# Challenges Mount for Asian Asset Managers in Meeting ESG Demands and Regulations



Local Asian asset managers are facing increased financial strain due to rising costs associated with building out environmental, social, and governance (ESG) teams and complying with stringent sustainable investing regulations. Smaller firms in Asia are finding it increasingly challenging to meet demands for robust ESG capabilities compared to their larger European and US counterparts.

Lion Global Investors, the largest fund house in Singapore with S$71 billion ($52.6 billion) in assets as of March 2023, highlighted the cost challenges. CEO Teo Joo Wah stated that ESG compliance incurs significant expenses in hiring, data subscriptions, and ongoing reporting, adding strain to profit margins in a difficult market environment for Asian managers.

The situation is compounded by new regulations. In Singapore, the introduction of a code of conduct for ESG rating and data providers in December has led to concerns about further cost increases for fund firms. Mushtaq Kapasi from the International Capital Market Association noted the difficulties Asian asset managers face in data acquisition and methodology at a recent Financial Times conference. He pointed out that smaller firms struggle to collect comprehensive data, leading to less integration of sustainability as a core business value.

Lion Global is focused on maintaining current clients rather than securing new ones due to its lagging ESG capabilities compared to European firms. The company is cautious about the potential returns on further investments in ESG.

A report by KPMG and Quinlan & Associates warned that failing to adhere to evolving ESG standards could lead to reputational risks and difficulties in capital raising, particularly from offshore investors. Fullerton Fund Management and UOB Asset Management in Singapore are among those looking to strengthen local ESG capabilities, despite expressing concerns about the adequacy of current disclosure standards in the region.

To address these challenges, local firms advocate developing an "Asian way" of handling ESG data that accounts for current disclosure gaps while aiming to build investor trust over time.