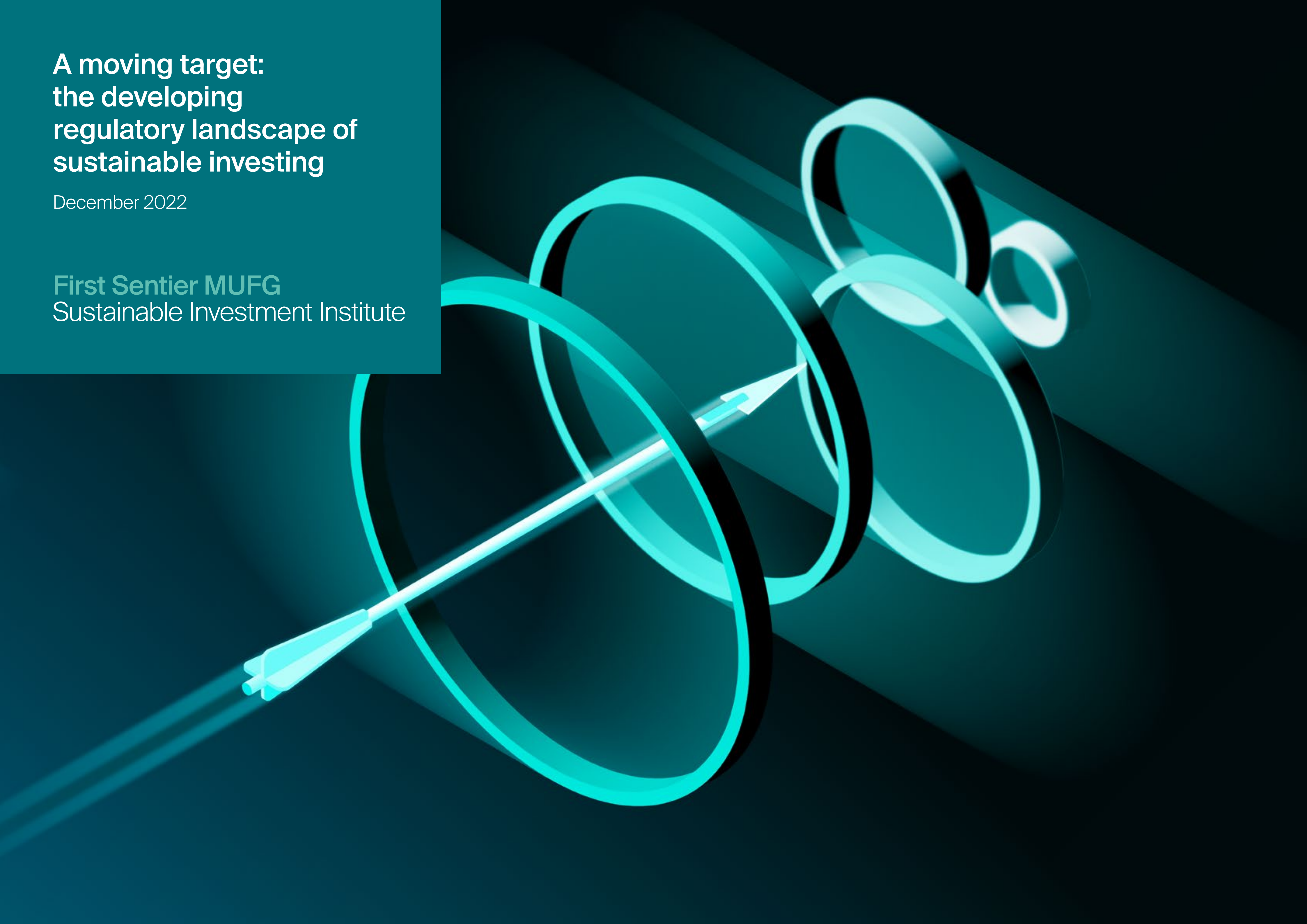
A moving target: the developing regulatory landscape of sustainable investing

December 2022



First Sentier MUFG
Sustainable Investment Institute

Contents

About the Institute and its sponsors

About the Institute

The First Sentier MUFG Sustainable Investment Institute (the Institute) provides research on topics that can advance sustainable investing. As investors, both First Sentier Investors and MUFG recognise our collective responsibility to society and that investment decisions should be made with consideration to our communities both now and in the future.

The Institute commissions research on Environmental, Societal and Governance (ESG) issues, looking in detail at a specific topic from different viewpoints. The Institute recognises that investors are now looking in far greater depth, and with far greater focus, at issues relating to sustainability and sustainable investing. These issues are often complex and require deep analysis to break down the contributing factors. If as investors we can better understand these factors, we will be better placed to consider our investment decisions and use our influence to drive positive change for the benefit of the environment and society.

The Institute is jointly supported by First Sentier Investors (FSI) and Mitsubishi UFJ Trust and Banking Corporation, a consolidated subsidiary of MUFG. Representatives of both organisations provide input to the activities of the Institute.

An Academic Advisory Board advises the Institute on sustainability and sustainable investment research initiatives. The Academic Advisory Board comprises prominent leaders from academia, industry and nongovernmental organisations in the fields of Responsible Investment, climate science and related ESG endeavours. The Board provides independent oversight to ensure that research output meets the highest standards of academic rigour.

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First Sentier
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Key observations

The growing popularity of sustainable investments has spurred an increasing volume of regulatory responses globally – from monitoring market developments to new regulations and guidelines. In the context of this paper, 'sustainable investments' refers to any investment products with some sustainability-related considerations in the investment decisions, such as environmental or social considerations.

As investors navigate an ever changing regulatory landscape, it is helpful to take a step back and reflect on the purpose and intentions of the various regulatory activities. Without oversimplifying the complexity of financial markets regulation, the ultimate concern for many regulators is how to ensure that financial markets can respond to new developments, such as sustainable investing, without compromising investors' trust in the market. In this context, sustainable investing could be a concern in a number of ways.

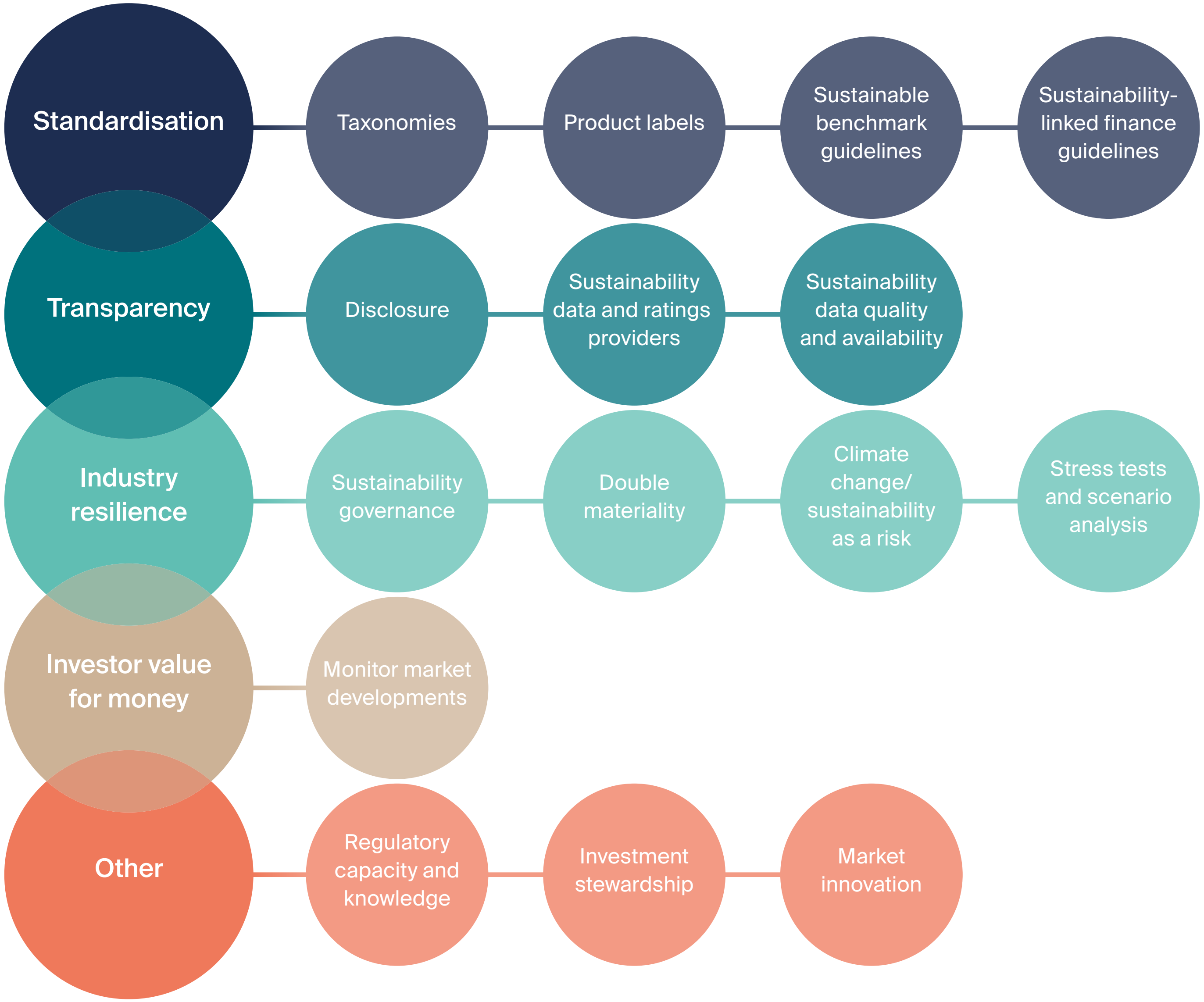
- **Investors' ability to take informed investment decisions** – The complexity of sustainability-related issues and the lack of their common understanding could result in investors' inability to understand or compare investment products, which could in turn impair their ability to make informed investment decisions. It can also give rise to false or unsubstantiated claims on product credentials ('greenwashing').
- **Systemic risks** – Many sustainability-related issues, such as climate change for example, could also give rise to more systemic changes whose economic impact is still difficult to understand, quantify and/or is far into the future. Such issues could nonetheless have a material impact on the financial system as a whole.
- **Value for money for investors** – The proliferation of sustainable investment products also poses the question to what extent such products deliver value for their investors, both in terms of asset management costs and performance.

