Sustainable Finance and the Role of Securities Regulators and IOSCO

Final Report

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Chapter 1 - Executive Summary

Securities regulators share the core objectives of protecting investors, maintaining fair, efficient and transparent markets and reducing systemic risk. Sustainability issues in general, and climate-related issues in particular, can raise important challenges in meeting these core objectives.

In October 2018, IOSCO established its Sustainable Finance Network (SFN) to provide a forum for members to exchange experiences and gain a better understanding of, and have structured discussions on, various sustainability issues. The SFN has analysed the context in which securities regulators are addressing sustainability efforts, the roles they can play and the challenges they may face. In particular, it has focused on sustainable finance disclosure issues and their relevance for investor decision-making as well as on the development of industry-led initiatives.

To inform its work, the SFN undertook two workstreams. First, it conducted a mapping exercise of initiatives taken or planned by securities regulators and market participants. Second, it took stock of various international initiatives taken by other regional or international organizations. The work was informed by: (i) a survey conducted in 2019 seeking input from securities regulators and market participants, (ii) a detailed desktop review of existing standards, third-party frameworks and initiatives, and (iii) engagement with different stakeholders with the view to enhance its understanding of the current state of sustainable finance initiatives. This included an international stakeholders’ meeting held in Stockholm in June 2019.

It also built on previous IOSCO work in this area, including the 2019 IOSCO Statement on Disclosure of ESG Matters by Issuers (published in January 2019) and the Growth and Emerging Market Committee report on Sustainable finance in emerging markets and the role of securities regulators (published in June 2019).

This report provides an overview of current initiatives, both by regulators and the industry, and a detailed analysis of the most relevant ESG-related international initiatives and third-party frameworks and standards. It also identifies a number of areas where improvements can be made and articulates the need for IOSCO to play a key role in this area. For example, the SFN work to date points to a need to improve the comparability of sustainability-related disclosures. The lack of consistency and comparability across third-party frameworks could create an obstacle to cross-border financial activities and raise investor protection concerns. The Report reflects the expectations from regulators and market participants that IOSCO should take an active role in facilitating global coordination and addressing transparency.

It highlights three recurring themes, namely multiple and diverse sustainability frameworks and standards, including sustainability-related disclosure; a lack of common definitions of sustainable activities; and greenwashing and other challenges to investor protection.

To address these challenges, IOSCO has agreed to establish a Board-level Task Force on Sustainable Finance. The aim of the Task Force will be to improve sustainability-related disclosures made by issuers and asset managers; to work in collaboration with other international organizations and regulators to avoid duplicative efforts and to enhance coordination of relevant regulatory and supervisory approaches; and to conduct case studies and analyses of transparency, investor protection and other relevant issues within sustainable finance.
Chapter 2 – Introduction

1. Sustainable finance and the role of the financial system

Transitioning to sustainable development economies and mitigating climate change are major issues around the world. In recent years, there has been an increase in the efforts to promote a more sustainable development, both within the public and the private sectors, including through financial markets, reflecting a growing recognition of the significant potential economic and financial impacts of climate change and environmental, governance or social-related risks.

In the last few years, investment instruments designed to be, or labeled as, sustainable have reached considerable volumes. According to recent figures, these investments were in the range of 30 to 80 trillion US dollars in 2018, depending on definitions. Moreover, a growing number of large global companies report significant exposures to climate-related events, including physical impacts, many of which could potentially materialize within the next five years. In the longer term, the total volume of stranded assets is likely to increase in a variety of industries.

In parallel, the transition to more sustainable economic models will also present business and investment opportunities. IOSCO’s core Principles provide for disclosure of material information, and an increasing number of companies are considering and disclosing material risks related to this transition. The financial system can play a role in this transition. It can support the long-term sustainable development of economies through the intermediation of risks and investments that take into account environmental, social and governance (ESG) factors.

Some jurisdictions are taking policy or regulatory steps to enhance the role of the financial system in the transition towards sustainable development. From a growth and emerging markets perspective, sustainable finance is also identified as an important factor in the development of sustainable capital markets, helping drive sustainable growth and innovation.

