](#), representing 86% of the region's GDP, have issued new or revised sustainable banking regulations or guidelines. In 2019, these include:

- Bank Negara Malaysia issued a [Discussion Paper](#) on Climate Change and Principle-based Taxonomy, following the establishment of a Joint Committee on Climate Change, as well as its Value-based Intermediation Financing and Investment Impact Assessment [Framework](#), to drive the integration of science-based criteria and global best practices.
- The Thai Bankers' Association (TBA) Sustainable Banking [Guidelines](#), published with support from Bank of Thailand (BOT), which define the minimum expectations for banks in Thailand in managing environmental and social impacts and risks.

Investors



Some of the region's largest asset owners have also taken noteworthy steps to integrate environmental and social issues into their investment strategies:

- GPIF, the world's largest asset owner - released its forward looking climate scenario analysis, showing that its foreign bond, foreign equity, and domestic equity portfolios, as well as domestic equity are aligned with a +3 degree world. The financial giant intends to use its engagement muscle to shift markets to more sustainable outcomes, having already [articulated its support](#) for TCFD as well as the CA100+ investor engagement initiative. GPIF has also articulated expectations for fund managers to develop robust ESG capabilities.
- Malaysia's largest pension fund EPF became a [PRI signatory](#) in April 2019.

Banks



ASEAN's banks also made measurable progress on their integration of ESG into core business practices, however, across the region this progress has been notably uneven. For example:

- 25 banks across ASEAN recognise sustainable finance and climate change as material, up from 14 in 2018;
- However, there are still significant gaps which need to be closed, with 91% of 35 ASEAN banks assessed by WWF still financing coal fired power plants and only three having developed a strategy to manage climate risk;
- Only 17% recognise risks posed by water, despite Asia's increasing vulnerability to water risk.

... and Singapore's finance sector continues to forge ahead on ESG.



At the end of 2019, MAS announced plans to invest US\$2B in green investments as a part of the Singapore Green Finance [Action Plan](#) - an effort geared at establishing Singapore as a leading centre of green finance in the region, and globally. The action plan will also see Environmental and Social Risk Management Guidelines be rolled out across the banking, asset management and insurance sectors in 2020.



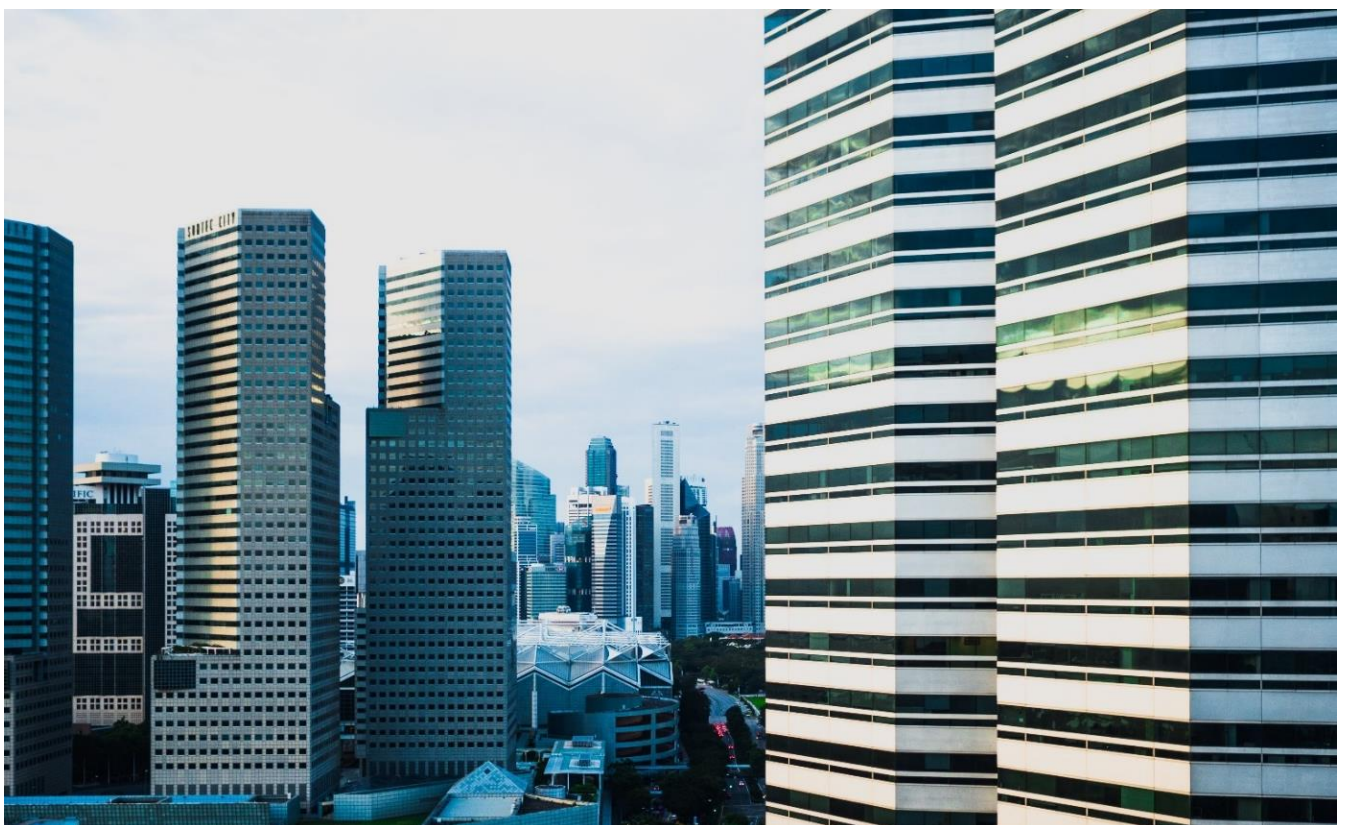
Between 2018 and early-2020, a growing number of Singapore headquartered asset managers became signatories to the Principles for Responsible Investment, including Eastspring Investments, Lion Global Investors, and UOB Asset Management.