With this context in mind, most regulatory responses and actions to date could be viewed within four broad categories based on the regulator's concern and purpose of action:

- **standardisation** and **market transparency** (to support investor understanding) – a large share of regulatory actions with respect to sustainable investment aim to provide more or better comparability of information and investment products, and thus minimise the risks of greenwashing or investor confusion. Understandably, the majority of regulatory actions in this respect either aim to standardise definitions or investment product development, or require more disclosures.
- **industry resilience** – in this respect regulators are increasingly asking financial market participants to consider if and how sustainability-related issues may pose a risk to their operations.
- **value for money for investors** –some regulators review to what extent sustainability-related products deliver value for their investors, in terms of asset management costs and performance
- **other** – this covers any other purposes/ outcomes that financial regulators may want to pursue, such as promoting market innovation or upskilling their own competencies in the area of sustainable investing.

In addition, such regulation can also support a broader sustainable development policy agenda, such as in the European Union's Sustainable Development Action Plan.

Exhibit 1: Regulatory responses with respect to sustainable investment grouped by regulatory purpose



This paper brings together the recent sustainability-related regulatory developments (from 2020 to November 2022) aimed at the asset management industry with the purpose to highlight the main approaches used by regulators.

The review covers the European Union (the "EU"), the United Kingdom (the 'UK'), the United States (the 'US'), Australia, Singapore, Hong Kong and Japan which together account for over a US$100 trillion of the global US$130 trillion assets under management as of end 2021). It is structured alongside a number of regulatory focus areas and/or outcomes in order to provide context for the purpose and role of those regulations in the market. The regulatory focus areas and outcomes have been internally developed in order to provide structure for the analysis and are not necessarily in line with regulators' categorizations or descriptions.

The regulatory response across the reviewed jurisdictions is still evolving. Some jurisdictions, such as the EU and the UK, are more advanced with some regulatory response covering almost all identified regulatory concerns or outcomes.

Still, even in those jurisdictions certain elements are either in draft and consultation (such as product labels) or on the regulator's watch list (such as availability and quality of sustainability-related data). Regulation, where it exists, is generally through mandatory regulation, except for Japan, where majority of sustainability-related regulatory guidance is voluntary.

Apart from definitions and disclosures, investment product labels and sustainability-related data provision appear to be the areas with developing regulatory response.

Exhibit 2: A snapshot of current and planned regulations and regulatory actions

Mandatory regulation | Draft/in consultation | Voluntary guidance | Some action by Regulator

Regulatory focus	Regulatory response	EU	UK	US	AUS	HK	SG	JP
	Generally applicable							
Standardisation and market transparency	Definitions of sustainability (taxonomies)	Mandatory regulation	Draft/in consultation		Draft/in consultation	Some action by Regulator	Draft/in consultation	
	Sustainability disclosures	Mandatory regulation	Mandatory regulation	Draft/in consultation	Some action by Regulator	Mandatory regulation	Some action by Regulator	Some action by Regulator
	Definitions of sustainable investment/ESG funds	Mandatory regulation	Draft/in consultation	Draft/in consultation		Mandatory regulation		
	Guidance on regulation implementation	Some action by Regulator	Mandatory regulation		Some action by Regulator	Some action by Regulator	Mandatory regulation	Some action by Regulator
	Monitor regulation implementation and enforcement	Some action by Regulator		Some action by Regulator		Some action by Regulator		Some action by Regulator
	Monitor and analyse market developments	Some action by Regulator		Some action by Regulator		Some action by Regulator		
	Product specific guidance/standards							
	Product labels	Draft/in consultation	Draft/in consultation					
	Sustainability-linked finance (e.g. bonds)	Draft/in consultation	Some action by Regulator				Some action by Regulator	Voluntary guidance
	Sustainability-related benchmarks	Mandatory regulation	Mandatory regulation	Some action by Regulator				
	Sustainability-related data and ratings quality	Some action by Regulator	Some action by Regulator			Some action by Regulator		Draft/in consultation
	Sustainability-related data (availability and quality)	Some action by Regulator	Some action by Regulator				Some action by Regulator	Some action by Regulator
Industry resilience	Relevant governance	Some action by Regulator	Some action by Regulator				Mandatory regulation	Some action by Regulator
	Climate change as investment risk		Mandatory regulation		Some action by Regulator	Mandatory regulation	Mandatory regulation	Voluntary guidance
	Sustainability as investment risk	Mandatory regulation	Draft/in consultation					
	Investment risk vs. impact of investments (double materiality)	Mandatory regulation	Draft/in consultation					
	Stress tests and scenarios analysis	Some action by Regulator	Some action by Regulator			Some action by Regulator	Some action by Regulator	Some action by Regulator
Value for money for investors	Market trends review	Some action by Regulator	Some action by Regulator					Some action by Regulator
Other	Investment stewardship	Some action by Regulator	Voluntary guidance				Voluntary guidance	Voluntary guidance
	Regulators' capacity and knowledge	Some action by Regulator	Some action by Regulator			Some action by Regulator	Some action by Regulator	Some action by Regulator
	Support market innovation	Some action by Regulator				Some action by Regulator	Some action by Regulator	

Source: First Sentier MUFG Sustainable Investment Institute analysis as of November 2022

Standardisation and market transparency

Given the lack of a commonly-agreed definition of 'sustainable' and the high susceptibility to 'greenwashing', it is perhaps unsurprising that product standardisation and market transparency are among the first areas that regulators seek to address. **Defining 'sustainable investment' or 'sustainable activities' (through national or multilateral taxonomies)**, as well as minimum **disclosure requirements** for investors with regard to sustainability-related indicators or risks are among the first tools that regulators have looked to develop.

- **Adoption of the domestic and international climate and sustainability-related disclosure initiatives** – the UK and Hong Kong are mandating TCFD-aligned disclosures, while Australia and Singapore support voluntary alignment of climate change risk reporting following the TCFD-developed framework. In addition, the EU, UK, US, and Hong Kong have either already introduced or in the process of development of sustainability-related disclosure requirements for financial institutions.
- **Sustainability-related disclosure requirements** are increasing in complexity and depth – investors are being asked to report against specific climate- and/or sustainability-related metrics (e.g. carbon emissions or carbon emissions intensity).

Enforcement actions are still rare. Across the reviewed jurisdictions, only two greenwashing-related enforcement actions against asset manager firms were identified – in the US and Germany. Regulators at this stage appear to focus primarily on monitoring of market practices with respect to greenwashing and compliance with the regulatory requirements.

Sustainability product labels for investment products are being discussed in the EU and the UK.

Sustainability-linked debt instruments are also being addressed through guidance – Japan and Hong Kong have recently introduced sustainability-related bond frameworks, while the EU is in the process of developing its Green Bond Standard.

In recognition of the variability and unstructured nature of sustainability-related data, some regulators are also assessing the levels of **intervention needed with respect to such data providers** (including ESG ratings provision).

- Most of the reviewed jurisdictions (the EU, UK, Singapore and Japan) are focusing on improvements in the availability and quality of sustainability-related data
- Japan is the only jurisdiction, from those reviewed, with a draft Code of Conduct applicable to ESG ratings and sustainability data providers
- The EU and the UK regulators could bring the ESG data providers within their oversight.

ESG governance

ESG governance is gradually raising on the agenda for the financial regulators (the EU, UK, Singapore and Japan so far). To date, the explicit regulatory involvement has been restricted to setting specific expectations with regard to climate risk management and/or organisational integration of sustainability concerns. Some jurisdictions (such as the UK) are in the process of developing a regulatory view on sustainability governance.

Industry resilience

A developing consideration is also the investment industry's resilience to risks stemming from sustainability-related factors (such as climate change). Climate change-related risks are a consideration across most of the reviewed jurisdictions, while the EU and the UK adopt a wider approach by considering sustainability risks more broadly. The majority of the regulatory response to date has been to **mandate risk-related disclosures**, as well as plans to conduct **scenario analysis or stress testing** for the investment industry (primarily with respect to climate change-related risks).

Most reviewed jurisdictions are so far focused on the financially material sustainability risks, with the EU and the UK being the only proponents of **double materiality** (although the UK's regulation is still in the developmental stage).

Value for money for investors

The cost and relative financial performance of investment products with some sustainability features is still not widely considered by financial regulators and where regulatory action exists, it is mainly in the form of market analysis and monitoring. The European Securities and Markets Authority (ESMA) published two market studies examining the characteristics and performance of ESG funds, while the Financial Services Authority in Japan (JFSA) and the Financial Conduct Authority (FCA) in the UK briefly mention performance-related concerns in their market reviews.

Other

In most of the reviewed jurisdiction there is some guidance with respect to investment stewardship. Stewardship Codes in the UK, Singapore, and Japan have all been reviewed and updated in the past two years.

Regulators in most of the reviewed jurisdictions are also actively working on building sustainability-related skills and capacity within the regulator and the financial industry as a whole (through multi-stakeholder collaborations, training and qualification programs, and communications).

Category definitions

Classification of sustainable activities (taxonomies) – Sustainability, or 'green' Taxonomies refer to regulatory frameworks providing a common classification system of economic activities that can be considered sustainable based on science-based criteria (e.g. the EU Taxonomy).

Sustainability disclosures (by financial institutions) – Disclosure guidance or regulations typically refer to sustainability-related disclosures to be made by market participants. This paper focuses on sustainability disclosure requirements applicable to asset management firms at the entity and product level.

Sustainable fund definitions – Definitions of what could be considered a sustainable investment fund or classifications for funds depending on how/to what extent they incorporate sustainability considerations are also being developed. For fund classifications in particular, the aim is to allow investors to distinguish between different types of sustainability-focused funds based on characteristics such as fund objective, the degree of integration of sustainability considerations into investment strategy.

Guidance on regulation implementation – Guidance on the application of the recently introduced and existing regulatory requirements.

Monitor regulation implementation and enforcement – This category covers regulatory approaches to monitoring and enforcing industry compliance with existing or newly introduced requirements applicable to sustainable investments.

Monitor and analyse market developments – This category refers to the regulators' efforts to collect data and analyse market practices in the field of sustainable investment. Market monitoring could be from a purely informative purpose or a tool to identify areas that could require future regulatory response.

Product/fund labels – Labels for investment products provide a framework which obligates the investment product to meet pre-designated specifications (for example regarding the portfolio construction or investment strategy). The requirements for a sustainable investment product label can include a specific proportion of the portfolio invested in sustainable activities, exclusions, and engagement among others.

Sustainability-linked finance – Guidance or standards for sustainability-linked finance (e.g. sustainability-linked bonds or sustainability-linked loans) usually include some product design requirements which should be satisfied if a financial instrument is to be marketed as sustainability-linked. The requirements primarily focus on the sustainability features of the instrument, for example suitability of features and how those should be communicated or measured through the use of key performance indicators.

Sustainability-related benchmarks – Benchmark regulations in general aim to address concerns in relation to the accuracy and integrity of benchmarks referenced in financial instruments. Sustainability-related benchmark regulations set out specific requirements for the benchmark administrators where an administrator develops a benchmark which incorporates sustainability criteria in its development, for example alignment with the Paris Agreement decarbonisation goals, maximum carbon emission levels, environmental and social exclusions.