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1 Figures from the Global Sustainable Investment Alliance (GSIA) and Principles for Responsible Investments (PRI), respectively.
5 Environmental, Social and Governance. ESG and sustainability are used interchangeably in this Report, since “ESG” is an operationalization of the broader concept of sustainability and has become a widely used term within the financial sector.
6 The 2030 Agenda for Sustainable Development has been adopted by all United Nations Member States in 2015, defining 17 Sustainable Development Goals (SDGs). The UN estimates the gap in financing to achieve the Sustainable Development Goals (SDGs) at $2.5 trillion per year in developing countries alone; it is also estimated that achieving the SDGs could open up US$ 12 trillion of market opportunities (see UN Secretary General’s 2019-2021 Roadmap for financing the 2030 Agenda for Sustainable Development). The UN Biodiversity Finance Initiative (Biofin) also estimates that the needs of financial flows to protect nature run up to US $ 440bn.
Accordingly, sustainable finance looks into how finance (investing and lending) interacts with economic, social, and environmental issues.\(^8\) In other words, sustainable finance refers to the process of incorporating ESG factors into financial decision-making. There is not a unique approach towards ESG components among different stakeholder groups, and thus, the approach to disclosure for each component may vary, between industries and between countries. Taking into account these variations, ESG factors have emerged as a key trend in the financial services industry, bringing innovation, raising a number of questions and methodological challenges as well as to business practices and investment strategies. Hence, sustainable finance has become a significant area of attention for an increasing number of market participants, policy makers, prudential supervisors and securities regulators.\(^9\)

The appropriate management of material ESG-related risks by issuers and financial institutions, the risk of greenwashing\(^10\) and the lack of reliability and comparability of material ESG-related data and disclosures are some of the issues that have drawn the attention of many regulators. Examples of greenwashing can include an over-emphasis of ESG considerations in the communication of a product or instrument and in corporate information, where such considerations have had a very limited impact on the actual investment or business strategy implemented.

Regulators, supervisors and businesses are increasingly recognizing climate-related risks as a source of financial risk that can affect not only specific firms or sectors but more broadly the stability of the financial system. Both the physical effects of rising temperatures and a transition towards a low-carbon economy can trigger risks that have “distinct characteristics compared to other structural risks”.\(^11\) These characteristics include their “far-reaching impact in terms of breadth and magnitude, their foreseeable nature, their irreversibility and their dependency on short-term actions.”\(^12\) This has increased the focus by a number of prudential regulators and supervisors on these issues within their mandate of ensuring the resiliency of the financial system to material risks.

Securities regulators can contribute to this transition towards sustainable investments and a sustainable economy by, for example, promoting transparency in markets through disclosure of material ESG-related information that allows market participants to identify and assess sustainability-related risks and opportunities.

Information on individual firms’ exposure to risks and opportunities and their strategies to address them can be material to investment decisions. Access to such information, when material, is fundamental for investor protection, efficient risk management and transparent, well-functioning capital markets and, ultimately, for an efficient allocation of capital in the economy. Therefore, issuers’ disclosure of material ESG-related matters is important to

\(^9\) For the purposes of this report, the term “securities regulators” refers to both regulators and supervisors, following IOSCO common terminology.
\(^10\) Greenwashing usually refers to practices aimed to mislead investors or to give them a false impression about how well an investment is aligned with its sustainability goals.
\(^11\) Network for Greening the Financial Sector (NGFS), *Climate change as a source of financial risk* (April 2019).
\(^12\) The IPCC 2018 report (Special report: Global Warming of 1.5\(^\circ\)) notes that “Future climate-related risks would be reduced by the upscaling and acceleration of far-reaching, multilevel and cross-sectoral climate mitigation and by both incremental and transformational adaptation”.

3
facilitate market participants’ decision-making processes. At a time where the market for sustainable investing is growing rapidly, such disclosure is also crucial for the credibility of investments that claim to pursue sustainability objectives. As investors and asset managers face increasing commercial, supervisory and regulatory pressures to consider ESG matters in their own governance, strategy, risk management and reporting, disclosure of material ESG information plays an increasingly important role, both for issuers vis-a-vis asset managers and investors, and asset managers vis-a-vis (retail) investors.

As a result, many voluntary third-party standards for sustainability-related reporting have emerged. The role of third-party sustainability reporting frameworks is distinct from the role of regulatory-required disclosures that focus on the materiality of climate and ESG-related factors on a specific issuer’s business. The multitude of voluntary reporting standards and the fact that these can have different target users and scope, as well as using different formats and metrics can make it difficult for investors to compare such information across the different voluntary frameworks. Issuers also may face challenges with the multitude of options and differing approaches. Some of this variation is at the firm level, but there are also disparities between regions and jurisdictions that could hinder cross-border financial activity and free capital flows, which are salient features of modern economies. These challenges could result in both sub-optimal capital allocation, since cross-border activity offers diversification and investment opportunities to investors and enables firms to raise capital and conduct business in multiple countries, and present investor protection concerns.

