Singapore Stewardship Principles for Responsible Investors 2.0

2021 Revision Consultation Draft

Contents

Introduction

Since the introduction of the Singapore Stewardship Principles (SSP) for Responsible Investors in 2016, capital markets have undergone profound changes. As the world shifts towards a more inclusive form of capitalism, attention on and concern over how capital markets impact the economy, society and environment have intensified.

Market participants and institutions play an increasingly vital role in providing businesses with access to capital while facilitating sustainable development. There is now greater demand from investors, as fiduciaries, to align their investment mandate with a genuine intent to deliver long-term value to clients/beneficiaries through the positive influence of their investee companies and issuers. Stewardship is important for the wider business and investment ecosystem. Investors engage with companies and issuers and factor in environmental, social, and governance (ESG) considerations to respond to issues that influence investment outcomes.

In preparing for the revised draft and consultation, research on the stewardship codes in other jurisdictions and feedback from over 40 invited market participants of the investor community was solicited via an industry survey. Evidence from the survey and market participants' engagements has shown that the application of stewardship has helped communicate information with stakeholders and provide guidance in articulating their philosophies and actions towards responsible investing. At the same time, investors feel that effective stewardship should result in clear stewardship policies and outcomes that provide value for both clients/beneficiaries and stakeholders. This will require investors to turn their policies and commitment into actions that enhance sustainability and governance efforts in the investment value chain.

Given the evolving developments, it is timely and relevant to revise the SSP to ensure it continues to drive best practices for responsible investors. The purpose of the consultation is to gather feedback from the industry to build on the foundations of the SSP to help signatories better apply the principles for their reporting and engagement with relevant stakeholders. The SSP Steering Committee is seeking the views of market participants to put forward their valuable feedback to help spur positive outcomes of stewardship and responsible investment. The revised SSP will be called the SSP 2.0 (The Principles).

Context for Revising the Stewardship Principles

Singapore Stewardship Principles for Responsible Investors of 2016 (SSP 1.0)

The SSP 1.0 is a set of stewardship principles intended to enhance Singapore's investment environment by reinforcing investor stewardship. By articulating the core behaviour and actions associated with investor stewardship, it aims to enable investors to be active and responsible shareholders.

The following seven Principles provide useful guidance to responsible investors towards fostering good stewardship in discharging their responsibilities and creating sustainable long-term value for all stakeholders.

1. Take a stand on stewardship.

Responsible investors establish and articulate their policies on their stewardship responsibilities.

2. Know your investment.

Responsible investors communicate regularly and effectively with their investee companies.

3. Stay active and informed.

Responsible investors actively monitor their investee companies.

4. Uphold transparency in managing conflicts of interest.

Responsible investors made known their approach to managing conflicts of interest.

5. Vote responsibly.

Responsible investors establish clear policies on voting and exercise their voting rights in a responsible fashion.

6. Set a good example.

Responsible investors document and provide relevant updates on their stewardship activities.

7. Work together.

Responsible investors are willing to engage responsibly with one another where appropriate.

Given that the effectiveness of Stewardship Principles hinges upon the application in the right spirit rather than compliance merely in form, the SSP 1.0 is not intended to be rigid rules to be enforced or prescriptive measures to be adhered to. As the SSP 1.0 is not meant to be an administrative burden to those who subscribe to the Principles, investors can choose the level of commitment to the SSP 1.0 on a wholly voluntary basis.

The Need for Revision

The consequences of fragmented shareholding and a short-term approach to business and investment have arguably eroded the ownership mentality of investors to become active and responsible shareholders. Amid such an environment, the SSP 1.0 was introduced to provide a set of principles and guidance to encourage investors to act as fiduciaries, shore up good corporate governance among investee companies to create long-term value for all stakeholders, including the economy and society.

While these challenges remain, capital markets have shifted to focus more on the importance of effective stewardship and responsible investing in recent years. There is a greater call for investors to be responsible stewards by explaining the outcomes of their stewardship activities and how they integrate ESG considerations into investment processes.

