

**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.

# Snapshot: ESG Regulations

## 2021 Mid-Year Update

### Introduction

Governments, regulators, and industry stakeholders are proposing and implementing a range of sustainability-related guidelines and regulations for businesses and investors at an accelerated pace.

At the beginning of the year, we published a snapshot on the state of global ESG regulations, including corporate and ESG disclosure regulations and guidelines, and sustainable finance regulations and guidelines. The last six months have seen ESG regulations evolve and we are pleased to share a mid-year update that captures the latest advancements in global ESG regulation efforts.

We hope you find this summary a helpful tool to map the progress and evolution of the growing array of non-financial disclosure and reporting regulations. Our team continues to closely monitor ESG public consultations and regulations across key jurisdictions to provide informed guidance to our partners.

### Blue Dot Capital's Snapshot Series

The purpose of our Snapshot Series is to provide comprehensive, succinct, and decision-useful summaries of ESG topics.

### Previous Snapshots

**Snapshot: [ESG Regulations](#)**

The summary maps out ESG disclosure and sustainable finance regulations across major developed and developing economies.

**Snapshot: [ESG Indices](#)**

The snapshot scans the universe of equity ESG and impact indices to showcase the breadth of methodologies and solutions.

**Snapshot: [ESG Data](#)**

The summary is intended to provide a succinct overview of scoring methodologies, underlying data sources, and use cases of ESG ratings.

# G7 Summit 2021

At the G7 summit in Cornwall, leaders from the G7 countries—the United States, the United Kingdom, Canada, France, Germany, Italy, and Japan—voiced the need for mandatory climate-related financial disclosures in line with the TCFD recommendations<sup>1</sup>.

## United States

### Corporate disclosure regulations or guidelines

- **2021 Forthcoming | Securities Exchange Commission (SEC):** As a part of its Spring 2021 Regulatory Agenda, the SEC published its intent to back rule amendments enhancing disclosures on issuers' climate-related risks and opportunities, diversity of board members and nominees, and human capital management<sup>2</sup>. The SEC also called for public inputs to help enhance SEC's policy making regarding disclosure of consistent, comparable, and reliable information on climate change<sup>3</sup>.

### Sustainable finance regulations or guidelines

- **2021 Forthcoming | US Federal Reserve:** The Federal Reserve is considering climate stress tests for banks, and is privately asking banks to disclose information on climate risk mitigation<sup>4</sup>. In March, the Fed announced the launch of the Supervision Climate Committee and the Financial Stability Climate Committee. Together, the committees will ensure the financial system is resilient against climate-related risks<sup>5</sup>.

## EU Sustainable Finance Action Plan

- **March 2021 | European Banking Authority (EBA) | Public consultation on draft Implementing Technical Standards (ITS):** The EBA published a consultation paper on the draft ITS on prudential disclosures on ESG risks under Article 449a of the Capital Requirement Regulation (CRR). The CRR applies from June 2022 to large institutions with securities traded on a regulated market of any EU Member State<sup>6</sup>.
- **March 2021 | European Commission (EC) | EU Ecolabel criteria for retail financial products:** The EC's Joint Research Center published the Fourth Technical Report comprising the draft proposal for the product scope and EU Ecolabel criteria. EC will adopt the criteria, once developed, under the EU Ecolabel Regulation<sup>7</sup>.
- **March 2021 | EU Sustainable Finance Disclosure Regulation (SFDR):** The SFDR, which became effective on March 10, 2021, imposes mandatory sustainability-related requirements focusing on sustainability risks and Principal Adverse Impacts. SFDR applies to EU-regulated financial market participants and financial advisers<sup>8</sup>. In February, the European Supervisory Authorities (ESAs) submitted the draft Regulatory Technical Standards to the European Commission, detailing the content, methodologies, and presentation of disclosures under various articles of SFDR<sup>9</sup>.
- **March 2021 | European Parliament | Legislative initiative report on corporate due diligence and accountability:** The EP adopted a legislative initiative report that recommends introducing mandatory corporate due diligence obligations focusing on human rights and environmental supply chain<sup>10</sup>.
- **April 2021 | European Commission | Sustainable finance package:** The EC implemented a comprehensive package of measures aimed at mobilizing capital towards sustainable activities across the European Union. In alignment with Europe's ambitions of becoming climate neutral by 2050, the package comprises the following elements:
  - EU Taxonomy Climate Delegated Act.
  - Corporate Sustainability Reporting Directive (CSRD).
  - Amendments to Delegated Acts<sup>11</sup>.