TEMASEK

In November 2019, [Temasek](#) announced its plans to halve the greenhouse gas emissions of its portfolio by 2030.



For the third year in a row, Singapore's 3 banks (DBS, OCBC and UOB) emerged as the top performers on WWF's annual [SUSBA](#) assessment – on par with international banks assessed. Among the 35 banks assessed on their ESG integration, these 3 were also the only banks in the region to have implemented policies that prohibit the financing of new coal fired power plants as well as “no-deforestation” agri-forestry policies.



ASFI in 2019

ASFI supports the regional finance sector to respond to, and thrive, in a world of increasing sustainability risks and opportunities.

Research & Tools

ASFI focuses on developing and sharing cutting-edge and science-based sustainable finance tools to help financial institutions to understand, measure and manage evolving ESG risks and opportunities.

WWF launched two new frameworks and continued to enhance its annual Sustainable Banking Assessment.



RESPOND framework: represents a best-practice architecture for responsible investment. The related RESPOND [interactive tool](#) helps asset managers improve portfolio resilience and alignment with a carbon and sustainable future through the application of science-based approaches to responsible investing.



Sustainable Banking Regulations in ASEAN - Raising the bar (**SUSREG**): provides a roadmap for central banks, financial supervisors and policymakers to enhance the financial sector's stability and resilience to climate and other environmental risks. The framework supports the harmonization of sustainable finance regulations both in the region and globally.



SUSBA: an interactive tool for banks to assess and benchmark their ESG integration performance, and identify key improvement areas to stay competitive, resilient and relevant in a resource-constrained, low-carbon future. In 2019, 10 international banks were added to the online tool for allow for enhanced benchmarking.

ASFI continued to work with Knowledge Partners to enhance the understanding and application of science-based tools:



Water Risk Filter: WWF's Water team presented the Water Risk Filter (WRF) during the ESG masterclass *Best Practice Water Risk Management for banks, investors, and corporates*, in collaboration with IBF. The WRF can be used to explore, assess, value and respond to water risks at the level of a company's assets.



Trase.finance: Banks in Singapore, Malaysia, and Indonesia gave feedback into the development phase of the trase.finance tool, developed by Global Canopy and Stockholm Environment Institute (SEI). Trase.finance aims to bring a new level of transparency to the financing of forest-risk trading companies and will be available for first adopters to test from June 2020.



PACTA: The 2dii team presented the PACTA tool to Singaporean banks in January 2019. WWF integrated the PACTA tool in an April training session for fund managers, running a portfolio through the tool and analyzing the results as a practical case study.

The sustainability and sustainable finance landscapes are rapidly evolving, as new research, regulations, standards, and tools emerge. ASFI’s capacity building work helps financial institutions to understand the latest developments, bridge gaps in ESG integration, and develop best practices.