Some international developments that have reflected these trends (but are not limited to) include:

- The revision of international stewardship codes, including the International Corporate Governance Network (ICGN) Global Stewardship Principles and the UK Stewardship Code
- New reporting and assessment framework for all Principles for Responsible Investment (PRI) signatories[1]

Within the Singapore context, there has also been more impetus in driving sustainable development among Singapore corporates and investors as Singapore positions herself as a financial hub offering more sustainable finance solutions and products.[2] These efforts (but are not limited to) include:

- Introduction of sustainability reporting on a "comply or explain" basis for listed companies[3]
- Guidelines on Environmental Risk Management for Asset Managers[4]
- Proposal for mandatory climate reporting in issuers' sustainability reports based on recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)[5]

With greater demand for investors to act as responsible shareholders, the SSP 1.0 is being updated to reflect more closely with these developments, enhance the harmonisation and

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[1] https://www.unpri.org/pri-blog/pris-new-reporting-framework-driving-positive-change-in-responsible-investment/6737.article
[2] https://www.mas.gov.sg/development/sustainable-finance
[3] https://www.sgx.com/regulation/sustainability-reporting
[4] https://www.mas.gov.sg/regulation/guidelines/guidelines-on-environmental-risk-management-for-asset-managers
[5] https://www.sgx.com/media-centre/20210826-sgx-regco-charts-way-forward-mandatory-climate-reporting-wants-board

interoperability of the Principles with other stewardship codes in other jurisdictions and provide more effective implementation guidance to the investor community.

Summary of the Changes Made

Definition of stewardship

1. Effective stewardship is investors exercising responsible allocation, management and oversight of capital, and promoting positive environmental, social and governance practices, through active ownership and influence, to create long-term sustainable value for clients and their beneficiaries.
2. The SSP 2.0 expands on the SSP 1.0's definition of the building and growing of sustainable businesses to cover the responsibilities of responsible investors, and through active ownership and influence, effect positive change on their investee companies and issuers. In the revised definition, signatories are advised to consider the impact of their investments on the economy, environment and society and work towards long-term value creation that benefits beneficiaries and other stakeholders.

Internal structures and governance

3. In the SSP 1.0, the focus is on ensuring investors have robust policies for their stewardship approach. However, good stewardship depends on investors fostering a conducive culture and allocating appropriate resources to implement their policies and processes effectively. In the SSP 2.0, there is more emphasis on how investors' values, structures and governance guide their stewardship activities. Signatories are advised to demonstrate oversight and accountability of their stewardship activities as fiduciaries of their clients/beneficiaries.

Stewardship beyond listed equity

4. The SSP 1.0 is intended primarily for Singapore-based institutional investors with equity holdings in Singapore-listed companies. However, investors manage a diversified portfolio across different asset classes, and there is growing recognition among investors that stewardship should cover beyond listed equity investments. In response to this trend and to align with other revised stewardship codes that have expanded to include other asset classes, the SSP 2.0 is advocating for signatories to exercise their rights and fulfil their stewardship responsibilities across all asset classes where possible.

ESG considerations in investment decision-making

5. When SSP 1.0 was published in 2016, practitioners in Singapore generally felt that the impact of ESG on share prices and bond yields in Singapore capital markets was limited.[6] However, investors are observing growing material risks associated with ESG and have increased support for environmental and social shareholder proposals. In recent years, several Asian countries have set out national sustainable finance roadmaps and many investors across Asia have committed themselves to align their portfolios with the ESG criteria.[7] As the investment landscape has evolved to have a greater focus on sustainable finance and responsible investments, the SSP 2.0 is asking signatories, in line with their fiduciary duties, to integrate ESG considerations into their investment processes.

Outcomes of stewardship

6. The SSP 1.0 consists of a set of principles and guidance that outlines the activities and functions of responsible investors, where signatories can choose to adopt the principles on a wholly voluntary basis. For the SSP 2.0, signatories will be asked to adopt an outcomes-oriented approach in applying the Stewardship Principles. The intent behind the SSP 2.0 is to nudge investors to focus on the outcomes of their stewardship activities by demonstrating the actions taken and reporting how effectively they fulfil their stated objectives as fiduciaries.

[6] According to the global ESG integration survey done by the CFA Institute, 71% of Singaporean investors that responded considered governance issues to have an impact on share prices in 2017, while only 22% considered environmental and social issues to have an impact on share prices. When asked how these factors would impact share prices in five years' time (2022), the percentages went up to 78%, 56% and 47% respectively. https://www.cfainstitute.org/-/media/documents/survey/esg-integration-apac.ashx

[7] https://www.unpri.org/pri-blog/scaling-up-sustainable-finance-in-asia-highlights-from-pri-apac-digital-symposium/6471.article

How to Respond to the Consultation

The SSP Steering Committee is carrying out the consulting process on the draft of SSP 2.0 to drive better adoption of the Principles and encourage better stewardship among investors.

