BLUEDOT CAPITAL

ESG and impact investing advisory with the goals of risk management and value enhancement

Blue Dot Capital is a sustainable finance consultancy. We partner with investors and investment managers to support the end-to-end development and execution of ESG and impact investing capabilities across asset classes. Our clients and partners include asset management, alternative investment, and wealth management firms.

Future-Proofing
Investment Decisions

Snapshot: ESG Regulations

Biannual Update | January 2022

Introduction

Since our previous Snapshot: ESG Regulations in July 2021, there have been a few significant developments on the sustainable finance regulations front.

Most notably, the Securities Exchange Commission’s public consultation on climate-related disclosures that concluded in June 2021 has not yet culminated in guidelines from the agency on disclosure requirements. Clarity is expected in early 2022. In the EU too, the European Commission delayed the implementation of the second phase of the Sustainable Finance Disclosure Regulation (SFDR) until January 2023.

But despite these delays, the regulatory momentum was undeniable, and several regulators and stock exchanges around the globe launched consultations on sustainability topics and disclosure requirements.

In November 2021, the IFRS Foundation Trustees formally announced the formation of a new International Sustainability Standards Board (ISSB) to develop—in the public interest—a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors’ information needs. The announcement was followed by the appointment of the Chair to the ISSB and public consultations to inform the ISSB’s work plan are expected to commence soon.

We hope you find this summary a helpful tool to map the progress and evolution of ESG regulations. As always, we look forward to your feedback.

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- At COP26, over 100 central banks and supervisors around the globe—under the umbrella of the Network for Greening the Financial System (NGFS)—published the 'NGFS Glasgow Declaration: Committed to Action', reiterating commitment to the Paris Agreement[1].
- International Organization of Securities Commissions (IOSCO) launched a sustainable finance task force and published the following reports over the past few months:
  - Final report on sustainability-related issuer disclosures[2]
  - Consultation report on recommendations on sustainability-related practices, policies, procedures, and disclosure in asset management[3]
  - Consultation report on ESG ratings and data providers[4]
  - Final report on ESG ratings and data providers[5].

United States

Corporate disclosure regulations or guidelines

- **2022 Forthcoming | Mandatory | Nasdaq | Board Diversity Rule:** The Securities Exchange Commission (SEC) approved Nasdaq's Board Diversity Rule. According to the rule, in 2022, companies listed on the US exchange must publicly disclose annual board-level diversity statistics in their proxy statements, information statements, or website using a standardized template such as the Board Diversity Matrix. Companies must also meet the board diversity objective of having at least two diverse directors or explain why they don't. Companies are stipulated to hire at least one diverse director by 2023 and at least two diverse directors by 2025 or 2026 depending on whether the company is listed on Nasdaq Global Select/Global Markets or Nasdaq Capital Market, respectively. To fulfill the board diversity objective, smaller reporting companies and foreign issuers can appoint two female directors, while companies with five or fewer directors can appoint one diverse director[6].
- **September 2021 | Securities Exchange Commission | Sample Letter to Companies Regarding Climate Change Disclosures:** SEC published a sample letter on the information it might request from companies to better understand their climate change disclosures and verify compliance with topics addressed in the Commission's 2010 Guidance Regarding Disclosure Related to Climate Change. The sample letter provides insights on SEC's expectation regard climate-related disclosures and touches on several topics, including comparison between climate-related disclosures in SEC filings and CSR reports, disclosure on material climate risk factors, climate-related disclosures in Management's Discussion and Analysis (MD&A) comments[7].

Sustainable finance regulations or guidelines

- **October 2021 | US Federal Reserve | Climate Scenario Analysis:** The Federal Reserve is developing a climate scenario analysis to better understand the potential financial risks related to climate change and systematically assess the resilience of individual financial institutions and the broader financial system to these risks. The Federal Reserve is also considering providing supervisory guidance for large banking institutions to help them measure, monitor, and manage material climate-related risks. To further ensure a seamless transition to a sustainable economy, the Federal Reserve's Financial Stability Climate Committee is taking a macro-prudential perspective to analyzing climate-related risks to financial stability[8].
- **October 2021 | Proposed Rule | US Department of Labor (DOL) | Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights:** DOL's proposed rule aligns with President Biden's Executive Order 14030 and reiterates that considering climate change and other ESG factors that are material could inevitably generate better long-term risk-adjusted returns, protecting American workforce's retirement savings[9].
- **November 2021 | Mandatory | Securities Exchange Commission | Universal Proxy Cards in Contested Director Elections:** SEC approved to adopt rules that place shareholders voting by proxy and in person on equal footing, allowing proxy voters to have a say in the board composition of the companies they invest in[10].