1 394

finance professionals trained across the region, in collaboration with the ASFI knowledge partners

557

finance professionals completed at least 1 ESG module via learn@IBF – IBF’s mobile learning platform

1000

Banking professionals trained via e-learning modules developed with ABS



7
Countries



12



4



2



1



4

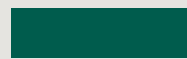


3



2

27
Activities



13 workshops or masterclasses



11 roundtables, sharing sessions or webinars



3 seminars/forums

6
Themes



11 Climate/TCFD/Stranded Assets



9 ESG integration



2 Water



2 Oceans



2 Sustainable infrastructure



1 Forests

Workshop examples: ASFI's capacity building leverages peer learning across the region

Water risk management | Singapore, October 2019



Learning outcomes

- How companies and financial institutions can assess and manage exposure to physical, regulatory, market, and reputational water risks
- Overview of leading water stewardship efforts to date
- How to use geospatial tools to water risks (e.g. WWF's newly updated Water Risk Filter)
- Examples of financial products geared towards addressing water risk

Managing climate risk and opportunity with TCFD | Kuala Lumpur, April 2019



Learning outcomes

- How climate change is going to impact financial portfolios through physical and transition risk
- How climate change impacts sovereign credit profiles and the cost of capital in emerging markets
- How TCFD has been useful for evaluating company risk and opportunity
- How climate risks / opportunities factor into fiduciary duty

ASFI supports the harmonisation of sustainable finance regulations and guidelines, which will play a key role in supporting global sustainable development objectives and strengthening the resilience of the regional finance sector.



In 2019, WWF provided input into the Thai Bankers' Association's Sustainable Banking [Guidelines](#) and Bank Negara Malaysia's Value-based intermediation Financing and Investment Impact Assessment [Framework](#).



In August, AIGCC, ASFI, and PRI provided investors in Asia the opportunity to hear about the developments and harmonisation efforts of the EU Taxonomy as well as insight into similar developments in China. The [webinar](#) was designed to invite and articulate the Asian perspective to the EU Taxonomy.

As investors are being called on to use their shareholder power to drive the shift to sustainable business models, ASFI supported investor engagement by analyzing corporate performance on material ESG issues as well as strategizing and coordinating collective investor engagement initiatives.



WWF provided analysis to support the PRI's Investor Working Group on Sustainable Palm Oil to constructively engage in two critical sectors:

- With ASEAN banks on their ESG lending practices, to ensure that ASEAN banks close the gap on regional and global best practices;
- With Asian [palm oil buyers](#), to address the growing leakage market for unsustainable palm oil in Asia.

2020: kick-starting a decade of accelerated action on sustainable finance

In 2020, sustainable finance will no longer be a “nice-to-have” but a “must-have” for Asian financial institutions. What will be top of mind for 2020?

Environmental issues are at the top of the global agenda...

5

Most likely risks are environmental

The World Economic Forum 2020 Global Risk [Report](#) identifies five environmental risks - **biodiversity loss, climate action failure, human-made environmental disasters, extreme weather and natural disasters** - in its top 10 risks over the next 10 years both in terms of likelihood and impact. These are the top 5 in terms of likelihood.

...driving tighter climate expectations



2020 is our last year to bend the curve on GHG emissions, after which the cost of aligning to a 1.5 degree future will become more and [more costly](#), and [Mission 2020](#) argues that achieving this climate turning point is not only necessary, but also achievable and desirable. All eyes will be on COP 26 in Glasgow – a crucial turning point for international cooperation – where Paris Agreement signatories will need to confirm, update and strengthen their national targets and contributions.

In addition to high stakes on the political agenda, growing commitments from asset owners to decarbonise their portfolios, as highlighted by the [Net-Zero Asset Owner Alliance](#), should filter down into mandate allocation criteria. Asset managers will increasingly need to develop, articulate, and report on climate capabilities, especially in sectors critical to the transition towards a sustainable world (e.g. energy, transport, infrastructure, agriculture).

The longer we wait, the more disruptive the policy response

2025

will bring inevitable policy responses

At the same time, the business case for urgent action grows, as the [Inevitable Policy Response](#) (IPR) forecast – led by PRI, Vivid Economics and Energy Transition Advisors – warns that growing climate risks will trigger a forceful and abrupt policy response by 2025, with serious impacts not priced into today’s markets. The IPR message is clear: investors need to act now by running forward-looking risk assessments and aligning portfolios to science-based targets. A delayed response will only lead to greater cost and financial risk.

Lifting the lid on natural capital risks

2020

Biodiversity is the next frontier in financial risk management

A growing number of tools and targets to integrate natural capital



2020 will be a landmark year for biodiversity, with world leaders gathering in China at the [Convention on Biological Diversity](#)'s 15th Conference of the Parties (COP) to review the achievement of its Strategic Plan 2011-2020 and agree on a new global framework to safeguard nature.