Comments need to be received by 15 December 2021 (Wednesday) and should be submitted via the link below.

Link to answer template: https://fs25.formsite.com/ssp20/consultation/index.html

Please note that the Steering Committee will not be responding to each submitted response individually, but all feedback will be carefully considered by the Secretariat and the Steering Committee in finalising the SSP 2.0.

To facilitate the feedback process, it is kindly requested that all submissions incorporate the following considerations:

- Comments should be provided with reference to the relevant consultation questions (see page 8 and 9)
- Line numbers to be included should respondents want to comment on making specific text changes to the SSP 2.0 document
- Other comments or suggestions regarding the framework, approach or practical application/recommendations are also welcome

Each submission should contain the following information:

- The name of the organisation/respondent (if responding in a personal capacity)
- The name of the contact person and the email address for clarifications

For more information about the SSP Steering Committee, the SSP 2.0 or collaboration opportunities on the SSP 2.0, please visit https://www.stewardshipasia.com.sg/enable/investors.

List of Consultation Questions

Objectives, Scope and Framework of SSP 2.0 (The Principles)

1. **Do you agree that the revised definition sufficiently covered what is considered as effective stewardship?**

In the Principles, the definition now reads as "*Effective stewardship is investors exercising responsible allocation, management and oversight of capital, and promoting positive environmental, social and governance practices, through active ownership and influence, to create long-term sustainable value for clients and their beneficiaries.*"

2. **Does the SSP 2.0 sufficiently cover all key stakeholders and the core areas of their stewardship responsibilities? Are there any areas which should be included in the SSP 2.0?**

The Principles are most applicable to Singapore-based institutional investors, but also apply to a range of market participants including service providers. Signatories should undertake a range of stewardship activities, such as engagement and voting, to promote high standards of corporate governance and business practices among investee companies and issuers to create sustainable value for clients and beneficiaries.

3. **Do you agree with the objectives, proposed changes and approach of the SSP 2.0? Are there other applications of stewardship which are not reflected in the SSP 2.0?**

The Principles are intended to be broad principles, with suggested guidance to help investors fulfil their responsibilities to their clients and beneficiaries. The Principles are not intended to be rigid rules or prescriptive measures and signatories should exercise considered thought on the application of these Principles and the disclosure of their stewardship activities, based on their organisational circumstances.

In this revision, some of the notable changes include asking signatories to (see page 5 and 6 for more detail)

- disclose their internal governance and structures
- integrate ESG considerations in their investment process
- demonstrate the impact and outcomes of their stewardship activities that contribute towards building a sustainable financial system
- explain how they discharge their stewardship responsibilities across all asset classes where possible (asked in greater detail in the next question)

4. **Does the SSP 2.0 sufficiently cover asset classes beyond listed equity? If not, how can they be expanded?**

Stewardship should not be limited to listed equity but should be adopted the full range of investment securities where possible. Signatories are strongly encouraged to exercise stewardship in asset classes where they are able to exert influence and exercise any rights they hold.

5. **Are the expectations clear for signatories in their implementation of the SSP 2.0? If not, what are ways that can encourage better adoption and implementation of the SSP 2.0?**

Using the Principles as an overarching framework, when reporting on the actions and outcomes achieved relating to their stewardship activities, signatories can choose to apply the Principles or otherwise explain what they do instead to fulfil the aim of the Principles. They are strongly encouraged to submit evidence of their stewardship efforts annually to the Secretariat. This can come in the form of a stewardship report, supplemented by data and case studies.

<u>The Principles (please refer to Annex A for the complete document)</u>

6. **Do you have any comments on Principles 1-7? Are there further guidance points to consider for Principles 1-7?**

7. **Are there any other principles that should be included or excluded? Are there other aspects of guidance points to consider?**

8. **Other comments or suggestions for consideration in the review.**

Annex A

Singapore Stewardship Principles

For Responsible Investors 2.0

DRAFT FOR CONSULTATION

Preamble

Importance of Stewardship

Effective stewardship is investors exercising responsible allocation, management and oversight of capital, and promoting positive environmental, social and governance (ESG) practices, through active ownership and influence, to create long-term sustainable value for clients and their beneficiaries.