2. A role for IOSCO

As securities regulators, IOSCO members share the core objectives of protecting investors, maintaining fair, efficient and transparent markets and reducing systemic risk. IOSCO, as well as most securities regulators, does not have an explicit remit to either promote sustainability issues or sustainable finance or specific types of investments. However, sustainability issues in general, and climate-related issues in particular, pose important challenges in meeting the core objectives – investor protection, market efficiency and mitigation of systemic risks - making these issues relevant from a regulatory perspective. Given the global nature of many market developments related to sustainability and climate change, IOSCO provides a discussion forum for regulators to support coordinated approaches, identify cross-border issues, avoid regulatory conflicts, and for knowledge sharing as IOSCO members address these challenges.

IOSCO has highlighted the importance of facilitating cross-border offerings and listings by multinational issuers since 1998 when it published its International Disclosure Standards for cross-border offerings and listings.13 IOSCO also underscored the importance of not only enhancing comparability of information, while ensuring a high level of investor protection, but also developing a generally accepted body of non-financial statement disclosure standards for use by issuers in cross-border offerings and listings.

Since then, cross-border activity has increased significantly. In 2015, the report of the IOSCO Task Force on Cross-Border Cooperation14 noted, for example, the concerns expressed by the financial industry’s global participants about the impact of conflicts, inconsistencies and differences between, and duplication of, domestic and foreign regulation that applies to cross-

border financial activity. Understanding the potentially adverse impact of market fragmentation in global markets was the key driver behind the recent IOSCO Follow-Up Group in its Cross-Border Task Force report in June 2019\(^\text{15}\) and continues to be an area of focus for IOSCO.

As emphasized in IOSCO’s Principle 16, issuer disclosure is an important means for regulators to meet its core objectives: “There should be full, accurate and timely disclosure of financial results, risk and other information which is material to investors’ decisions.”\(^\text{16}\) Consistent with this principle, reliable disclosure of material ESG information helps market participants evaluate sustainability-related matters in their investment decisions and may improve the pricing mechanisms for sustainability-related risks and opportunities and sustainable investments. This process contributes to an efficient allocation of capital.

The IOSCO Board in February 2017 agreed that one of its Focus Areas for 2017–2018 would address “analyzing the role of securities markets in capital-raising and sustainability issues, and the related role of securities regulation.”

Since then, IOSCO has undertaken two main initiatives.

*First*, IOSCO published on January 2019 its “Statement on Disclosure of ESG Matters by Issuers,” emphasizing that ESG matters, although sometimes characterized as non-financial, may have a material short-term and long-term impact on the business operations of the issuers, as well as on risks and returns for investors and their investment and voting decisions.\(^\text{17}\) IOSCO encourages issuers to consider the materiality of ESG matters to their business and to assess risks and opportunities in light of their business strategy and risk assessment methodology. Based on IOSCO Principle 16, IOSCO states that when ESG matters are considered material, issuers should disclose the impact or potential impact on their financial performance and value creation. Issuers are also encouraged to provide insight into the governance and oversight of ESG-related material risks, for example, by disclosing the methodologies they follow in their risk assessment and the steps taken and/or action plans developed, to address the risks they have identified.

*Second*, IOSCO’s Growth and Emerging Markets Committee (GEMC) published in June 2019 its report on “Sustainable Finance in Emerging Markets and the Role of Securities Regulators”.\(^\text{18}\) In this report, the GEMC states that issues relating to sustainable finance are particularly relevant for growth and emerging markets as they seek to develop capital markets in their jurisdictions. The GEMC explores the issues and challenges that affect the development of sustainable finance, including sustainable products and instruments in emerging capital markets, such as green bonds, social impact bonds and ESG funds. The report contains recommendations for GEMC members to consider when issuing regulations or guidelines regarding sustainable instruments and additional disclosure requirements of ESG-specific risks. These recommendations aim to help achieve a degree of international consistency and


harmonization, thereby assisting investors and issuers with the cross-border and global nature of sustainable instruments.

3. About the IOSCO Sustainable Finance Network

IOSCO established in October 2018 its Sustainable Finance Network (SFN) to allow members i) to exchange experiences and gain a better understanding of sustainability issues, including the details of issuer disclosures, their relevance to investor decision-making and the level of uptake and the implementation of industry-led initiatives, and ii) to have structured discussions around these issues. The leadership and membership of the SFN Steering Group is provided in Appendix 1.

The SFN also allows IOSCO members to discuss the rationale for securities regulators to address these issues, the roles they can play and the challenges they may face. The SFN currently has two work streams.

The work of the SFN builds on IOSCO’s previous initiatives in the area of sustainable finance.