Sustainability-related data and rating providers – This category covers regulatory focus on the providers of sustainability data and/or ratings. Regulatory concerns in this area include quality of the data, methodological transparency, and conflicts of interest.

Sustainability-related data quality and availability – This category refers to the initiatives promoting greater data quality and accessibility. The current regulatory concerns include data quality, as well as availability, cost, transparency, etc.

ESG governance – Financial regulators are beginning to look at the governance of ESG (environmental, social, governance)/sustainability issues and concerns within financial institutions themselves. This could include, for example, integration of sustainability into the existing organisational and accountability structures – such as governance of environmental risk, or responsible investment governance.

Sustainability as an investment risk – This category covers regulatory measures requiring financial institutions to consider, or report, if any sustainability issues could result in investment risks, as well as how those risks are managed.

Climate change as an investment risk – This category refers to the regulatory initiatives requiring financial institutions to consider potential investment risks stemming from climate change, as well as related risk management and reporting.

Stress tests and scenario analysis – Financial regulators are increasingly using scenario analyses and stress tests to assess the financial industry's resilience to climate change risks (for example using varying transition pathways). Such analysis is more commonly applicable to larger banks and insurers, but asset managers have fallen in scope in some jurisdictions.

Market trend reviews – Many regulators perform and publish market studies on the development of sustainable investment products. The studies focus on a variety of topics, including new product developments or product performance. Product performance could include comparison of financial performance of sustainability-focused products vs. a benchmark without sustainability features or performance of sustainability-focused products against relevant sustainability indicators (for example carbon emissions or water use).

Double materiality – While many regulatory and industry initiatives focus on the financially material sustainability risks (potential financially material negative impacts that sustainability factors can have on a company or investments), the double materiality concept also considers the adverse impact that business activities or investments can have on the environment or society in general (outside-in & inside-out view). Different frameworks and regulators are taking different views in this regard.

Investment stewardship – Regulatory initiatives in this area focus on promotion of sustainability through investor stewardship. As a result some stewardship codes are being updated to incorporate sustainability concerns.

Regulatory capacity and knowledge – This category refers to the regulatory initiatives aimed at developing and facilitating the regulators' knowledge of sustainability and sustainable investment more generally.

Supporting market innovation – This category covers the financial regulators' drive to support sustainability-related innovation in finance, through training and stakeholder collaboration.

Abbreviations

AIFMD: The Alternative Investment Fund Managers Directive (EU)

ARA: Australian Retailers Association

ASIC: Australian Securities and Investments Commission

CGT: Common Ground Taxonomy

ESMA: European Securities and Markets Authority

FCA: Financial Conduct Authority (UK)

IOSCO: International Organisation of Securities Commissions

ISSB: International Sustainability Standards Board

JFSA: Japanese Financial Services Agency

MAS: Monetary Authority Singapore

NCA: National Competent Authorities (EU)

RBA: Reserve Bank of Australia

SDR: Sustainability Disclosure Requirements (UK)

SEC: US Securities and Exchange Commission

SFC: Securities and Futures Commission (Hong Kong)

SFDR: Sustainable Finance Disclosure Regulation (EU)

TCFD: Task Force on Climate-Related Financial Disclosures

Exhibit 3: Summary of regulatory responses across selected jurisdictions (standardisation and market transparency)

Notes: Unless otherwise stated, the summary captures regulatory provisions, which could include legislative acts, regulatory guidelines, voluntary industry codes, etc.

Regulatory concern	Regulatory response	European Union	United Kingdom	United States	Australia	Hong Kong	Singapore	Japan
Generally applicable provisions	**Definitions of sustainable activities (taxonomies)**	EU Taxonomy – provides a classification of environmentally sustainable economic activities, along six categories – climate change mitigation and adaptation, pollution, water stress, biodiversity and resource use circularity	UK Taxonomy for sustainable activities – will provide activity classification along the same categories as under the EU taxonomy		Sustainable Finance Taxonomy (by the Australian Sustainable Finance Institute) **Action:** monitor the development of sustainable/green taxonomies, learn and influence their development (ARA, ASIC, RBA)	**Action:** consider how the adoption of the Common Ground Taxonomy (CGT) could complement existing regulation. CGT is a comparison between the EU and Chinese taxonomies.	Singapore Taxonomy for green and transition activities the proposed classification covers green, amber, and red economic activities, depending on their contribution to climate change mitigation **MAS action:** to participate in the development of other taxonomies (ASEAN taxonomy for sustainable finance; CGT, etc.	
	Sustainability-related disclosures	SFDR – entity and product-level sustainability-related disclosure requirements – e.g. sustainability risks adverse impacts of investments on environment **ESMA action:** develop minimum sustainability criteria for financial products that disclose under SFDR Art 8 (ESMA Sustainable Finance Roadmap 2022-2024)	Entity and product-level disclosures in alignment with TCFD (FCA ESG Sourcebook) Sustainability Disclosure Requirements (SDR) **FCA action:** to support global standards for sustainability reporting (FCA, A strategy for positive change: our ESG priorities, 2022)	Enhanced disclosures by certain investment advisers and investment companies about ESG investment practices (SEC proposal, May'22)	**ASIC action:** engage with IOSCO Sustainability Technical Experts Group on a framework for sustainability reporting under the International Sustainability Standards Board (ISSB) encourage voluntary TCFD-aligned climate change-related disclosure (ASIC Corporate Plan 2022-26)	mandatory alignment of climate-related disclosures with TCFD across relevant sectors by 2025 pre contract and periodic reporting for ESG funds (SFC Circular, June'21) fund managers to consider, manage and disclosure climate change-related risks (SFC Circular: August'21) **SFC action:** support the ISSB initiative (SFC, Agenda for Green and Sustainable Finance, 2022)	**MAS action:** • regulatory expectations on how existing requirements apply to retail ESG funds, including the applicable disclosure and reporting (CFC disclosure and reporting guidelines, MAS, July'22) • support alignment of disclosures with international standards, such as TCFD and ISSB	**JFSA action:** supervisory expectations for asset managers to provide appropriate information that conforms to the investment process (JFSA Progress report on enhancing asset management business, May'22)
	Definitions of sustainable investments/ESG funds	SFDR – this is not a formal fund classification/ definition, but disclosure requirements differ based on how sustainability factors are incorporated in the fund's investment strategy and asset managers need to decide which disclosures requirements are applicable to a fund (Article 6, 8, or 9 disclosures) Guidelines on funds' names using ESG or sustainability-related terms (Consultation Paper, ESMA 2022)	SDR proposals suggest differentiation between sustainable focus, sustainable improvers, and sustainable impact funds SDR fund naming proposals: • only funds with labels may use 'ESG', 'sustainable' or 'any other term which implies that a... product has sustainability characteristics' • only 'Sustainable Impact' funds may use 'impact' • funds with no label, should describe their sustainability characteristic 'factually'	SEC's proposal defines ESG funds depending on how central ESG factors are to investment strategy (SEC, Proposals to enhance disclosures by certain investment advisers and investment companies about ESG investment practices, May 2022)		ESG funds are defined as funds which consider ESG, climate, or sustainability factors as key to their investment strategy (SFC Circular, June'21)		

Mandatory regulation   Draft/in consultation   Voluntary guidance   Some action by Regulator

Exhibit 3: Summary of regulatory responses across selected jurisdictions (standardisation and market transparency) – continued

Regulatory concern	Regulatory response	European Union	United Kingdom	United States	Australia	Hong Kong	Singapore	Japan
Generally applicable provisions (continued)	**Guidance on regulation implementation**	**ESMA action:** guidance on supervision of sustainability-related fund documents, marketing materials, and fund naming (ESMA supervisory briefing, May'22)	Fund's sustainability focus has to be consistently reflected across the product design, delivery and disclosure (Guidance on design, delivery and disclosure of ESG investment products, FCA, 2021). The guidance was published in response to the lack of clarity and measurable objectives in ESG funds applications		Guidance on how to avoid greenwashing when offering and or promoting sustainability-related products (ASIC, INFO271,2022)	**SFC action:** engage with stakeholders to provide guidance and enhance investors' awareness of ESG funds (SFC, Agenda for Green and Sustainable Finance, 2022)	CFC disclosure and reporting guidelines for retail ESG funds (in force from Jan 2023)	**JFSA action:** asset management firms should continue to strengthen their investment approach and enhance disclosure to enable consumers to understand the content of the investment products and make appropriate investment decisions (JFSA, Progress report, May'22)
	Monitor regulation implementation and enforcement	**ESMA actions:** • assess greenwashing practices and their key features • analyse disclosures under SFDR Article 8 and to support supervisory convergence efforts and the identification of greenwashing cases (2022–24) • contribute to consistent implementations of new regulatory requirements applicable to asset managers (SFDR and the related Taxonomy requirements, AIFMD, UCITS) (2022–24) (ESMA Sustainable Finance Roadmap 2022-2024)		SEC enforcement actions – e.g. BNY Mellon		**SFC action:** ongoing monitoring of the ESG funds' compliance with June'21 Circular (SFC, Agenda for Green and Sustainable Finance, 2022)		**JFSA action:** conducts regular market reviews, including with respect to developments in sustainable investment – e.g. Progress report on enhancing asset management business (JFSA, May'22)
	Monitor and analyse market developments	**ESMA actions:** • assess greenwashing practices and their key features • collect data on the distribution of ESG products (2022–24) (ESMA Sustainable Finance Roadmap 2022-2024)		**SEC action:** The division of examinations conducted a review on ESG investing in 2021, the review covered portfolio management, advertising and marketing, and compliance practices of Investment Advisers) (SEC, The Division of Examinations' Review of ESG Investing, 2021)		**SFC action:** • engage with stakeholders to provide guidance and enhance investors' awareness of ESG funds • monitor the global regulatory developments (SFC, Agenda for Green and Sustainable Finance, 2022)		

Mandatory regulation Draft/in consultation Voluntary guidance Some action by Regulator

Exhibit 3: Summary of regulatory responses across selected jurisdictions (standardisation and market transparency) – continued