Stewardship is important for the wider business and investment ecosystem, including investors and investee companies. In today's context, the investment value-chain linking ultimate asset owners to investee companies is increasingly complex, with investors employing a variety of strategies across different asset classes. Many countries are seeing a trend towards fragmented ownership, with many shareholders each holding a small proportion of shares. Coupled with increasingly shorter shareholding tenure, the ownership mentality is arguably being eroded and replaced by a prevalent short-term view of investment and portfolio management. Hence, the emphasis on stewardship is relevant and timely.

Singapore Stewardship Principles 2.0

By setting out actions, behaviours and processes associated with stewardship, Singapore Stewardship Principles for Responsible Investors 2.0 (The Principles) aim to enable investors to be active and responsible investors. The Principles are intended to be broad principles, with suggested guidance to help investors fulfil their responsibilities to their clients and beneficiaries. The Principles should also be read in conjunction with applicable legislation and regulations. They are designed to complement stewardship codes that are in place in other jurisdictions and investors may wish to utilise the Principles alongside other local and international frameworks to achieve effective stewardship outcomes.

To keep The Principles relevant, revisions have been made to reflect and incorporate evolving developments in expectations, market practices and regulations. Some of these changes include:

- The internal structures and governance of institutional investors in guiding their stewardship activities. Effective stewardship depends on investors having in place a conducive organisational structure, appropriate resources, and a healthy culture, and as such, this revision of the Principles places emphasis on these factors.
- The application of stewardship to asset classes beyond listed equities. These updated Principles suggest that investors should explain how they discharge their stewardship responsibilities across all asset classes where possible.
- The integration of ESG considerations into investment decision-making and stewardship practices. ESG factors present material risks to the value of investment assets and should be considered when carrying out stewardship activities.
- An outcomes-oriented approach to applying the Principles. Effective stewardship should demonstrate both actions taken and outcomes achieved, allowing clients, beneficiaries and broader stakeholders to see the benefits of stewardship activities.

The Responsible Investors

The Principles are most applicable to Singapore-based institutional investors, but also apply to a range of market participants including service providers. While the application of individual principles may differ from participant to participant, The Principles offer a framework for them to consider their role in promoting good governance and stewardship.

Asset owners invest capital with a view to enhance the value of their ultimate beneficiaries' assets. Ultimate beneficiaries include savers or pensioners. Asset owners set investment beliefs, strategies and horizons and communicate their expectations to asset managers that act on their behalf. By subscribing to The Principles, asset owners are committed to exercising effective stewardship consistent with their own stewardship approach, and should expect their asset management clients to behave similarly.

Asset managers are accountable to and invest on behalf of their clients, which include asset owners. As fiduciaries of their clients, asset managers have a responsibility to behave as stewards of the capital entrusted to them and to ensure that capital is invested in the long-term interests of their clients. By subscribing to The Principles, asset managers are committed to adopting the best practices and communicating regularly to their clients on how they fulfil their stewardship responsibilities.

Investors may choose to make use of third-party service providers when discharging their stewardship activities. For example, service providers such as investment consultants and proxy advisors can play a key role in the stewardship value chain. Service providers subscribing to The Principles are committing to align themselves with the aspirations of fostering effective stewardship in the investment value chain.

Applying the Principles

Effective stewardship requires investors to develop an integrated and principles-based approach to stewardship across different asset classes. The Principles allow investors to reflect on their philosophy and approach towards stewardship, assess their own stewardship capabilities, and improve their stewardship efforts to achieve better outcomes for beneficiaries and stakeholders.

To enhance the value of the Principles for signatories, they are strongly encouraged to use The Principles as a guide to report the outcomes of their stewardship activities and submit evidence of their stewardship efforts annually to the Secretariat. This can come in the form of a stewardship report, supplemented by data and case studies.

The effectiveness of these Principles hinges upon their application in spirit rather than compliance in form. Signatories should exercise considered thought on the application of these Principles and the disclosure of their stewardship activities, based on their organisational circumstances.