To deliver its work plan, the SFN organized its work into two work streams. The first work stream undertook a mapping exercise of the initiatives taken or planned by securities regulators, supervisors and market participants, to facilitate a better understanding of why and how regulators can address sustainability-related issues. The second work stream examined various international initiatives taken by other organizations to better understand how these relate to the role and work of securities regulators in this area. The outcomes of the two work streams complement one another and contribute to providing a comprehensive overview of sustainable finance initiatives across the globe.

In May 2019, the SFN carried out a survey on the sustainable finance-related initiatives taken, or planned, by securities regulators, market participants, other international bodies, industry led groups and standard setters. The key findings and outcomes of this work are further described in Chapter 2.

In June 2019, the SFN held a Stakeholder Meeting in Stockholm, facilitating dialogue between securities regulators, standard-setting bodies and industry participants. Among others, the key themes discussed included:

- whether increased awareness of sustainability challenges has had an impact on corporate business models and risk management;
- the impact of sustainability factors in the investment decision processes;
- corporate reporting and existing frameworks for disclosing ESG information; and
- the role of securities regulators and what they may do to support sustainable financing in capital markets.

This work was complemented by a detailed desktop review aimed at facilitating a better understanding of existing sustainability reporting standards, third-party frameworks and initiatives. An overview of the findings and outcome of this work is also presented in Chapter 2. In addition to this work, the SFN has actively interacted with different stakeholders, which has further contributed to the SFN’s understanding of the current state of sustainable finance.
Chapter 3 - Overview of current initiatives

1. Regulators’ initiatives on sustainable finance in their own jurisdictions

This section summarizes the feedback received from 34 regulators that responded to the SFN survey. While 62 percent of these regulators state that their regulatory mandates do not include any specific references to ESG matters, many of them consider that ESG issues are relevant to their work, due to their relevance to both investor protection and financial stability.

Securities regulators indicated that their role in sustainable finance involved work in more than one of the following functions:

- Facilitating sustainable investment by promoting transparency – 83 percent.
- Preventing greenwashing – 45 percent.
- Defining ESG-related risks as financial risks that need to be managed and disclosed – 41 percent.
- Promoting Corporate Social Responsibility (CSR) among financial companies – 28 percent.
- Promoting the re-orientation of capital towards sustainable investments – 14 percent.

Several regulators have supplemented their regulatory frameworks in relation to sustainability with soft-law tools. Soft-law tools often refers to regulation that is not strictly binding and hence, not strictly enforceable. Examples of soft-law tools are guidelines and codes of conduct.

Several regulators have supplemented their regulatory frameworks in relation to sustainability with soft-law tools. In this regard, guidelines are the soft-law tool most frequently used (34 percent), addressing themes such as disclosure of environmental matters; social, green and sustainable bonds; carbon offsetting by collective investment schemes; and marketing of complex financial instruments using ESG-themed filters. An example is the EU non-binding guidelines on methodologies for reporting non-financial information, issued by the European Commission.

Twenty-eight percent of regulators indicated that they have a “comply or explain” policy that applies to corporate governance and investment issues or to the disclosure of non-financial information when a company does not have a specific policy on environmental factors, social and staff-related matters, human rights, anti-corruption, bribery, etc.

Twenty-one percent of regulators have issued recommendations on corporate social and environmental responsibility, socially responsible investment, integration of ESG factors into business strategy and disclosure of ESG risk impacts on business performance.

Seven percent of regulators have published frequently asked questions (FAQs) or questions and answers (Q&As) to clarify existing guidelines or sustainable finance issues.

Of the regulators that have indicated that they carry out tasks related to the registration and authorization of financial products (62 percent of the total), 28 percent indicated they have a regime aimed at ensuring that financial products that are labelled as sustainable comply with certain requirements. A prospectus for the placement of such products should provide information on ESG factors that are material for an investment decision. However, 13 percent
of the regulators noted that there are no specific requirements for sustainable products. Another 13 percent noted that they specifically review products labelled as “sustainable”, to mitigate greenwashing.

Fifty-two percent of regulators are responsible for the registration and authorization of investment firms that provide ESG financial products, although 33 percent of them indicate that there is no specific category or requirements for the registration of investment firms that provide financial products labelled as sustainable.