Regulatory concern	Regulatory response	European Union	United Kingdom	United States	Australia	Hong Kong	Singapore	Japan
Product-specific guidance/ standards	**Product labels**	EU Eco label for retail financial products (in development) ESMA actions: • Contribute, as needed, to EC's efforts to develop EU-wide labels, • survey the landscape of EU/national ecolables (2022–24) (ESMA Sustainable Finance Roadmap 2022-2024)	SDR proposals include the development of sustainable investment labels (e.g. sustainable focus, sustainable improvers, and sustainable impact funds)					
	Sustainability-linked finance	Proposed European Green Bond Standard – it is intended to be voluntary, to introduce greater transparency, external review requirements and EU Taxonomy alignment **ESMA action:** to develop the EU Green Bond Standard, and in the future as requested ESG labels for instruments investment products (2022-24) (ESMA Sustainable Finance Roadmap 2022-2024)	**FCA action:** highlighting the prospectus rules that currently apply to ESG use-of-proceeds instruments and endorsed the ICMA guidelines for sustainability bonds (FCA Primary Market Bulletin 41, June'22)				MAS actions: • Promote suitability-related lending frameworks – e.g. Sustainable bond and Green and sustainability-linked loan grant schemes • MAS Green investments programme • Insurance-linked securities grant scheme (MAS Green Finance Action Plan, June 2022)	**Multiple voluntary standards available:** • Social Bonds Guidelines (2021) • Sustainability-linked Bond Guidelines 2022 • Basic guidelines in climate transition finance 2021) **FSA action:** develop sustainability-linked bond information platform (JFSA Strategy on Sustainable Finance July 2021-June 2022)
	Sustainability-related benchmarks	The EU Benchmark Regulation • EU Climate Transition Benchmark – minimum portfolio carbon intensity reduction requirements, decarbonisation trajectory, minimum share of green investments requirement • EU Paris Aligned Benchmark – higher exclusion standards, higher level of portfolio decarbonisation, greater focus on green investments) ESMA actions: • Contribute to EC's planned work to review the minimum standards for both climate transition benchmarks and Paris-aligned benchmarks to ensure that the selection of underlying assets is coherent with the EU Taxonomy (2022) • contribute to planned EC assessment of the possibility to create an ESG Benchmark label (2022) • organise discussions among NCAs of new climate benchmarks and how to effectively supervise them • monitor trends in the use of existing EU climate benchmarks to obtain a picture of current offer and demand (2022) (ESMA Sustainable Finance Roadmap 2022-2024)	**Retained UK equivalents of the EU climate benchmark regime:** • UK Climate Transition Benchmark • UK Paris Aligned Benchmark	**SEC action:** consider of certain data providers should be in scope for regulation by SEC (SEC, Request for Comment on Certain Information Providers model portfolio providers, June 2022)				

Mandatory regulation Draft/in consultation Voluntary guidance Some action by Regulator

Exhibit 3: Summary of regulatory responses across selected jurisdictions (standardisation and market transparency) – continued

Regulatory concern	Regulatory response	European Union	United Kingdom	United States	Australia	Hong Kong	Singapore	Japan
Product-specific guidance/ standards (continued)	**Sustainability data and rating providers**	[Some action by Regulator] **ESMA actions:** • support the EC's in improving the reliability and comparability of ESG ratings, through evidence gathering (2022) • assess ESG disclosures in credit rating agency (CRA's)press releases (2022) • conduct assessment of how ESG factors are incorporated by CRAs (2022) (ESMA Sustainable Finance Roadmap 2022-2024)	[Some action by Regulator] **FCA action:** FCA sees 'a clear rationale' for bringing certain ESG data and ratings providers under the regulatory oversight (FCA, Feedback statement, June'22)			[Some action by Regulator] **SFC action:** consider the publication of guidance for asset managers on engagement of ESG ratings and data providers (SFC, Agenda for Green and Sustainable Finance, 2022)		[Draft/in consultation] Public consultation on the Draft Code of conduct for ESG evaluation and data providers [Some action by Regulator] **JFSA action:** (Setting supervisory expectations on the use of ESG ratings and data products – appropriate verification (JFSA Progress Report on Enhancing Asset Management Business, May'22
	Sustainability-related data quality and availability	[Some action by Regulator] **ESMA actions:** • take into account ESG-related data reporting needs when amending or proposing reporting requirements • assess data availability and quality for asset managers (2022-24) • discuss and consider implications for ESMA of the EC's plans to integrate sustainable finance data under the European Data Strategy (ESMA Sustainable Finance Roadmap 2022-2024)	[Some action by Regulator] **FCA action:** to supporting the integrity and effectiveness of ESG data, ratings, assurance and verification services (FCA, A strategy for positive change: our ESG priorities, 2022)				[Some action by Regulator] **MAS action:** • MAS to improve accessibility of ESG data through a regulatory data platform • Project Greenprint – partner with industry to develop digital solutions that facilitate the flows of ESG data (MAS Green Finance Action Plan, June 2022)	[Some action by Regulator] **JFSA action:** to draft impact indicators for social projects (JFSA Strategy on Sustainable Finance July 2021-June 2022)

Mandatory regulation · Draft/in consultation · Voluntary guidance · Some action by Regulator

Exhibit 4: Summary of regulatory responses across selected jurisdictions (industry resilience)

Notes: Unless otherwise stated, the summary captures regulatory provisions, which could include legislative acts, regulatory guidelines, voluntary industry codes, etc.

Regulatory concern /action	European Union	United Kingdom	United States	Australia	Hong Kong	Singapore	Japan
Relevant governance	**ESMA actions:** contribute as needed to the legislative process on sustainable corporate governance (ESMA Sustainable Finance Roadmap 2022-2024)	**FCA action:** to develop a policy approach to ESG governance (FCA, A strategy for positive change: our ESG priorities, 2022)				MAS Environmental Risk Management Guidelines for financial institutions provide guidance on environmental risk governance	**JFSA action:** an investment manager should develop effective systems for ESG investment, including the establishment of a department responsible for strengthening the sustainability promotion framework, enhancing ESG investment methods, and applying ESG experts (FSA Progress Report May'22)
Climate change as investment risk		Entity and product-level disclosures in alignment with TCFD (FCA ESG Sourcebook) **FCA action:** to establish a Climate Financial Risk Forum (to help capacity building across the industry) (FCA, A strategy for positive change: our ESG priorities, 2022)		**Actions:** ASIC to encourage voluntary TCFD-aligned disclosure (ASIC media release 29/06/2022) to set supervisory expectations for the management and disclosures of climate-related risks and measuring the exposures of financial institutions to climate change risks (APRA, ASIC, RBA) (RBA, Financial Stability Review, 2021)	mandatory alignment of climate-related disclosures with TCFD recommendations across relevant sectors by 2025 management and disclosure of climate-related risks by fund managers (SFC Circular, August'21)	guidance on how to address environmental risks across all relevant processes – governance and strategy, research and portfolio construction, portfolio risk management, stewardship, disclosure of environmental risk information (Guidelines on Environmental Risk Management for Banks, Insurers, and Asset Managers, May'22)	guidance with respect to climate change risk governance; identification, assessment and management of climate-related risks and opportunities; how to support clients' responses to climate change and information sharing with stakeholders (JFSA's Supervisory guidance on climate-related risk management and client engagement,July'22)
Sustainability as investment risk	Consideration required under SFDR provisions MiFID II sustainability-related amendments (2022) – requirements to take into account client sustainability preferences and integrating sustainability into product governance obligations UCITS & AIFMD sustainability-related amendments (2022) – require fund managers to take into account sustainability risks and investments' impact on sustainability more generally **ESMA action:** contribute to the EC's further work on enabling financial market participants to systematically consider positive and negative sustainability impacts of their investment decisions (2024) (ESMA Sustainable Finance Roadmap 2022-2024)	FCA's SDR consultation paper focuses on sustainability considerations more generally, not only climate					

Mandatory regulation   Draft/in consultation   Voluntary guidance   Some action by Regulator

Exhibit 4: Summary of regulatory responses across selected jurisdictions (industry resilience) – continued

Notes: Unless otherwise stated, the summary captures regulatory provisions, which could include legislative acts, regulatory guidelines, voluntary industry codes, etc.

Regulatory concern /action	European Union	United Kingdom	United States	Australia	Hong Kong	Singapore	Japan
Investment risk vs impact of investment (double materiality)	SFDR disclosure requirements cover sustainability risks and adverse impacts on environment UCITS & AIFMD sustainability-related amendments (2022) require fund managers required to disclose and take any identified adverse impacts environment into account in their investment due diligence processes	SDR (The proposals go beyond financial risks and cover impacts of investment firms and products on the environment and society)					
Stress tests and scenario analysis	**ESMA action:** to conduct climate change scenario analysis, including investment managers (2022-24) (ESMA Sustainable Finance Roadmap 2022-2024)	**BoE action:** BoE published the first climate stress test results in May'22; those covered transition and physical climate change risks for banks and insurers			**SFC action:** to promote climate-focused scenario analysis to assess the impacts on financial institutions, including asset managers, under different climate pathways (SFC, Agenda for Green and Sustainable Finance, 2022)	**MAS action:** incorporated climate stress testing and scenario analysis as part of the 2022 industry-wide stress test exercise, including asset managers) (MAS Green Finance Action Plan, June 2022)	**JFSA action:** conducted a pilot scenario analysis using NGFS scenarios for thee megabanks and three major non-life insurance groups (2021)

Exhibit 5: Summary of regulatory responses across selected jurisdictions (value for money for investors)

Notes: Unless otherwise stated, the summary captures regulatory provisions, which could include legislative acts, regulatory guidelines, voluntary industry codes, etc.

Regulatory concern /action	European Union	United Kingdom	United States	Australia	Hong Kong	Singapore	Japan
Market trends review	**ESMA actions:** • Annual Statistical Report 'Performance and costs of EU retail investment products', April'22 – includes a section on ESG UCITS funds, which provides observations on the growing ESG investment product offering, ESG investment strategies, and their financial performance and costs • 'The drivers of the costs and performance of ESG funds', May'22 – the report states that the issue of costs and performance of ESG funds is of primary interest from an investor protection angle and therefore the monitoring of costs will continue as part of ESMA's risk analysis work	**FCA action:** In the context of the fund value assessments, FCA highlighted that firms should be transparent on how their ESG services justify any additional fees vs non-ESG funds (Authorised fund managers' assessments of their funds' value (multi-firm review, 2021)					**JFSA action:** JFSA observed that the average trust fee ratio of active ESG funds is higher than that of other active funds, while average trust fee ratio is lower than that of other passive funds (FSA Progress Report on Enhancing Asset Management Business, May 2022)

Mandatory regulation | Draft/in consultation | Voluntary guidance | Some action by Regulator

Exhibit 6: Summary of regulatory responses across selected jurisdictions (other)

Notes: Unless otherwise stated, the summary captures regulatory provisions, which could include legislative acts, regulatory guidelines, voluntary industry codes, etc.