The year was kicked off by WWF and PWC's [report](#) "Nature is too big to fail" – which warns that financial sector actors need to act swiftly and adds another voice to existing calls for a Taskforce on Nature-Related Financial Disclosures. As we start lifting the lid on natural capital risks, biodiversity will become the next frontier in financial risk management. There is already promising movement on the integration of biodiversity into financial decision making:

- In response to France's inclusion of biodiversity in Article 173, AXA Investment Managers, BNPP Asset Management, Mirova, and Sycomore Asset Management are [joining up](#) to develop and implement an innovative tool to measure the impact of investments on biodiversity;
- To support the measurements and management of natural capital risks, there is a growing application of tools and methodologies that draw on geospatial and asset level data (see the [Water Risk Filter](#), or [Global Forest Watch Pro](#)) - linking corporate actions to changes in the real economy and ecosystems;
- The existing [ENCORE](#) tool by Natural Capital Finance Alliance (NCFA) will be further [enhanced](#) in 2020 – in collaboration with the United Nations Environment Programme World Conservation Monitoring Centre – to allow financial institutions to align their portfolios with global biodiversity targets;
- Beyond Science Based Targets for climate change, a diverse network of leading institutions are starting to work on Science Based Targets for land, oceans and biodiversity under the [SBT Network](#).

In 2020, calls for a Taskforce for Nature Related Disclosures are expected to grow, bringing this existential issue to the centre of international governance.

ASFI in 2020

Learning going online in 2020-2021

Responding to unprecedented sustainability related risks and opportunities calls for financial institutions to embed sustainable finance capacity throughout the organisation – from analysts and relationship managers to CIOs and Chief Risk Officers, no role will be unaffected by these trends. ASFI will continue to nurture sustainable finance governance, capacity, and leadership in Asia, with a focus on expanding the reach and scope of capacity building and allowing for more personalised, structured learning journeys and outcomes. As such, in collaboration with partners, ASFI will be developing and rolling out a comprehensive e-learning curriculum throughout 2020-2021.

3

Competency levels

A scaled learning approach will progressively equip finance sector professionals of all levels and roles – from human resources, to analysts, to board members – with the technical capabilities required to respond to 21st century sustainability challenges.

23

Modules

The range of modules will allow learning to be tailored to the needs of stakeholders by selecting modules and learning outcomes most relevant to their regions, firms, or roles.

ASFI
Knowledge
Partners

The curriculum will draw from knowledge partners at the cutting edge of sustainability and sustainable finance, whose combined subject matter expertise ensures the latest in sustainability science; policy and regulatory developments; and ESG tools, methodologies, and integration strategies.



Upcoming events and resources

In 2020, we look forward to continued collaborations to bring the latest in sustainable finance to Asia's finance sector. Please visit www.asfi.asia for updates on events and resources.

Preliminary events 2020*

Jan	<div></div> <p>Roundtable: Update on sustainable finance regulations Singapore</p>	<div></div> <p>Workshop: Sustainable Finance Series (1/2): Climate and Natural Capital Risk Tokyo</p>	<div></div> <p>Webinar: Engaging the Asian FMCG sector on sustainable palm oil</p>
Feb			
March	<div></div> <p>Webinars: Engaging with ASEAN banks to manage climate change & forest related risks in financing activities KL Jakarta SG</p>	<div></div> <p>POSTPONED*: Workshop: Sustainable Finance Series (2/2): Sustainable banking and responsible investment segments Tokyo</p>	
April	<div><div>WORLD RESOURCES INSTITUTE</div></div> <p>Webinar: Geospatial tools for forest risk management in portfolios – Global Forest Watch Pro</p>	<div><div>Centre for Sustainable Finance <small>SOAS University of London</small></div></div> <p>Report and Launch event (Q2): Climate Risk and Sovereign Risk in Southeast Asia: Exploring the Connections and Implications for Financial and Monetary Authorities Bangkok / Washington DC</p>	
May			

*Due to COVID-19 and the protocols in place around safety, many events are being cancelled or postponed. Please visit www.asfi.asia for updates on events and resources.

June



Webinar:
Towards ESG
meta-standards
for
infrastructure



E-learning level 1 modules released
*Understand latest industry ESG
practices and articulate their
relevance and impact to the
organisation*
Singapore / regional



Workshop: **Climate Risk**
for Financial Institutions
Kuala Lumpur

Q3-4



Tool: The 2020
update of WWF's
**Sustainable
Banking
Assessment
SUSBA** is
released.

Tool: The
2020 update
of WWF's
**fund manager
assessment
RESPOND** is
released.

E-learning level 2
modules released
*Integrate science-
based ESG research
into financial
decision making*
Singapore



Workshop:
Setting **Science
Based Targets**
Singapore





Multi-stakeholder solutions for best-practice, science-based sustainable finance

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