- **April 2021 | European Commission | Corporate Sustainability Reporting Directive (CSRD):** As a part of the sustainable finance package, the EC approved the proposal for CSRD, extending the scope of sustainability reporting to all large companies (removing the 500-employee threshold) and listed SMEs, excluding listed microenterprises. Companies must report according to the mandatory EU sustainability reporting standards. European Financial Reporting Advisory Group (EFRAG) will develop the first set of draft standards by mid-2022<sup>12</sup>.
- **April 2021 | European Commission | Amending Delegated Acts:** The EC adopted amendments to Delegated Acts on investment and insurance advice, fiduciary duties, and product oversight and governance to incorporate sustainability preferences into procedures and investment advice to clients<sup>13</sup>.
- **May 2021 | European Banking Authority | Assessment of Banks' Climate Risk Exposure:** The EBA performed a climate risk pilot exercise, mapping exposure of 29 banks to climate risk and evaluated the banks' green estimate efforts<sup>14</sup>.
- **June 2021 | European Commission | EU Taxonomy Climate Delegated Act:** The EC formally adopted the EU Taxonomy Climate Delegated Act in June. The Act, that will apply from January 1, 2022, establishes the technical screening criteria for determining:
  - The conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation.
  - Whether that economic activity causes no significant harm to any of the other environmental objectives<sup>15</sup>.
- **June 2021 | European Council | Just Transition Fund:** To speed up progress towards EU's targets of achieving 55% emission reduction by 2030 and climate neutrality by 2050, the European Council adopted a regulation launching the €17.5 billion Just Transition Fund (JTF). The JTF is dedicated to making the green transition fair and inclusive<sup>16</sup>.

## United Kingdom

### Corporate disclosure regulations or guidelines

- **2022 Forthcoming | Mandatory | UK Government:** The Department for Business, Energy & Industrial Strategy ran a public consultation from March to May regarding mandatory TCFD-aligned climate-related financial disclosures by publicly quoted companies, large private companies, and LLPs. The disclosure obligations will be implemented in 2022, as per the UK Government's Green Finance Strategy<sup>17</sup>.

### Sustainable finance regulations or guidelines

- **2021 | Mandatory | Department of Work and Pensions | Amendments to the Pension Scheme Bill:** Through mandatory TCFD-aligned disclosures, pension scheme trustees must demonstrate how they incorporate considerations of climate-related risks and opportunities into their entire governance and decision-making processes<sup>18</sup>.
- **2021 | Bank of England (BoE) | Climate stress tests:** In June, the BoE launched its 2021 Climate Biennial Exploratory Scenario (CBES). The exercise will assess the UK financial system's resilience against physical and transition risks associated with different climate pathways<sup>19</sup>.
- **2022 Forthcoming | Mandatory | Financial Conduct Authority (FCA):** In June, the FCA opened consultations for two proposals to extend its TCFD-aligned climate-related financial disclosures to asset managers, life insurers, regulated pension providers<sup>20</sup>, and standard listed equity issuers<sup>21</sup>. The rules will apply to the largest firms starting January 2022.

# Australia

## Corporate disclosure regulations or guidelines

- **2021 | Australian Securities & Investments Commission (ASIC) | Supervisory Expectations:** The ASIC considers disclosing and managing climate risk a key responsibility for directors of listed companies and has provided climate change risk guidance for directors. ASIC recommends reporting under the TCFD framework<sup>22</sup>.

## Sustainable finance regulations or guidelines

- **2021 | Voluntary | Australian Prudential Regulation Authority (APRA) | Draft guidance on climate risk management:** The APRA opened consultation regarding its draft guidance on managing the financial risks of climate change. The guidance aligns with the TCFD recommendations and caters to banks, insurers, and superannuation trustees. APRA aims to release the final version by the end of 2021<sup>23</sup>. The APRA will also conduct a climate vulnerability assessment for banks in 2021<sup>24</sup>.

# Japan

## Corporate disclosure regulations or guidelines

- **2021 | Voluntary | Ministry of Environment (MoE) | Practical guidance for Scenario Analysis in line with the TCFD recommendations 3<sup>rd</sup> edition:** The MoE provides guidance for companies on scenario analysis, a component of the Strategy section of disclosures as per the TCFD recommendations<sup>25</sup>.