Regulatory concern /action	European Union	United Kingdom	United States	Australia	Hong Kong	Singapore	Japan
Investment stewardship	ESMA actions: • contribute to developing further guidance in the area of stewardship and engagement to ensure acting in concert does not impede collaborative engagement by investors around common sustainability goals (2022-23) • contribute to the review of the Shareholder Rights Directive II (ESMA Sustainable Finance Roadmap 2022-2024)	UK Stewardship Code (2020) **FCA action:** to promote sustainability-focused investor stewardship (FCA, A strategy for positive change: our ESG priorities, 2022)				Updates to Singapore Stewardship Principles for Responsible Investors (2022)	Stewardship code (latest revisions in 2020) revisions to the Corporate governance code and the Guidelines for investor and company engagement, June 2021 **FSA action:** to set supervisory expectations on investment stewardship activities of asset management firms
Regulators' capacity and knowledge	ESMA actions: • map ESG data needs and usages for supervisory purposes (2023) • deliver training of SFDR and the Taxonomy (2022-24) • deliver advanced MiFID II training with focus on ESG matters (2022-24) • explore actions on promoting financial education (2022-23) • deliver training on sustainability requirement in the EU Benchmark Regulation 2022-24) (ESMA Sustainable Finance Roadmap 2022-2024)	FCA action: • to work with stakeholders to enhance industry capabilities and support firms' management of climate-related and wider sustainability risks, opportunities and impacts • to develop strategies, organisational structures, resources and tools to support the integration of ESG into FCA activities (FCA, A strategy for positive change: our ESG priorities, 2022)			SFC action: to facilitate cross-sectoral capacity building for financial regulators, government agencies, industry stakeholders and academia (SFC, Agenda for Green and Sustainable Finance, 2022)	MAS action: • to facilitate Asia-focused research and training on green and sustainable finance and policy • to grow ESG services to support sustainable finance needs of Singapore and the region (MAS Green Finance Action Plan, June 2022)	JFSA action: • to develop skilled professionals via support for private sector qualification programs • to promote funding for Climate Tech SMEs and start ups • to communicate policy and roadmaps in a timely manner (JFSA, The Second Report by the Expert Panel on Sustainable Finance, 2022)
Support market innovation	ESMA action: • promote effective and consistent supervision around sustainability-related innovation (2022) • conduct workshops and training on sustainability-related innovation and green FinTech (2022–24) (ESMA Sustainable Finance Roadmap 2022-2024)				SFC action: • engage with stakeholders to facilitate the development of technologies to support green and sustainable finance initiatives • plan to create a publicly accessible GHG emissions estimation tool (SFC, Agenda for Green and Sustainable Finance, 2022)	MAS action: • support green FinTech projects, labs, and industry utilities • drive innovative fintech solutions to help financial institutions respond better to the pandemic and climate change • Project Greenprint (MAS Green Finance Action Plan, June 2022)	

Mandatory regulation | Draft/in consultation | Voluntary guidance | Some action by Regulator

Appendix

Exhibit 7: Overview of selected regulatory actions in the European Union

Regulatory response/ action	Applicable regulations
Classification of sustainable activities (taxonomies)	**Regulation:** "EU Taxonomy" – Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (EU, 2020) – the EU Taxonomy is a classification system which establishes a list of sustainable economic activities; sustainability is considered within the context of six different categories. • categories covered by the Taxonomy – climate change mitigation, climate change adaptation, water stress, circular economy, pollution and waste, biodiversity. Only climate change-related categories are currently defined • the Taxonomy sets out thresholds, quantitative where possible, for economic activities to meet in order to be considered sustainable – for example, to be considered sustainable electric power generation should not exceed carbon dioxide emissions of 100gCO2/kwh (measured on life-cycle basis) • sustainability thresholds are initially set for the period up to 2025 and could be revised (i.e. made more stringent) over time • the Taxonomy also applies a 'double' materiality lens – activities should meet the set criteria under a given category (such as climate change mitigation), but should also not cause material damage to other taxonomy categories (e.g. pollution); in the taxonomy, this principal is referred to as 'do no significant harm' (DNSH).
Definitions of sustainable investment/ ESG funds	**Regulation:** Guidelines on funds' names using ESG or sustainability-related terms (Consultation Paper, ESMA 2022) – proposes requirements on quantitative thresholds the funds have to meet if using ESG or sustainability-related terminology: • if ESG-related terms are used, a minimum proportion of at least 80% of its investments should be used to meet the environmental or social characteristics or sustainable investment objectives in accordance with the binding elements of the investment strategy • if sustainability-related terms are used, within the 80% of investments dedicated to meeting the environmental or social characteristics/objectives (as described above) at least 50% should be allocated to sustainable investments as defined in SFDR Art 2(17)
Sustainability-related disclosures	**Regulation:**"SFDR" - Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector' (EU, 2019) and the related Regulatory Technical Standards (RTS) are the main sustainability-related disclosure regulation, and related guidance, for the EU. SFDR applies from 1 January 2023 and it includes: • detailed requirements on the content, methodology and presentation of SFDR disclosures on the entity and product level • guidance on reporting environmental and social principal adverse impact metrics (PAI), and the 'do no significant harm' disclosures • the pre-contractual disclosure requirements set by Articles 5 and 6 in the Taxonomy Regulation (identification of environmental objectives contributed to by a fund) Disclosures include: • **pre-contractual product disclosures** of principal adverse impacts (apply from December 2022) – include a clear and reasoned explanation of whether, and, if so, how a financial product considers sustainability-related risks and investments potential principal adverse impacts on environment – a statement that information on principal adverse impacts on sustainability factors is available in the periodic disclosures • **entity-level disclosures** of principal impact indicators are due by June 2023 and periodically thereafter • **periodic product disclosures** starting in 2023 – funds reporting under article 8 – disclosures should include the extent to which environmental or social characteristics are met – Funds reporting under article 9 – disclosures should include the overall sustainability-related impact of the financial product by means of relevant sustainability indicators, or, if the fund references an index, comparison between the overall sustainability-related impact of the financial product with the impacts of the designated index and of a broad market index – presentation and content requirements for these disclosures were further clarified in the draft Regulatory Technical Standards (RTS) issued in 2021, and the clarifications on the ESAs' draft RTS under SFDR from June 2022 **Actions:** all applicable to ESMA • develop minimum sustainability criteria or a combination of criteria for financial products that disclose under SFDR Article 8 • undertake coordinated supervisory action on sustainability disclosures (2023-24) (ESMA Sustainable Finance Roadmap 2022-2024)
Product labels	**Regulation:** EU Eco label for retail financial products (ESMA, in development) – the ecolabel will define the minimum environmental performance of this product group and will be based on the requirements of the EU Ecolabel Regulation 66/2010 with the objective of awarding the best environmentally performing financial products. **Actions:** all applicable to ESMA • contribute, as needed, to EC's efforts to develop EU-wide labels, including the EU Green Bond Standard, and in the future as requested ESG labels for instruments (e.g., sustainability-linked bonds) and investment products (2022-24) • survey the landscape of EU/national ecolables (2022-24) (ESMA Sustainable Finance Roadmap 2022-2024)
Sustainability-linked finance	**Regulation:** Proposed European Green Bond Standard – voluntary, introduces greater transparency, external review requirements and the EU Taxonomy alignment **Actions:** ESMA to develop the EU Green Bond Standard, and in the future as requested ESG labels for instruments and investment products (ESMA, 2022-24) (ESMA Sustainable Finance Roadmap 2022-2024)

Exhibit 7: Overview of selected regulatory actions in the European Union – continued

Regulatory response/ action	Applicable regulations
Sustainability-related benchmarks	**Regulation:** Regulation (EU) 2019/2089 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks (EU, 2019) – the regulation introduces minimum requirements for index construction, if such indexes are to be 'referred to' as climate transition benchmarks. The regulation outlines two types of climate transition benchmarks: • EU Climate Transition Benchmark – with a minimum portfolio carbon intensity reduction requirements, decarbonisation trajectory, minimum share of green investments requirement • EU Paris Aligned Benchmark – has stricter exclusion standards, higher level of portfolio decarbonisation, greater focus on green investments **Actions:** all applicable to ESMA • contribute to EC's planned work to review the minimum standards for both Climate Transition Benchmarks and Paris-Aligned Benchmarks to ensure that the selection of underlying assets is coherent with the EU Taxonomy (2022) • contribute to planned EC assessment of the possibility to create an ESG Benchmark label (2022) • organise discussions among National Competent Authorities (NCAs) of new climate benchmarks and how to effectively supervise them • monitor trends in the use of existing EU climate benchmarks to obtain a picture of current offer and demand (2022) (ESMA Sustainable Finance Roadmap 2022-2024)
Sustainability-related data and rating providers	**Actions:** all applicable to ESMA • support the EC's in improving the reliability and comparability of ESG ratings, notably through contributing to evidence gathering (2022) • assess ESG disclosures in credit rating agency press releases (2022) • conduct assessment of how ESG factors are incorporated by credit rating agencies (CRAs) (2022) (ESMA Sustainable Finance Roadmap 2022-2024)
Sustainability-related data quality and availability	**Actions:** all applicable to ESMA • take into account ESG-related data reporting needs when amending or proposing reporting requirements • assess data availability and quality for asset managers (2022-24) • discuss and consider implications for ESMA of the EC's plans to integrate sustainable finance data under the European Data Strategy (ESMA Sustainable Finance Roadmap 2022-2024)
Guidance on regulation implementation	**Actions:** Supervisory briefing – Sustainability risks and disclosures in the area of investment management, ESMA34-45-1427 (ESMA, May'22) – it contains guidance on supervision of sustainability-related fund documents, marketing materials, and fund naming. The briefing is intended for use by the National Competent Authorities (NCAs) and aims to promote common supervisory approaches and practices.
Monitor regulation implementation and enforcement	**Actions:** all applicable to ESMA • assess greenwashing practices and their key features • analyse disclosures under SFDR Article 8 and 9 in the investment management sector to support supervisory convergence efforts and the identification of greenwashing cases (2022-24) • map and develop a common understanding of the supervisory role of the National Crime Agencies (NCAs) across sectors, notably on greenwashing, and identify legal impediments • organise supervisory case discussions with NCAs on how to identify and address greenwashing (2022-23) • contribute to work on possible further changes to UCITS Directive and AIFMD to enable market participants to systematically consider positive and negative sustainability impacts of their investment decisions (2024) • contribute to consistent implementations of new regulatory requirements applicable to asset managers (SFDR and the related Taxonomy requirements, AIFMD, UCITS) (2022-24) • assess added value/conduct a Coordinated Supervisory Action on ESG factors in suitability assessments (2023/2024) (ESMA Sustainable Finance Roadmap 2022-2024)
Monitor and analyse market developments	**Actions:** all applicable to ESMA • assess greenwashing practices and their key features • collect data on the distribution of ESG products (2022-24) (ESMA Sustainable Finance Roadmap 2022-2024)
Relevant governance	**Actions:** ESMA to contribute as needed to the legislative process on Sustainable Corporate Governance