EU Sustainable Finance Action Plan

- **June 2021 | European Banking Authority (EBA) | Report on management and supervision of ESG risks for credit institutions and investment firms:** EBA's report offers a comprehensive proposal on how credit institutions and investment firms can incorporate ESG factors and risks into regulatory and supervisory frameworks[11].
- **July 2021 | European Commission (EC) | Delay of application of Regulatory Technical Standards (RTS):** The draft RTS, jointly submitted by the European Supervisory Authorities (ESAs) in February 2021 to aid the implementation of the SFDR regulation, could not be adopted within the three-month scrutiny period post submission owing to 'the length and technical detail of the RTS, late submission by the ESAs, and envisaged amendments'. The application of RTS has been postponed twice, once to July 2022[12] and again to January 2023. As per EC's letter, firms that publish the statements referred in Articles 4(1)(a), 4(3) or 4(4) of the SFDR must comply with the disclosure requirements on principal adverse impacts on sustainability matters as outlined in the RTS by 30 June 2023. The first reference period for these firms under the RTS would be 1 January 2022 to 31 December 2022[13].
- **July 2021 | European Commission | Q&A on sustainability-related disclosures:** EC published a Q&A on the application of SFDR[14]. The Q&A is a response to the ESAs' letter to the EC, where the ESAs listed priority questions in an attempt to bring clarity to some areas of interpretative uncertainty[15].
- **July 2021 | European Union (EU) | Fit for 55 package:** The EU unveiled its 'Fit for 55 package' that lays out a number of proposals and initiatives to align the EU legislation to EU's climate goals of cutting down emissions by at least 55% by 2030 and achieving climate neutrality by 2050[16].
- **July 2021 | European Commission | Strategy for financing the transition to a sustainable economy:** Based on the 2018 action plan on financing sustainable growth, the public consultation on the renewed sustainable finance strategy, and the Platform on Sustainable Finance's report on transition finance, EC introduced an updated sustainable finance strategy that aims to support the financing of the transition to a sustainable economy by focusing on four areas:
  - Financing the transition of the real economy towards sustainability
  - Promoting a more inclusive sustainable finance framework
  - Improving the financial sector's resilience and contribution to sustainability by taking a double materiality perspective
  - Fostering global ambition[17].
- **July 2021 | European Commission | European Green Bond Standard:** EC adopted a proposal on the European Green Bond Standard - a voluntary standard to help scale up and raise the environmental ambitions of the green bond market[18].
- **July 2021 | European Commission | Delegated act supplementing Article 8 of the Taxonomy Regulation:** EC adopted the Delegated Act supplementing Article 8 of the Taxonomy Regulation, requiring financial and non-financial companies to provide information to investors about the environmental performance of their assets and economic activities[19].
- **August 2021 | European Commission | Integration of sustainability risks and factors into MiFID II, UCITS, AIFMD, and Insurance (Solvency II and IDD) regimes:** Following a three-month scrutiny period after adoption in April 2021, delegated regulations and directives amending previous legislation to integrate sustainability risks and sustainability factors into decision-making processes were published in the Official Journal of the European Union. The majority of the amendments will apply from August 2022[20].
- **December 2021 | European Insurance and Occupational Pensions Authority (EIOPA) | Sustainable Finance Activities 2022-2024:** EIOPA announced its 3-year 'Sustainable Finance Activities 2022-2024' plan that focuses on the integration of sustainability risks into the risk management practices of insurers, re-insurers, and occupational pension funds[21].
- **December 2021 | European Commission | EU Taxonomy Climate Delegated Act:** The EU Taxonomy Climate Delegated Act has been published in the Official Journal of the EU post approval by the European Council. The Act elaborates on technical screening criteria for economic activities that contribute to climate change mitigation or climate change adaptation under the EU Taxonomy Regulation and will apply from January 2022[22].

United Kingdom

Corporate disclosure regulations or guidelines

- **October 2021 | London Stock Exchange (LSE) | Climate reporting guidance for issuers:** LSE published climate reporting guidance based on the UN Sustainable Stock Exchanges SSE's Model Guidance on Climate Disclosure in alignment with the TCFD recommendations. Over 400 Main Market listed companies will be ranked on Climate Governance Scores based on the Transition Pathway Initiative's Management Quality Score methodology[23].
- **2022 Forthcoming | Mandatory | Financial Conduct Authority (FCA) | Climate-related disclosures:** Following consultations, FCA has finalized rules requiring asset managers, life insurers, FCA-regulated pension providers, and standard listed companies to provide TCFD-aligned climate-related financial disclosures. Large companies must comply with the rules starting January 2022[24,25].