## Sustainable finance regulations or guidelines

- **2021 | Voluntary | Tokyo Stock Exchange (TSE) and the Financial Services Agency (FSA) | Corporate Governance Code and Guidelines for Investor and Company Engagement:** In April, a Council of Experts reviewed the Code and the Guidelines and proposed revisions, pushing for more disclosures on diversity, climate, and ESG. The TSE and FSA will make the revisions<sup>26</sup>.
- **2021 | Bank of Japan (BoJ):** From April, the BoJ started analyzing climate change risks as a part of its bank tests, checking the preparedness of financial institutions to address climate change risks<sup>27</sup>.
- **2021 Forthcoming | Japan's Financial Services Agency (FSA):** The FSA plans to frame climate-change-related disclosure guidelines for financial institutions. Based on the guidelines, financial institutions such as banks and insurers will design decarbonization and climate risk management strategies<sup>28</sup>.

# China and Hong Kong

## Corporate disclosure regulations or guidelines

- **2021 Forthcoming | Mandatory | China Securities Regulatory Commission (CSRC):** In May, the CSRC began the public consultation process on the environmental and social disclosure-related amendments proposed regarding China's 'Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No.2 – Contents and Formats of Annual Reports and No.3 – Contents and Formats of Half-year Reports'<sup>29</sup>.
- **2021 Forthcoming | Comply or Explain | Hong Kong Stock Exchange (HKEX) | Amendments to the Corporate Governance Code, the Corporate Governance Report, and the Listing Rules:** The proposed revisions will enhance ESG disclosure for companies listed on the exchange<sup>30</sup>.

## Sustainable finance regulations or guidelines

- **2021 Forthcoming | People's Bank of China (PBOC) | Taxonomy of green finance:** Green finance will be a key priority for PBOC in 2021 and the following five years. PBOC is also working on a common taxonomy for green finance with its European peers, to be announced later in 2021<sup>31</sup>.
- **2022 Forthcoming | Hong Kong Securities and Futures Commission (SFC) | Supervisory expectations:** SFC's circular, issued in June 2021, provides disclosure guidance for ESG funds. The SFC expects the ESG funds to disclose their ESG focus, ESG investment strategy, asset allocation, reference benchmark, risks, and periodic assessments of how the funds obtained their ESG focus. The circular will become effective starting January 1, 2022<sup>32</sup>.

# India

## Corporate disclosure regulations or guidelines

- **2021 | Mandatory | Securities and Exchange Board of India (SEBI) | Business Responsibility and Sustainability Report (BRSR) Circular:** The top 1,000 listed companies by market capitalization must elaborate on material ESG risks and opportunities, risk mitigation or adaptation approach, along with financial implications<sup>33</sup>.

## Sustainable finance regulations or guidelines

- **2021 | Reserve Bank of India (RBI):** The RBI joined the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) in April<sup>34</sup>.

# South Africa

## Sustainable finance regulations or guidelines

- **2021 Forthcoming | South Africa National Treasury:** In line with the recommendations of the National Treasury's draft Technical Paper on Financing a Sustainable Economy, the National Treasury is leading the development of the first national Green Finance Taxonomy for South Africa, in collaboration with IFC, the National Business Initiative, and Carbon Trust. The draft green finance taxonomy called for stakeholder inputs in June<sup>35</sup>.

# Brazil

## Corporate disclosure regulations or guidelines

- **2021 Forthcoming | Brazilian Securities and Exchange Commission (CVM):** In December 2020, the CVM began the consultation process regarding amendments to Normative Ruling 480/2009, aiming to enhance the quality of ESG disclosures by listed companies. The process closed in March<sup>36</sup>.

## Sustainable finance regulations or guidelines

- **2021 Forthcoming | Central Bank of Brazil (BCB):** The BCB is expected to launch prudential regulation in July asking large and midsize banks to analyze portfolios and articulate inherent ESG risks. The banks must also integrate ESG criteria into their credit models and perform sustainability-focused stress tests. After the first round, the BCB will conduct a second and final round in 2022, where banks must meet a certain threshold<sup>37</sup>.
- **2023 Forthcoming | Central Bank of Brazil (BCB):** The BCB called for public consultation in April regarding a proposal calling for mandatory disclosure of social, environmental, and climate risks by financial institutions. As per the draft resolution, financial institutions must submit an annual report on the social, environmental, and climate risks and opportunities from 2023. The consultation closed in June<sup>38</sup>.

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