Forty-five percent of regulators carry out supervisory functions relating to risks associated with greenwashing of financial products (including pension funds). However, 64 percent of these regulators indicated that there are no specific rules specifically directed to ESG greenwashing and that these cases are covered under the general miss-selling provisions or, more specifically, under rules of misrepresentation and wrongful disclosure on listed and unlisted capital market products. Forty-eight percent of regulators have developed programs to train their staff or raise awareness of sustainable finance matters. Such training covers a variety of topics, including climate-related issues, carbon and carbon neutrality, energy, waste, water, transport, biodiversity, reporting of non-financial/ESG information, green finance, Islamic finance, corporate governance, ESG indexes, ESG ratings, sustainable financial instruments and other governance topics.

2. Industry initiatives on sustainable finance

This section summarizes the feedback received from over 130 market participants and industry representatives that responded to the SFN survey, which aimed to capture the initiatives the industry has taken on sustainable finance.

Most respondents from across most of the categories below reported that they do not have any legal incentive to integrate sustainability into their operations.

Notwithstanding this, almost 70 percent of market participants reported that they follow external guidelines or standards (such as industry association guidelines, national regulation or guidelines and international guidelines), with some companies stating that they follow multiple layers of standards (e.g., both national and international guidelines). However, the percentage of participants that said they follow external guidelines differed according to the following categories of respondents:20

- Asset managers and fund management firms: 67 percent.
- Associations: 44 percent.
- Audit firms: 100 percent.
- Credit rating agencies: 33 percent.
- Issuers: 100 percent.
- Other financial advisors and intermediaries: 91 percent.
- Stock exchanges: 75 percent

20 The total number of respondents from the industry was 130, consisting of: 34 asset and fund managers, 25 associations, 6 audit firms, 6 credit rating agencies, 13 large issuers, 20 stock exchanges and 26 other financial advisors and intermediaries
With respect to the methodologies or criteria used to label and disclose ESG activities, many participants noted that they use different external standards (national and/or international), but some rely on internal methodologies, for example, most of the CRAs.

A majority of respondents (over 70 percent) informed that they have participated in international or domestic, private sector, public sector or public-private initiatives relating to sustainable finance.

On reporting and disclosures, over 60 percent of the respondents disclose sustainability information in various forms and to various extents. In the case of large issuers, the number is higher, over 90 percent. Depending on the jurisdiction, disclosures may be mandatory, voluntary or both.

In many jurisdictions, there are initiatives aimed to promote sustainable capital markets, e.g., the promotion of green bonds. In many cases, these initiatives represent joint efforts by the public and the private sectors.

Responses from asset and fund managers varied according to market practices in the use of ESG financial instruments. A few respondents (6 percent) noted that the development of ESG financial instruments has been driven by clients’ demand. Green and social bonds remain the most commonly used ESG financial instruments in most markets. Seventy-five percent of stock exchanges reported that green bonds are commonly used and 30 percent of stock exchanges reported that ESG-related indices are commonly used.

3. Third-party frameworks and standards

As part of its work to better understand how sustainable finance currently operates, the SFN conducted a desktop review to analyse the most relevant ESG-related international initiatives and further consider the reliability, credibility, coverage and comparability of such initiatives. The purpose of the desktop review was two-fold:

- to identify those frameworks that are more often used or referenced by regulators and the industry; and
- to distil the main features and key characteristics of these frameworks, which could help the SFN identify commonalities and converging trends and assess how these could be useful to IOSCO members.

In carrying out the desktop review, the SFN reviewed existing ESG-related initiatives, dividing these into five categories:

(i) Disclosure and reporting principles and frameworks used by companies and issuers (12 in total),
(ii) Principles and frameworks applicable to asset managers (4);
(iii) Green bond principles and taxonomies (7);
(iv) Coalitions and alliances related to ESG (17); and
(v) Initiatives not captured in the other categories (8).

A list of the frameworks and standards included in the review, as well as a more thorough description of their format, scope and other features is provided in Annex 2.
This report focuses on the SFN’s findings in relation to the initiatives included in (i), (ii) and (iii) above.

**Principles and frameworks used by companies/issuers and by asset managers**

**Scope**

Climate change is a common theme covered by almost the totality of initiatives in categories (i) and (ii) above, with a majority being more broadly oriented on ESG and a minority having a more concrete and specific focus.

(i) **Principles and frameworks used by companies/issuers**

In relation to the first category, there are three comprehensive frameworks (IIRC, GRI and SASB) that cover the broader ESG spectrum and encompass an overarching and conceptual framework. In the case of GRI and SASB, the framework is underpinned by specific granular standards and supplemental guidelines. These also include sector-specific standards, recommendations and metrics.

The IIRC also covers the broader ESG universe, but only provides a general framework.