Sustainable finance regulations or guidelines

- **July 2021 | Bank of England (BOE), Prudential Regulation Authority (PRA), and Financial Conduct Authority | Discussion paper on Diversity and Inclusion in the financial sector:** The discussion paper sought views until September on plans to improve Diversity and Inclusion in the financial services sector[26].
- **October 2021 | HM Treasury, Department for Work & Pensions, and Department for Business, Energy & Industrial Strategy | Greening Finance:** A Roadmap to Sustainable Investing: The UK government published a policy paper stating its long-term ambition to 'green the financial system and align it with the UK's world-leading net-zero commitment'[27]. As per the roadmap, the UK government and regulators will join forces to drive forward the following actions:
  - Implementing economy-wide Sustainable Disclosure Requirements (SDRs) that consolidate sustainability disclosure requirements for corporates, asset managers and asset owners, and investment product providers
  - Delivering a UK Green Taxonomy that establishes criteria for economic activities to be considered environmentally sustainable
  - Lowering barriers for investors exercising effective and responsible stewardship
  - Supporting international efforts generating global and systemic change in the financial system[28].
- **October 2021 | Department for Work and Pensions (DWP) | Public consultation on climate and investment reporting:** The public consultation – running until January 2022 - seeks views on policy proposals requiring trustees of larger occupational pension schemes, authorized master trusts, and authorized schemes providing collective money purchase benefits to measure and report on the alignment of their investment portfolios with the Paris Agreement. The consultation also proposes new draft guidance that lists stewardship and ESG best practices in relation to the Statement of Investment Principles and outlines DWP's expectations regarding the Implementation Statement[29].
- **October 2021 | Financial Conduct Authority, Prudential Regulation Authority, The Pensions Regulator (TPR), and Financial Reporting Council (FRC) | Joint statement on the publication of Climate Change Adaptation Reports:** FCA, PRA, TPR, and FRC welcomed the UK Government's invitation under the Climate Change Act 2008 to publish Climate Change Adaptation Reports that explain how climate change is shaping their respective responsibilities and the regulators' response to it. FCA, PRA, and TPR have already published their reports, while FRC will publish its report later this year[30].
- **November 2021 | Bank of England | Greening the Corporate Bond Purchase Scheme:** BOE is adjusting its Corporate Bond Purchase Scheme to align with the UK Government's net-zero ambitions[31].
- **November 2021 | Financial Conduct Authority | Discussion paper on Sustainability Disclosure Requirements (SDR) and investment labels:** FCA published a discussion paper seeking initial views on designing SDR for asset managers and FCA-regulated asset owners, and also on establishing a new classification and labelling system for sustainable investment products[32].

Australia

Corporate disclosure regulations or guidelines

- **October 2021 | Australian Securities & Investments Commission (ASIC) | Update on climate change risks and disclosures:** ASIC continues to engage formally on climate change-disclosures related issues through a number of initiatives including the Council of Financial Regulators working group on climate risk, the IOSCO Sustainable Finance Taskforce, and the IOSCO Technical Experts Group for the International Sustainability Standards Board[33].

Sustainable finance regulations or guidelines

- **September 2021 | Australian Prudential Regulation Authority (APRA) | Climate Vulnerability Assessment:** APRA published an information paper outlining the purpose, design, and scope of the Climate Vulnerability Assessment that it is conducting with Australia's largest five banks[34].

Japan

Corporate disclosure regulations or guidelines

- **2022 Forthcoming | Mandatory | Japan's Financial Services Agency (FSA) | Climate risk disclosures:** Starting April 2022, around 4000 large listed companies must publish their greenhouse gas emissions and other climate-related disclosures in alignment with the TCFD recommendations[35].

Sustainable finance regulations or guidelines

- **July 2021 | Bank of Japan (BoJ) | Strategy on Climate Change:** BoJ launched its strategy on climate change that includes the following measures:
  - Introducing a new fund-provisioning measure so that financial institutions that disclose required information on their climate action efforts can receive funds from BoJ against their investment or loans made related to such efforts
  - Working with FSA on pilot climate scenario analysis exercises focused on large financial institutions
  - Encouraging financial institutions to enhance their quantitative and qualitative disclosures in alignment with TCFD recommendations
  - Strengthening research on the impact of climate change on macroeconomy and improving climate-related data collection and analytics to enhance risk oversight[36].

China and Hong Kong

Corporate disclosure regulations or guidelines

- **2021 | Mandatory | China Securities Regulatory Commission (CSRC):** CSRC issued additional ESG reporting requirements for publicly listed companies. In their annual and half-year reports, companies must include a section on Environmental and Social Responsibility that adheres to CSRC's reporting requirements[37].