Exhibit 7: Overview of selected regulatory actions in the European Union – continued

Regulatory response/ action	Applicable regulations
Sustainability as investment risk	Regulation: • SFDR • MiFID II sustainability requirements (Directive 2014/65/EU, commonly known as MiFID II) – Aug 2022 – client sustainability preferences amendments (introduced in the Delegated Regulation 2021/1253) » firms providing investment advice are required to take into account the sustainability preferences of their clients when recommending suitable financial instruments » investment firms should have appropriate arrangements to prevent misspelling or misrepresentations in this context » ESMA is planning to release updated Guidelines on certain aspects of the MiFID II suitability requirements which will take into account these amendments – Nov 2022 – amendments integrating sustainability factors into the product governance obligations (introduced in the Delegated Directive 2021/1269) » sustainability preferences and objectives should be included into the target market analysis » ESMA is currently consulting on an update to the MiFID II product governance guidelines which will take into account sustainability-related product governance amendments with a view to publish finalised guidance in early 2023 • UCITS & AIFMD sustainability amendments ('Commission Delegated Directive (EU) 2021/1270 of 21 April 2021 amending Directive 2010/43/EU as regards the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities (UCITS)' (2021) and Commission Delegated Regulation (EU) 2021/1255 of 21 April 2021 amending Delegated Regulation (EU) No 231/2013 as regards the sustainability risks and sustainability factors to be taken into account by Alternative Investment Fund Managers): – The amendments introduce requirements for fund managers to assess the sustainability risks to fund returns, as well as ensure they have organisational structures to provide for sustainability risks assessments, appropriate resources and expertise, governance structures and incorporate sustainability risks in the existing risk management processes – In addition, fund managers should identify and mitigate any conflicts of interest that may arise in connection with integration of sustainability risks into their processes (including conflicts of interest that could lead to greenwashing) – Fund managers required to disclose their impact on sustainability factors should take any identified adverse impacts into account when complying with the investment due diligence obligations Actions: ESMA to contribute to the EC's work on possible further changes to UCITS Directive and AIFMD to enable financial market participants to systematically consider positive and negative sustainability impacts of their investment decisions (2024) (ESMA Sustainable Finance Roadmap 2022-2024)
Stress tests	Actions: all applicable to ESMA • conduct climate change scenario analysis, including investment funds (2022-24) • consider how to incorporate the impact of climate change in stress testing for CCPs (central counterparties – clearing service providers) (ESMA Sustainable Finance Roadmap 2022-2024)
Investment risk vs impact of investments (double materiality)	Regulation: • SFDR – disclosure requirements cover sustainability risks and adverse impacts of economic activities on the environment • UCITS & AIFMD sustainability-related amendments (2022) – fund managers are required to disclose their impact on environment (the principal adverse impact metrics) and should take any identified adverse impacts into account in their investment due diligence processes
Value for money for investors – market trends review	Actions: all applicable to ESMA • Annual Statistical Report 'Performance and costs of EU retail investment products'(April 2022) – dedicates a section to ESG UCITS funds, which provides observations on the growing ESG investment product offering, ESG investment strategies, and their financial performance and costs • 'The drivers of the costs and performance of ESG funds'(May 2022) – the report states that the issue of costs and performance of ESG funds is of primary interest from an investor protection angle and therefore the monitoring of costs will continue as part of ESMA's risk analysis work
Investment stewardship	Actions: all applicable to ESMA • contribute to developing further guidance in the area of stewardship and engagement to ensure acting in concert does not impede collaborative engagement by investors around common sustainability goals (2022-23) • contribute to the review of the Shareholder Rights Directive II (ESMA Sustainable Finance Roadmap 2022-2024)
Regulators' capacity and knowledge	Actions: all applicable to ESMA • map ESG data needs and usages for supervisory purposes (2023) • deliver training of SFDR and the Taxonomy (2022-24) • deliver advanced MiFID II training with focus on ESG matters (2022-24) • explore actions on promoting financial education (2022-23) • deliver training on sustainability requirement in the EU Benchmark Regulation 2022-24 • build direct supervisory capacities over administrators or critical and third country recognised benchmarks (ESMA Sustainable Finance Roadmap 2022-2024)

Exhibit 7: Overview of selected regulatory actions in the European Union – continued

Regulatory response/ action	Applicable regulations
Support market innovation	**Actions:** all applicable to ESMA • promote effective and consistent supervision around sustainability-related innovation (2022) • conduct workshops and training on sustainability-related innovation and green FinTech (2022-24) (ESMA Sustainable Finance Roadmap 2022-2024)
Other	**Actions:** all applicable to ESMA • collect data on the distribution of ESG products (2022-24) • build analytical tools for monitoring developments in EU carbon markets • assess and contribute to consistency of Sustainable Finance legislation across sectors and convergence in their application and supervision (ESMA Sustainable Finance Roadmap 2022-2024)

Exhibit 8: Overview of selected regulatory actions in the United Kingdom

Regulatory response/ action	Applicable regulations
Classification of sustainable activities (taxonomies)	**Regulation:** 'UK Green Taxonomy' – proposals put forward in Greening Finance: A Roadmap of Sustainable Investing (HM Government, Oct 2021) • The taxonomy would aim to enhance the available environmental data by providing a classification of sustainable activities across six environmental objectives: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems. • criteria for the climate change mitigation and adaptation objectives are set to be released in 2022 Advice on the development of a UK Green Taxonomy (Green Technical Advisory Group, Oct2022) – the document set out the recommendations of the working group (GTAG) to the UK Government for the development of a green taxonomy in the UK. The recommendations of the GTAG include: • the GTAG recommended that the UK taxonomy is at least as ambitious as the EU Taxonomy • the GTAG recommended maintaining independence in the development of the taxonomy and maintaining strictness and credibility of the technical criteria • the GTAG recommended adoption of the EU Taxonomy principles, except where they need a revision (either due to conflict with UK's net zero strategy or due to implementation difficulties)
Sustainability-related disclosures	**Regulation:** • Financial Conduct Authority (FCA), FCA COLL Collective Investment Schemes Sourcebook – reporting requirements for asset managers (and certain asset owners), coming into force over 2022-2023 with respect to climate change-related reporting in alignment with the recommendations of the Taskforce on Climate Change Financial Disclosures (TCFD): – Entity level: asset managers are required to provide an annual TCFD report on their website – Product/portfolio level: TCFD product reports, these disclosures should also be placed on the website and included or referenced in client communications; » Scope 1, 2, 3 GHG emissions » Total carbon emissions » Total carbon footprint » Weighted average carbon intensity » Climate value-at-risk (as far as reasonably practicable) » Climate warming scenario alignment of the product (as far as reasonably practicable) • SDR – CP22/20 Sustainability Disclosure Requirements and investment labels (FCA, Oct 2022) – the proposals in the consultation for SDR include: – consumer-facing product-level disclosures to help consumers understand the key sustainability features of a fund (e.g. sustainability objective, progress towards the objective, investment strategy, stewardship approach, unexpected investments, sustainability metrics) – more detailed product-level disclosures on sustainability-related features of a fund aimed at broader audience – ongoing sustainability-related performance information in a 'sustainability product-level report' – entity-level disclosures in a 'sustainability entity report' **Actions:** FCA to support global standards for sustainability reporting (FCA, A strategy for positive change: our ESG priorities, 2022)
Definitions of sustainable investment/ ESG funds	**Regulation:** the SDR proposes three sustainable investment labels (see the section below)
Product labels	**Regulation:** the SDR proposes the following investment labels: • Sustainable focus – products investing in assets that are environmentally and/or socially sustainable • Sustainable improvers – products investing to improve the environmental and/or social sustainability of assets over time, including in response to the stewardship influence of the firm • Sustainable impact – products investing in solutions to environmental or social problems to achieve positive real-world impact
Sustainable finance	**Actions:** FCA Primary Market Bulletin 41 (FCA, June'22) highlighted the prospectus rules that currently apply to ESG use-of-proceeds instruments and endorsed the ICMA guidelines for sustainability bonds
Sustainability-related benchmarks	**Regulation:** Retained UK equivalents of the EU climate benchmark regime (Regulation (EU) 2019/2089 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks (EU, 2019)): • UK Climate Transition Benchmark • UK Paris Aligned Benchmark
Sustainability data and rating providers	**Actions:** FCA to support the integrity and effectiveness of ESG data, ratings, assurance and verification services (Feedback statement outlining the regulatory position published in June 2022) – FCA has expressed that there is 'a clear rationale' for bringing certain ESG data and ratings providers under the regulatory oversight, which is likely to be indicative of the policy trajectory in the near future

Exhibit 8: Overview of selected regulatory actions in the United Kingdom (continued)