**Existing EU requirements and guidelines for the reporting of non-financial information**

The EU Non-financial Reporting Directive (Directive 2014/95/EU) is the only mandatory framework included in the desktop review. It requires large companies to disclose, as part of their annual reports, information on how they operate and manage social and environmental issues, for the benefit of investors, consumers, policy makers and other stakeholders. It provides significant flexibility for companies in relation to their disclosures, allowing the use of international, European or national guidelines to produce their statements.

The Directive is complemented by the 2017 EC guidelines on environmental and social disclosures and the 2019 EC guidelines on reporting climate-related information, but these guidelines are not mandatory. Both guidelines are based on key principles. The June 2019 guidelines are largely inspired in the TCFD initiative (see below).

The remaining frameworks reviewed tend to have a narrower and monothemetic scope, focusing on specific areas such as climate, human rights, water security or labour. Some of them are underpinned by specific standards and guidance while others are more general.

The TCFD issued **recommendations** for the disclosure of clear, comparable and consistent information by issuers about the risks and opportunities presented by climate change. The recommendations have become a benchmark for the development of other climate-related financial disclosures, with a number of other initiatives incorporating them into their own frameworks. For example, the Corporate Reporting Dialogue (CRD)22 launched the Better Alignment Project to enable participating organizations to map their frameworks against the TCFD Recommendations and to work on aligning their climate-related metrics. SASB and the Climate Disclosure Standards Board (CDSB) have also issued a TCFD Implementation Guide.

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22 The CRD is a coalition of major standard setters and framework providers globally, including the CDP, CDSB, GRI, IIRC and SASB.
which provides information on how to use the SASB Standards and the CDSB Framework to enhance climate-related financial disclosures.

There has also been a rapid increase in the number of companies reporting on their contribution to sustainable development goals (SDGs). In that context, the UNCTAD has developed a Guidance of core indicators (GCI) for entity reporting on contribution to the implementation of sustainable development goals.

(ii) Principles and frameworks used by asset managers

The frameworks in the second category are even broader in scope than those in the first. Even though there are some exceptions, they cover ESG and SDG matters generally and comprise higher-level recommendations without any detailed guidance. Given this general wider scope, these principles are intended to be applicable across different categories of financial instruments and are not sector specific.

The most widely used frameworks in this category are the UN PRI and the UNEP FI Principles. Although the UN PRI are generally voluntary, there is support for a more proactive approach in relation to climate-related reporting, reflecting the growing recognition over the past few years of the importance of climate action amongst asset owners and asset managers. In 2018, TCFD-aligned indicators were introduced to this framework. From 2020, the UN PRI intends to make certain of these indicators mandatory to report but voluntary to disclose.

Target users

Some issuer frameworks (e.g., TCFD, SASB and IIRC) are predominantly targeted towards primary providers of capital, investors and lenders, with a focus on enhancing the assessment and pricing of ESG risks and opportunities, as well as the capital allocation. The TCFD is also targeted towards insurance underwriters. Even though the IIRC framework specifically aims to improve the quality of information available to providers of capital, it also aims to provide information to all stakeholders interested in an organisation’s ability to create value over time.

In addition to aiming at improving climate-related disclosure amongst financial intermediaries, the TCFD has also prompted policy makers, central banks and regulators to take action. For example, the UK Prudential Regulation Authority has issued a supervisory statement on managing the financial risks from climate change. In its comprehensive report from April 2019, the Network for Greening the Financial System (NGFS) encourages all companies issuing public debt or equity as well as financial sector institutions to disclose in line with the TCFD recommendations. The NGFS also encourages policymakers and supervisors to consider further actions to foster a broader adoption of the TCFD recommendations. The European Commission upgraded its guidelines that complement the Non-financial reporting directive to take account of the TCFD Recommendations. In December 2019, the Stock Exchange of Hong


25 NGFS, Climate change as a source of financial risk, April 2019.
Kong (HKEx) published its conclusions on its consultation on proposals to support and improve issuers’ governance and disclosure of ESG activities and metrics. Various ESG-related measures will be implemented in 2020, including disclosure requirements for significant climate-related issues.26

Most of the other initiatives comprise general frameworks or principles that are oriented towards general purpose disclosures and targeted to a range of entities and stakeholders. Other frameworks are more limited in their application. For example, the **EU Non-financial Reporting Directive** applies only to large public-interest companies with more than 500 employees (i.e., approximately 6,000 large companies and groups, including listed companies, banks, insurance companies and other companies designated by European national authorities as public-interest companies).

**Reporting formats and methodologies used**

There are differences in the formats and reporting templates provided for in the initiatives. Some set out mandatory formats or propose certain formats, such as the **GRI Standards**. Other frameworks do not prescribe any specific format or template.