- **November 2021 | Comply or Explain | Hong Kong Stock Exchange (HKEX) | Guidance on Climate Disclosures (Guide):** The Guide helps companies assess their response to climate-related risks and provides guidance on preparing their TCFD-aligned climate change reports[38].
- **December 2021 | Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group | Progress on climate-related disclosures and sustainability reporting:** The Steering Group is working on making climate-related disclosures as per TCFD framework mandatory across relevant sectors by 2025. As a part of the Steering Group, the Securities and Futures Commission and Hong Kong Exchanges and Clearing Limited are also considering the adoption of the IFRS Foundation's Sustainability Disclosure Standards[39].

Sustainable finance regulations or guidelines

- **November 2021 | International Platform on Sustainable Finance (IPSF) | Common Ground Taxonomy – Climate Change Mitigation:** Co-chaired by the European Commission and People's Bank of China, the Common Ground Taxonomy evaluates differences and commonalities between the EU and Chinese taxonomies to enhance comparability and future interoperability of the taxonomies. The IPSF working group published its findings after the initial phase of its research focusing on the 'Climate Change Mitigation' environmental objective[40].
- **December 2021 | Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group | Alignment with the Common Ground Taxonomy:** The Steering Group is building a green classification framework tailor-made for the Hong Kong local market while also aligning with the Common Ground Taxonomy[41].

India

Sustainable finance regulations or guidelines

- **September 2021 | Reserve Bank of India (RBI) | Sustainable Finance Group (SFG):** RBI launched SFG within the Reserve Bank's Department of Regulation to lead efforts and regulatory initiatives related to sustainable finance and climate risks[42].
- **October 2021 | Securities and Exchange Board of India (SEBI) | Consultation paper on introducing disclosure norms for ESG mutual fund schemes:** SEBI published a consultation paper and requested for public comments on implementing disclosure requirements for ESG mutual fund schemes in the Scheme Information Documents and also additional disclosures with respect to engagements undertaken by asset management companies for ESG schemes[43].

South Africa

Corporate disclosure regulations or guidelines

- **December 2021 | Johannesburg Stock Exchange (JSE) | Sustainability and Climate Disclosure Guidance:** JSE published a consultation paper on sustainability and climate disclosure guidance for listed issuers. The paper is open for public comments until February 2022[44].

Sustainable finance regulations or guidelines

- **October 2021 | South Africa National Treasury (NT) | Financing a Sustainable Economy:** Based on public comments on its 2020 draft technical paper 'Financing a Sustainable Economy', NT published an updated version of the paper. Five sub-working groups are further researching sustainable finance, taxonomy, TCFD disclosures, climate risk benchmarking and scenario analysis, and capacity and competencies respectively under an overarching Climate Risk Forum Steering Committee[45].

Brazil

Sustainable finance regulations or guidelines

- **August 2021 | National Bureau of Supplementary Social Security (PREVIC) | Report on ESG investing:** PREVIC published a report on overview of use of ESG factors in the analysis of investment risks in the Close Private Pension Entities[46].
- **September 2021 | Central Bank of Brazil (BCB) | Social, Environmental, and Climate Risks and Opportunities Report (GRSAC Report):** BCB's report elaborates on how it is managing social, environmental, and climate risks and opportunities in an integrated manner in line with the Sustainability dimension of the BC# Agenda. BCB also announced regulations that build on public consultations 82, 85 and 86. As per the new rules, institutions must formulate and abide by a Social, Environmental, and Climate Responsibility Policy (PRSAC). They must also publish an annual GRSAC Report as per the disclosure requirements and templates provided by BCB[47].
- **2022 Forthcoming | Mandatory | Central Bank of Brazil | Climate stress tests:** From July 2022, all banks operating in Brazil must perform climate-related stress tests[48].

Singapore

Corporate disclosure regulations or guidelines

- **2022 Forthcoming | Comply or Explain | Singapore Exchange (SGX) | Climate and board diversity disclosures:** From 2022, issuers must publish climate-related disclosures in alignment with TCFD recommendations in their sustainability reports on a 'comply or explain' basis. Starting 2023, issuers operating in the financial, agriculture, food, forest products, and energy industries will be required to report climate information on a mandatory basis. The same will be expected of materials and building and transportation companies from 2024. Additionally, SGX also requires integration of sustainability into several internal processes and procedures. Diversity reporting requirements include disclosure of the issuer's board diversity policy, diversity targets, plans, timelines, and progress in annual reports[49].

Sustainable finance regulations or guidelines

- **2022 Forthcoming | Monetary Authority of Singapore (MAS) | Supervisory Expectations:** MAS is expected to publish its regulatory expectations on ESG disclosure standards for retail funds in early 2022[50].
- **2022 Forthcoming | Monetary Authority of Singapore (MAS) | Climate stress tests and reporting:** From 2022, MAS expects banks to undergo climate stress tests and disclose how they are managing risks related to climate change and other environmental issues[51].

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