Regulatory response/ action	Applicable regulations
Sustainability-related data quality and availability	**Actions:** FCA to support the integrity and effectiveness of ESG data, ratings, assurance and verification services (FCA, A strategy for positive change: our ESG priorities, 2022)
Greenwashing – guidance on regulation implementation	Regulation: • Guiding principles for authorised ESG & sustainable investment funds (FCA, 2021) the guidance was issues in response to the FCA observing a high number of ESG fund applications which included misleading or unclear statements and lacked measurable non-financial objectives(FCA, Authorised ESG & sustainable investment funds: improving quality and clarity, 19 June 2021). – The Guiding Principles establish that a fund's sustainability focus has to be consistently reflected across the product design, delivery and disclosure (including the name, fund objectives, investment strategy and holdings). » design of sustainable investment funds and disclosure of key design elements in fund documentation: ESG and related terms used in the fund name, promotional materials and other fund documents should accurately reflect the materiality of ESG considerations to the investment strategy or the fund » the delivery of ESG investment funds and ongoing monitoring of holdings: firms should dedicate appropriate resources to achieving the fund's ESG objectives; in addition, the fund's holdings and investment strategy should be aligned with its stated objectives on an ongoing basis » pre-contractual and ongoing periodic disclosures of sustainable funds should be easily available and accessible to consumers: ESG-related information in KIID should be easily available, accessible (without overuse of technical terms), and sufficiently comprehensive for the consumers to make an informed decisions – Periodic sustainability fund disclosures should involve the following: evaluation against stated ESG characteristics, themes or outcomes; actions taken in pursuit of the fund's objectives • SDR proposals introduce a general anti-greenwashing rule – sustainability-related claims must be clear, fair, not misleading and consistent with the sustainability-profile, including: – only funds with labels may use 'ESG', 'sustainable' or 'any other term which implies that a ... product has sustainability characteristics' in their name or marketing – only 'Sustainable Impact' funds may use 'impact' in name or marketing – funds with no label, but with sustainability-related policy and strategy should describe this 'factually' in required disclosures, but not in their marketing
Relevant governance	**Actions:** FCA to develop a policy approach to ESG governance, remuneration, incentives and training/certification in regulated firms: stakeholder engagement to begin in 2022 (FCA, A strategy for positive change: our ESG priorities, 2022)
Climate change as an investment risk	**Regulation:** FCA COLL Collective Investment Schemes Sourcebook – reporting requirements for asset managers (and certain asset owners), coming into force over 2022-2023 with respect to climate change-related reporting in alignment with the recommendations of the Taskforce on Climate Change Financial Disclosures (TCFD); see disclosure requirements in the 'Disclosures' section of this table. Actions: FCA to establish the Climate Financial Risk Forum (to help capacity building across the industry) (FCA, A strategy for positive change: our ESG priorities, 2022)
Sustainability as an investment risk	**Regulation:** the SDR proposals for entity-level disclosures extends disclosure requirements from climate risk to sustainability-related risks and opportunities (including governance, impacts on the business, risk management, metrics and targets)
Stress tests	**Actions:** the Bank of England published the first climate stress test results in May 2022 – the tests covered banks and insurers and in terms of risks they covered transition and physical climate change risks.
Investment risk vs. impact of investments (double materiality)	**Regulation:** SDR – the proposals for certain product labels cover the impact of investments on the environment and society; however the FCA's proposals do not require disclosure of principal adverse impacts or DNSH.
Value for money for investors – market trends monitoring	**Actions:** In the context of the fund value assessments, FCA highlighted that firms should be transparent on how their ESG services justify any additional fees vs non-ESG funds (Authorised fund managers' assessments of their funds' value (multi-firm review, 2021))
Investment stewardship	**Regulation:** UK Stewardship Code 2020 **Actions**: The asset owners and the investors are expected to use the sustainability information provided by the implementation of the SDR and the UK Taxonomy to inform their stewardship activities, as well as investment decision-making, monitoring, and voting practices. The continuing regulatory focus on investor engagement is evident in the FRC's 2022 review of stewardship practices and the FCA's ongoing efforts to promote sustainability-related stewardship. (FCA, A strategy for positive change: our ESG priorities, 2022)
Regulators' capacity and knowledge	**Actions:** applicable to FCA • work with stakeholders to enhance industry capabilities and support firms' management of climate-related and wider sustainability risks, opportunities and impacts • develop strategies, organisational structures, resources and tools to support the integration of ESG into FCA's activities (FCA, A strategy for positive change: our ESG priorities, 2022)
Other	**Actions:** all applicable to FCA • promote well-designed, well governed, credible and effective transition plans – through stakeholder engagement 2022 • set expectation across E, S, and G: Consultation in the second half of 2022, through stakeholder engagement • embed ESG considerations and the expectation that we have regard to net zero across FCA functions: ongoing through 2022 • communicate and 'role model' (FCA, TCFD Report 2022) (FCA, A strategy for positive change: our ESG priorities, 2022)

Exhibit 8: Overview of selected regulatory actions in the United States

Regulatory response/ action	Applicable regulations
Sustainability-related disclosures	**Regulation:** Enhanced disclosures by certain investment advisers and investment companies about ESG investment practices (SEC proposal, May'22) • Disclosure requirements depending on how ESG factors are incorporated into a fund's strategy • Certain climate-focused funds will be required to disclose portfolio GHG emissions • No definitions of ESG/sustainable investing; focusing on ensuring funds' disclosure of their investment approach
Definitions of sustainable investment/ ESG funds	**Regulation:** Enhanced disclosures by certain investment advisers and investment companies about ESG investment practices (SEC proposal, May'22) – proposes to distinguish between several types of ESG funds depending on how ESG factors are incorporated into investment strategy • Integration funds – ESG factors are integrated alongside non-ESG factors in investment decisions but are not more significant than other factors • ESG-focused funds – ESG factors are a significant or main consideration in selecting investments or the engagement strategy • Impact Funds – a subset of ESG-focused funds that seek to achieve a particular ESG impact
Monitor regulation implementation and enforcement	**Enforcement actions:** BNY Mellon fine for misstatements and omissions about ESG considerations in making investment decisions (SEC, 2022)
Monitor and analyse market developments	**Actions:** The Division of Examinations' Review of ESG Investing (SEC, 2021) – the review covered investors' portfolio management, advertising and marketing, and compliance practices and it had the following observations: • portfolio management practices were inconsistent with disclosures about ESG approaches • controls were inadequate to maintain, monitor, and update clients' ESG-related investing guidelines, mandates, and restrictions • proxy voting may have been inconsistent with advisers' stated approaches • there were unsubstantiated or otherwise potentially misleading claims regarding ESG approaches • controls were inadequate to ensure that ESG-related disclosures and marketing are consistent with the firm's practices • compliance programs did not adequately address relevant ESG issues

Exhibit 9: Overview of selected regulatory actions in Australia

Regulatory response/ action	Applicable regulations
Classification of sustainable activities (taxonomies)	Regulation: Sustainable Finance Taxonomy – in development by the Australian Sustainable Finance Institute Actions: Monitor the development of sustainable/green taxonomies, learn and influence their development (APRA, ASIC, RBA)
Sustainability-related disclosures	Actions: applicable to ASIC • Engage with IOSCO Sustainability Technical Experts Group on a framework for sustainability reporting under a possible International Sustainability Standards Board • Encourage voluntary TCFD-aligned disclosure (ASIC Corporate Plan 2022-26)
Guidance on regulation implementation	Regulation: Information sheet (INFO271) (ASIC, 2022) – guidance on how to avoid greenwashing when offering and or promoting sustainability-related products. The guidance includes: • existing prohibitions against misleading and deceptive statements and conduct (the Corporations Act 1041E, 1041G, 1041H; ASIC Act 12DA, 12DB) • existing disclosure obligations (the Corporations Act 1013D(1)(l), Regulatory Guide 65 Section 1013DA disclosure guidelines) • further issues to consider in the context of promotions/communications on sustainability-related products: – is the product true to label – is there vague terminology – are the headline claims potentially misleading – do the disclosures explain how sustainability-related factors are incorporated into investment decisions and stewardship activities – do the disclosures/promotions explain the investment screening criteria – do you have any influence over the benchmark index for your sustainability-related product (and if so, is the level of influence accurately described) – do the disclosures explain the use of sustainability metrics – do you have reasonable grounds for a stated sustainability target (does the disclosure explain how the target will be measured and achieved – is the relevant information easily accessible to investors
Climate change as investment risk	Actions: • encourage voluntary TCFD-aligned disclosure (for ASIC) (ASIC media release 29/06/2022) • set supervisory expectations for the management and disclosures of climate-related risks and measuring the exposures of financial institutions to climate-related risks (for Financial regulators – APRA, ASIC, RBA) (RBA, Financial Stability Review, 2021)

Exhibit 10: Overview of selected regulatory actions in Hong Kong

Regulatory response/ action	Applicable regulations
Classification of sustainable activities (taxonomies)	**Action:** SFC will consider how the adoption of the Common Ground Taxonomy (in development by the IPSF Working Group on Taxonomies) will complement the existing regulatory and supervisory measures. The Common Ground Taxonomy-Climate Change Mitigation is a joint initiative of the People's Bank of China (PBoC) and the European Commission. It provides a comprehensive mapping and comparison between EU and China taxonomies and the mapping analysis can be considered as major first step towards convergence of global standards of green definitions.
Sustainability-related disclosures	**Regulation:** • mandatory alignment of climate-related disclosures with TCFD across relevant sectors by 2025 • Circular to management companies of SFC-authorised unit trusts and mutual funds – ESG funds (SFC, June'21); – contains disclosure guidance on pre-contract and periodic reporting for ESG funds (this circular supersedes the 2019 circular); additional guidance for climate-focused funds apply. The guidance broadly cover the below areas: – scope of ESG funds – fund name – disclosure in offering documents – additional information – periodic assessment and reporting – application to UCITS funds – ongoing monitoring • Management and disclosure of climate-related risks by fund managers (SFC, Aug'21) – contains amendments to the Fund Manager Code of Conduct which require fund managers to take climate-related risks into consideration in their investment and risk management processes and make appropriate disclosures. Amendments broadly cover: – board and management's roles and responsibilities in relation to the climate-related considerations and risks – integration of climate-related risks into investment management – climate-related risk management – disclosure (manner and frequency of disclosures, entity and fund-level disclosure requirements) **Actions:** applicable to SFC • support the ISSB initiative and engaging with the domestic authorities on developing an approach to globally aligned disclosure requirements • monitor the implementation of the existing regulatory measures by asset managers, taking into account the availability and quality of ESG/climate-related data required to meet the disclosure requirements • maintain regular dialogue with the industry (SFC, Agenda for Green and Sustainable Finance, 2022)
Definitions of sustainable investment/ ESG funds	**Regulation:** Circular to management companies of SFC-authorised unit trusts and mutual funds – ESG funds (SFC, June'21) – it defines ESG funds as funds which consider ESG, climate, or sustainability factors as key to their investment strategy
Sustainability-related data and rating providers	**Actions:** SFC to consider the publication of guidance for asset managers on engagement of ESG ratings and data providers (SFC Agenda for Green and Sustainable Finance, 2022)
Guidance on regulation implementation	**Actions:** applicable to SFC • engage with stakeholders to provide guidance and enhance investors' awareness of ESG funds • ongoing monitoring of ESG funds' compliance with the June 2021 Circular • monitor global regulatory developments (SFC, Agenda for Green and Sustainable Finance, 2022)
Monitor regulation implementation and enforcement	
Monitor and analyse market developments	
Climate change as investment risk	**Regulation:** • Mandatory alignment of climate-related disclosures with TCFD across relevant sectors by 2025 • Management and disclosure of climate-related risks by fund managers (SFC, Aug'21) – contains amendments to the Fund Manager Code of Conduct which require Fund managers to take climate-related risks into consideration in their investment and risk management processes and make appropriate disclosures. Amendments broadly cover: – board and management's roles and responsibilities in relation to the climate-related considerations and risks – integration of climate-related risks into investment management – climate-related risk management – disclosure (manner and frequency of disclosures, entity and fund-level disclosure requirements)

Exhibit 10: Overview of selected regulatory actions in Hong Kong (continued)