The **UN Global Compact “Communication on Progress” (COP) framework**,27 is less prescriptive in relation to the format of how information is to be disclosed but specifies certain elements that must be disclosed.

Some issuer frameworks convey that sustainability information is to be included in the financial reports. For example, the **TCFD** recommends that disclosure should be included in the public annual financial filings of companies/firms, with the aim of building a more informed understanding of climate-related risks and opportunities and ensuring that appropriate controls and governance will be applied in obtaining and disclosing relevant information. The **SASB Standards** are also intended to be integrated into mainstream financial filings and conform to corresponding prescribed templates.

Most of these initiatives provide detailed guidelines and resources, such as implementation guides, case studies and webinars, to help users in adopting and implementing their initiatives. While some of the initiatives provide that organisations should set out key performance indicators (KPIs) to assess progress against targets, there is limited guidance on the methodologies to be used to determine such targets or KPIs. Most frameworks note that, given the varying objectives, reporting entities should determine their own targets and define specific KPIs to assess progress against those them.

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27 The COP is an annual disclosure self-assessment through which a business informs stakeholders about its efforts to implement the principles of the UN Global Compact in relation to sustainability performance. It requires that COP reports are submitted electronically to the Global Compact website within one year from the date a business participant has joined the initiative. In addition to the minimum requirements noted above, the self-assessment also covers three areas: (i) the implementation of the ten principles into strategies and operations, (ii) actions taken in support of the broader UN Goals and Issues, and (iii) corporate sustainability governance and leadership.
Metrics and definitional issues

While there are some differences in language and definitions between the different frameworks stemming from the different scopes and targeted audiences, there is significant alignment in relation to some key high-level principles. A majority of the frameworks rest on four high-level principles covering:

- Timeliness of reporting and consistency over time,
- Relevance and completeness,
- Clarity and conciseness, and
- Objectivity, reliability and understandability.

At this level, there is a considerable degree of correlation between some of the major frameworks (e.g., SASB, GRI and IIRC) and the general IOSCO disclosure principles. One key commonality is a recognition of the importance of ensuring that disclosure is of material information that is relevant and decision-useful. However, there are differences in how materiality is defined and interpreted.

Notwithstanding high-level commonalities, differences between the frameworks emerge when descending to a more granular level, especially in relation to the metrics specified. There are also substantive differences in relation to the indicators recommended by each framework.

In addition to the technical differences, there are also variations stemming from the fact that not all frameworks cover the same indicators. However, to address the potential issues arising from these differences, some frameworks are working together within the Better Alignment Project to align their recommendations and standards and facilitation of disclosure of material information. In its report, the CRD also showed high levels of alignment between these frameworks on the basis of the TCFD recommendations. 80 percent of the illustrative metrics contained in the TCFD report are reasonably contained also in the CDP, GRI and SASB frameworks.28

Compliance and monitoring

One of the key challenges identified is the lack of effective means within the initiatives for monitoring an organisation’s implementation of a relevant framework. This is heightened by the fact that the vast majority of the frameworks are high-level, voluntary in nature and non-binding. However, some jurisdictions have adopted legal frameworks for the monitoring and enforcement of ESG information. This is the case for example within the EU, where the Non-Financial Reporting Directive requires large companies to disclose certain ESG information.

For the majority of the initiatives, there is no provision for external evaluation of implementation and compliance. In particular, there are no provisions for certifying that non-financial reports have been prepared in accordance with particular standards and represent an objective view of the related ESG elements, risks or transactions. Hence, it appears that the mechanisms for monitoring an entity’s implementation of and compliance with a relevant framework require further development.

28 CRD, Driving Alignment in Climate-related Reporting, Sep 2019.
Governance

For most of the frameworks, governance, supervision and controls are not clear and they do not include multi-level governance structures providing for public interest oversight and mitigation of potential conflicts of interest.

The majority of the initiatives reviewed are privately led and few are led by public bodies or international organisations. All of the initiatives in the second category are led by the private sector, with support from the United Nations in the case of UN PRI and UNEP FI.

Funding, as a whole, comes through a variety of sources and there is limited indication of how potential conflicts of interest are managed. Some initiatives, such as the IIRC and the UN, have a Board or Council formed by a varied group of stakeholders for decision-making or monitoring.

Most initiatives have a process for developing and updating the principles or reporting frameworks to capture developments in markets and in the area of sustainable finance. Given that the private sector leads a majority of initiatives, there is little or no information publicly available regarding their due processes and the methodologies followed for setting standards. In other words, most of the frameworks rely on stakeholder consultation but appear to lack having a public due process policy.