The Principles

The following seven Principles provide useful guidance to responsible investors towards fostering good stewardship in discharging their responsibilities and creating sustainable long-term value for all stakeholders.

1. **Develop and articulate stewardship responsibilities and governance structures.**
   Responsible investors demonstrate how their internal stewardship and governance policies protect and enhance the interests of their clients and beneficiaries.

2. **Monitor investments regularly.**
   Responsible investors exercise due diligence in overseeing their investment portfolios.

3. **Stay active through constructive and purposeful engagement.**
   Responsible investors conduct regular, effective and fair communication and enhance engagement outcomes.

4. **Uphold transparency in managing conflicts of interest.**
   Responsible investors disclose their conflicts of interest and prioritise the interests of clients and beneficiaries.

5. **Exercise rights and responsibilities on an informed basis.**
   Responsible investors ensure they make informed decisions based on their ownership policies, with the best interests of clients or beneficiaries in mind.

6. **Report stewardship activities periodically.**
   Responsible investors document and provide relevant updates on their stewardship activities.

7. **Take a collaborative approach in exercising stewardship responsibilities where appropriate.**
   Investors collaborate, where appropriate, to influence investee companies and issuers.

P1. Develop and articulate stewardship responsibilities and governance structures.

Responsible investors demonstrate how their internal stewardship and governance policies protect and enhance the interests of their clients and beneficiaries.

GUIDANCE

1.1 Describe the organisational values and demonstrate how investors' stewardship activities help them align their behaviour with their investment philosophies across different asset classes.

1.2 Clearly articulate policies concerning investors' responsibilities as shareholders, and how they promote sustainable value creation. The policies should explain the rationale for investors' own approach to stewardship (including outsourced activities) and how it may be applied to various aspects of the investment process.

1.3 Outline internal governance structures, resources and processes as they relate to stewardship, to demonstrate how investors exercise effective stewardship in their investment activities.

1.4 Disclose the extent to which ESG factors are integrated into investors' investment process, and the ways in which ESG factors are considered. In doing so, asset managers may wish to refer to the Guidelines on Environmental Risk Management for Asset Managers.[1]

1.5 Update and review the effectiveness of stewardship policies and processes periodically. Define the implementation process and articulate the outcomes that investors hope to achieve through the stewardship activities.

P2. Monitor investments regularly.

Responsible investors exercise due diligence in overseeing their investment portfolios.

GUIDANCE

2.1 Regularly monitor the long-term health of investments. Identify and address risks, including ESG issues, which may lead to any consequential loss in investment value. Build capacity in overseeing the investments to ensure alignment with investors' stewardship approach and mandate over time.

2.2 The monitoring process should cover all factors that may affect the value of the investments, across asset classes.

2.3 Should investors have concerns about their investment portfolios on these factors, concerns could be raised directly with the investee companies or issuers to address these issues. Where investors

[1] See: https://www.mas.gov.sg/regulation/guidelines/guidelines-on-environmental-risk-management-for-asset-managers

observe any deviation from applicable corporate governance practices, including Singapore's Code of Corporate Governance[2], they should carefully consider the explanations given for the deviation, assess the reasons and, if necessary, take action as they see fit.

2.4 Investors may wish to make use of third party ratings as a complement to proprietary processes in order to monitor the broad performance of their portfolio. Investors retain overall responsibility for stewardship in these circumstances, and should monitor the performance and behaviour of service providers to ensure that they are aligned with the expectations of clients and beneficiaries.

2.5 Demonstrate how the monitoring mechanisms help protect or enhance the value of investments.

P3. Stay active through constructive and purposeful engagement.
Responsible investors conduct regular, effective and fair communication and enhance engagement outcomes.

GUIDANCE

3.1 Develop an approach to engagement in line with investors' own investment strategies and stewardship policies to achieve meaningful and effective communication with investee companies. These communications should ensure mutual understanding and achievement of objectives, so as to meet the aims of long-term value creation, capital efficiency and sustainable growth.

3.2 Engage with investee companies on a range of topics, including strategy, long-term performance, risk, financials, sustainability, culture, remuneration, corporate governance and other ESG considerations. As part of these communications, investors should satisfy themselves that the investee company's board and board committee structures are effective, and that directors provide adequate oversight.