Regulatory response/ action	Applicable regulations
Stress tests	**Actions:** SFC to promote climate change-related risk scenario analysis to assess the impacts on financial institutions under different climate pathways (including climate risk stress tests for banks and insurers, and scenario analysis for large asset managers) (SFC, Agenda for Green and Sustainable Finance, 2022)
Regulators' capacity and knowledge	**Actions:** applicable to SFC • facilitate cross-sectoral capacity building for financial regulators, government agencies, industry stakeholders and academia through: – promoting the inclusion of ESG as a topic for training under the Guidelines for Continuous Professional Training (consultation, June'21) – support of investor education – regular online updates, publicity and press events, public talks and stakeholder collaborations • support the Cross-Agency Steering Group's (CASG) efforts in relation to its Centre for Green and Sustainable Finance (GSF Centre), particularly in the area of capacity building (SFC, Agenda for Green and Sustainable Finance, 2022)
Support market innovation	**Actions:** applicable to SFC • engage with CASG and other stakeholders to facilitate the development of technologies to support green and sustainable finance initiatives • plan to create a publicly accessible GHG emissions estimation tool that can be used by companies (SFC, Agenda for Green and Sustainable Finance, 2022)
Other	**Actions:** applicable to SFC • develop a regulatory framework for carbon markets • participate in the IOSCO STF's carbon market workstream (to support international development in the global transition to a sustainable economy) (SFC, Agenda for Green and Sustainable Finance, 2022)

Exhibit 11: Overview of selected regulatory actions in Singapore

Regulatory response/ action	Applicable regulations
Classification of sustainable activities (taxonomies)	**Regulation:** Identifying a green taxonomy and relevant standards for Singapore and ASEAN (MAS, May'22) – in development, the Green Finance Industry Taskforce consulted on the second version of the Taxonomy in May 2022, the proposed classification in green, amber, and red economic activities, depending on their contribution to climate change mitigation **Actions:** MAS is also participating in the development of the ASEAN Taxonomy for Sustainable Finance, IPSF's Common Ground Taxonomy, and G20 Sustainable Finance Working Group
Sustainability-related disclosures	**Regulation:** CFC disclosure and reporting guidelines for retail ESG funds (MAS, July'22; applicable from Jan'23) • sets the regulatory expectations on how existing requirements under the Code on Collective Investment Schemes and the Securities and Futures Regulations apply to retail ESG funds, and the applicable disclosure and reporting guidelines • applies to funds which use or include ESG factors as their key investment focus and strategy and are represented as an ESG-focused scheme • includes guidance on the naming of ESG funds, and disclosure (prospectus and enhanced reporting) **Actions:** MAS to support alignment of disclosures with international standards, such as TCFD and the upcoming ISSB (MAS Green Finance Action Plan, June 2022)
Sustainability-linked finance	**Actions:** All applicable to MAS • Sustainable bond and green and sustainability-linked loan grant schemes – promote sustainable lending frameworks that provide simplified processes and standardised criteria for borrowers • US$2b MAS Green Investments Programme – A MAS-funded programme which will place funds with asset managers who are committed to drive regional green efforts (e.g. firm commitment to deepening their green investment capabilities across functions such as research, stewardship, policy and portfolio management, accelerate local capability transfers) • Insurance-linked securities grant scheme (ILS)– the scheme covers upfront issuance costs for ILS bond issuances (MAS Green Finance Action Plan, June 2022)
Sustainability-related data quality and availability	**Actions:** • MAS & CDP Memorandum of Understanding (Mar'22) – both parties agree to collaborate on promotion of sustainability disclosures and access to ESG data • MAS to improve accessibility of ESG data through a regulatory data platform • Project Greenprint – MAS to partner with industry to develop digital solutions that facilitate the flows of ESG data (MAS Green Finance Action Plan, June 2022)
Guidance on regulation implementation	**Regulation:** CFC Disclosure and Reporting Guidelines for Retail ESG Funds (MAS, July'22; applicable from Jan'23)
Relevant governance	**Regulation:** Guidelines on environmental risk management to financial institutions (MAS, Dec'20) and Guidelines on environmental risk management for banks, insurers, and asset managers (MAS, May'22). Those include: • guidance on governance and strategy – effective oversight of the management of environmental risk by boards and senior management • board and senior management roles and corporate governance structures
Climate change as investment risk	**Regulation:** Guidelines on environmental risk management to financial institutions (MAS, Dec'20) and Guidelines on environmental risk management for banks, insurers, and asset managers (MAS, May'22). Those include: • guidance on how to address environmental risks across all relevant processes – governance and strategy, research and portfolio construction, portfolio risk management, stewardship, disclosure of environmental risk information • overview of the 2020 Guidelines implementation, emerging best practice, current challenges
Stress tests	**Action:** a range of long-term climate scenarios were included as part of the 2022 industry-wide stress test exercise (MAS, 2022)
Investment stewardship	**Actions:** Updates to Singapore stewardship principles for responsible investors (MAS, 2022)
Regulators' capacity and knowledge	**Actions:** all applicable to MAS • facilitate Asia-focused research and training on green and sustainable finance and policy by centres of excellence (e.g. Singapore Green Finance Centre, Sustainable Finance Institute Asia, Sustainable and Green Finance Institute) • grow ESG services to support sustainable finance needs of Singapore and the region • facilitate the establishment of GFANZ Asia-Pacific Network central office in Singapore (MAS Green Finance Action Plan, June 2022)
Support market innovation	**Actions:** all applicable to MAS • support green FinTech projects, labs, and industry utilities (e.g. S$50m Green FinTech Grant Scheme) • drive innovative fintech solutions to help financial institutions respond better to the pandemic and climate change (e.g. Global FinTech Innovation Challenge) • Project Greenprint • partner with industry to develop digital utilities that facilitate the trusted and efficient flow of ESG data, to support financial institutions and businesses in mobilising capital to sustainable projects, monitoring commitments and measuring impact (MAS Green Finance Action Plan, June 2022)

Exhibit 12: Overview of selected regulatory actions in Japan

Regulatory response/ action	Applicable regulations
Sustainability-related disclosures	**Actions:** Progress report on enhancing asset management business (JFSA, May'22) – it lists JFSA's supervisory expectations for information provision and disclosures by asset managers with respect to how ESG is incorporated in their investment processes and decision-making: • be consistent and conform with the investment process • allow investors to correctly understand the ESG features of the investment product, compare it with other products and take an investment decision
Sustainability-linked finance	**Regulation:** • Social bonds guidelines (JFSA, October'21) – the guidelines have four core components, including: – use of proceeds – the proceeds of social bonds should be exclusively allocated to social projects – process for project evaluation and selection – intended social objectives and the process for project evaluation and selection should be explained – management of proceeds – proceeds should be appropriately tracked and managed – reporting – disclosures should include a brief description of the project, the allocated amount and social benefits; quantitative indicators for social benefits are recommended • Green bond and sustainability-linked bond guidelines (Ministry of the Environment, 2020) – the aim of the guidelines is to achieve credibility of the environmental benefits of green or sustainability-linked bonds while reducing the cost and administrative burden on issuers. The main elements include setting principals with respect to: – use of proceeds or target setting – process of evaluation of projects/ targets – management of proceeds – reporting and external reviews • Basic guidelines in climate transition finance (JFSA, May'21) – general guide which aims to support the issuance of debt funding supporting projects which will result in carbon reduction. Transition in the context of the guidelines is defined as activities which would result in carbon reduction for activities which may not necessarily be low carbon at present. The guidance sets out four elements of transition which need to be met: – fundraiser's climate transition strategy and governance – includes the broader decarbonisation strategy of the fundraiser and consideration of the 'just transition' – business model environmental materiality – should include core business activities which are material at present and in the future in terms of environmental impact – targets and consideration of science – the proposed carbon reductions from the funded projects should be measured with science-based targets – implementation transparency – use of quantitative measures where possible with respect to relevant indicators and disclosures **Action:** for JFSA – create an ESG bond information platform (JFSA Strategy on Sustainable Finance July 2021-June 2022)
Sustainability-related data and rating providers	**Regulation:** • Draft code of conduct for ESG evaluation and data providers (JFSA, July'22, in consultation). The code sets out principals with respect to: – quality of ESG data – necessary human resources – independence and conflict of interest – transparency, confidentiality, and communication between ESG data providers and issuers • Progress report on enhancing asset management business (JFSA, May'22) – suggests asset managers to conduct verification and due diligence of ESG ratings and data product providers in order to ensure the accuracy and quality of ESG evaluations and data from different data providers
Sustainability-related data quality and availability	**Actions:** JFSA to draft impact indicators for social projects (JFSA Strategy on Sustainable Finance July 2021-June 2022)
Guidance on regulation implementation	**Action:** Progress report on enhancing asset management business (JFSA, May'22) – asset management firms should continue to strengthen their investment approach and enhance disclosure to enable consumers to understand the content of the investment products and make appropriate investment decisions
Monitor regulation implementation and enforcement	**Actions:** JFSA conducts regular market reviews, including with respect to developments in sustainable investment – e.g. Progress report on enhancing asset management business (JFSA, May'22)
Relevant governance	**Action:** Progress report on enhancing asset management business (JFSA, May'22) – an investment manager should develop effective systems for ESG investment, including the establishment of a department responsible for strengthening the sustainability promotion framework, enhancing ESG investment methods, and applying ESG experts.
Climate change as investment risk	**Regulation:** Supervisory guidance on climate-related risk management and client engagement (JFSA, July'22) – it covers guidance with respect to climate change risk governance; identification, assessment and management of climate-related risks and opportunities; how to support clients' responses to climate change and information sharing with stakeholders
Stress tests	**Action:** JFSA conducted a pilot scenario analysis using NGFS scenarios for thee megabanks and three major non-life insurance groups (2022)

Exhibit 12: Overview of selected regulatory actions in Japan (continued)

Regulatory response/ action	Applicable regulations
Value for money for investors – market trends review	**Action:** Progress report on enhancing asset management business (JFSA, May'22). Observations of the May'22 analysis include: • the average trust fee ratio of active ESG funds is higher than that of other active funds • the average trust fee ratio of passive ESG funds is lower than that of other passive funds
Investment stewardship	**Regulation:** • Stewardship Code Revisions (JFSA, 2020) – recommends greater transparency on proxy voting – recommends investors to consider sustainability in the context of their investment strategy in engagement – promotes asset owner stewardship • Revisions to the Corporate Governance Code and the Guidelines for Investor and Company Engagement (JFSA, June'21) – promotes: – enhanced board independence – diversity – increased attention to sustainability and ESG factors **Action:** Progress report on enhancing asset management business (JFSA, May'22) – in accordance with its investment strategy, a firm should proactively conduct stewardship activities to achieve corporate value growths by improving ESG-related business opportunities and reducing business risks identified at the time of investment
Regulators' capacity and knowledge	**Actions:** all applicable to JFSA • develop skilled professionals via support for private sector qualification programs • promote funding for Climate Tech SMEs and start ups • communicate policy and roadmaps in a timely manner (JFSA, The Second Report by the Expert Panel on Sustainable Finance, 2022)