3.3 If any area of concern remains unresolved, have policies in place to escalate stewardship. Investors should apply escalation strategies such as issuing public statements, participating in collaborative engagements or exercising of voting rights, before considering divesting their investments as a last resort, where practicable, if they fail to achieve a satisfactory outcome to long-term engagement.

3.4 In exceptional circumstances, where investors may be willing to be made insiders, they should indicate in their stewardship statement the willingness to do so, and the mechanism by which this could be done.

3.5 Describe the progress made and outcomes in shareholder engagements. Document and incorporate the findings from the engagements into the decision-making process.

[2] See: https://www.mas.gov.sg/regulation/codes/code-of-corporate-governance

3.6 Review the effectiveness of the engagements periodically.

P4. Uphold transparency in managing conflicts of interest.

Responsible investors disclose their conflicts of interest and prioritise the interests of clients and beneficiaries.

GUIDANCE

4.1 Have clear written policies on identifying and managing conflicts of interest. These policies should be stated plainly on the investors' corporate website, and they should emphasise the asset owner's and asset manager's duties to act in the interests of its clients and/or beneficiaries and to be consistent with client mandates in fulfilling its fiduciary responsibilities.

4.2 When conflicts of interest arise, asset owners and asset managers should take all reasonable steps to prioritise their clients' and/or beneficiaries' interests over their own interest.

4.3 Communicate to service providers the need to disclose all potential conflicts of interest and to explain how they are managed.

P5. Exercise rights and responsibilities on an informed basis.

Responsible investors ensure they make informed decisions based on their ownership policies, with the best interests of clients in mind.

GUIDANCE

5.1. Have clear policies on proxy voting. These policies should include approaches to both general and specific voting issues. Ensure that proxies are voted in the best interests of their clients.

5.2. Participate actively and vote on all resolutions responsibly and on an informed basis, abstaining only in exceptional circumstances.

5.3. Clearly communicate information relating to voting, such as voting policies, the way votes have been exercised and records of votes cast. Explain how voting responsibilities are carried out and how investors exert influence across listed equity and other asset classes.

5.4. Maintain records of the votes exercised, including records of any deviation from investors' voting policies, along with justification. If voting recommendations are made by service providers, exercise judgement on the recommendations in line with the interests of clients/beneficiaries.

P6. Report stewardship activities periodically.

Responsible investors document and provide relevant updates on their stewardship activities.

GUIDANCE

6.1. Proactively inform clients and broader stakeholders of investors' approach to stewardship. Explain how stewardship responsibilities are carried out and the extent to which investors adhere to their own stewardship policies or to these Principles. This information could be communicated in the form of annual stewardship reports and/or more frequent updates.

6.2. Maintain a record of stewardship activities. This should be readily available on the investors' website or their stewardship reports. Provide details on the process through which stakeholders can raise concerns.

6.3. Present stewardship reports effectively and efficiently, providing sufficient examples on how investors are accountable to their clients and beneficiaries when exercising stewardship responsibilities.

P7. Take a collaborative approach in exercising stewardship responsibilities where appropriate.

Investors collaborate, where appropriate, to influence investee companies and issuers.

GUIDANCE

7.1. Collaborate with other investors, subject to regulations on disclosure and as appropriate, in a way that collectively addresses an issue, or issues, that may have a material impact on the value of their investments. These could be company specific (for example, capital allocation deficiencies), or part of a broader market-based engagement (for example, climate change).

7.2. Draw on investors' collective experiences to influence the practices and behaviours of investee companies and issuers. Subject to market regulations, investors could deepen their involvement with other stakeholders (for example, policy makers, regulators, industry bodies).

7.3. Provide an overview of the collaborative engagements and initiatives that investors have participated in, as appropriate, as part of periodic reporting. Disclose the outcomes of collaborative engagement and whether the objectives have been met.

Singapore Stewardship Principles (SSP) for Responsible Investors

Steering Committee

Members	Stewardship Asia Centre (Chair and Secretariat)
	Association of Chartered Certified Accountants
	Asia Pacific Real Estate Association
	CFA Singapore
	CPA Australia
	Investment Management Association of Singapore
	Institute of Singapore Chartered Accountants
	Securities Investors Association (Singapore)
	Singapore Institute of Directors
	Singapore Venture Capital and Private Equity Association
Supported By	Monetary Authority of Singapore
	Singapore Exchange