Some frameworks set out in greater detail the development of their due process and consultation mechanisms. In particular, SASB and GRI have processes that are significantly aligned with those of international financial standard-setters. These include consultation on their agendas, the seeking of feedback on their research projects, provision of draft proposed standards for stakeholders to give input, and some degree of post-implementation review process. These frameworks have set up dedicated due process oversight groups of committees, as well as public due process protocols or handbooks.

Green and sustainable bond principles and standards

Generally, the principles for green bonds (as set out in the third category) are more developed and aligned across standards. Most of the frameworks focus on environmental issues, with a majority covering green bonds. The CBI Climate Bond Standard and Certification Scheme is the only framework which specifically focuses on climate change.

Most of the initiatives are voluntary in nature, thereby resulting in similar concerns as those applicable to the disclosure frameworks for issues and asset managers. The exception is the Chinese Green Bond Endorsed Project Catalogue, which is backed by the official sector and mandatory for certain types of transactions. In addition, the EU is currently developing a Green Bond Standard as part of the EU Action Plan for Sustainable Finance. The EU Technical Expert Group has proposed that the European Commission creates a voluntary, non-legislative EU Green Bond Standard. It remains to be seen how the European Commission decides to take the proposal forward.

The ICMA Green Bond Principles (ICMA GBP) provide guidelines on the approach for issuance of a green bond. The ICMA GBP are intended for broad use by the market, providing issuers with guidance on the key components involved in launching a credible green bond, aiding investors by ensuring the availability of information necessary to evaluate the environmental impact of their investments in green bonds, and assisting underwriters by
facilitating transactions by standardising disclosure. The ICMA website also sets out resources in relation to green, social and sustainable bonds. The ICMA GBP also forms the basis for the ASEAN Green Bond Standards. The Green Bond Standard currently being developed by the EU (as mentioned above) is intended to be aligned with the ICMA GBP and also references the future EU taxonomy (see section 2.3.3 below).

**Green taxonomies**

Given the diversity and proliferation of sustainable finance initiatives globally, taxonomies have a potential role in promoting consistency and comparability. They can also contribute in the efforts to encourage and channel investment into sustainable activities by helping to identify and classify whether activities are sustainable or not. However, notwithstanding the important role taxonomies can play, there are challenges due to the multiplicity of jurisdictions, industries, assets and how activities are deemed more or less sustainable in different jurisdictions.

In the EU, a political agreement on the proposal for a *Regulation on the establishment of a framework to facilitate sustainable investment (taxonomy)* was reached by the Parliament and the Council in December 2019. For an action to meet the definition of an “environmentally sustainable economic activity” in the coming regulation and be considered taxonomy-eligible, it must (i) contribute substantially to one or more of the environmental objectives, (ii) do no significant harm (DNSH) to any other environmental objective, (iii) comply with minimum social safeguards, and (iv) comply with certain technical screening criteria. Under the Taxonomy regulation, the European Commission is empowered to adopt delegated acts to lay down granular and calibrated technical screening criteria for the different economic activities, on the basis of the technical input of a multi-stakeholder Platform on Sustainable Finance.

The **Chinese Green Bond Endorsed Project Catalogue** takes multi-dimensional environmental benefits as the defining standard. The Catalogue prioritizes projects with direct and marked environmental benefits, and those that accord with the Chinese national industrial policy which include detailed explanations and defining criteria.
Chapter 4 - Results from the SFN survey

1. Survey design

The SFN carried out a survey in May 2019 consisting of two questionnaires; (i) one questionnaire aimed at securities regulators, and (ii) a second questionnaire aimed at industry members and market participants, selected by SFN members, including asset and fund managers, associations, audit firms, credit rating agencies, large issuers, other financial advisors and intermediaries and stock exchanges.

The main purpose of the survey was to contribute to enhance the SFN understanding of:

- how sustainable finance initiatives taken by IOSCO members and other stakeholders relate to the role and work of securities regulators;
- the extent to which international initiatives have been considered by market participants and securities regulators in IOSCO member jurisdictions;
- how securities regulators are addressing sustainability issues more broadly and non-financial disclosures particularly, and what are the challenges in these areas; and
- the role that IOSCO and securities regulators can play in the area of sustainable finance.

In total, the SFN received feedback from 34 regulators and 130 industry participants. In terms of the regional representation of industry participants, 60 percent of the respondents were from the European region, 22 percent from the Asia-Pacific region, 16 percent from the Inter-American region, and 2 percent from the African and Middle East region.

2. Views from the regulators

The main themes stemming from the responses from the regulators, the following general views emerge:

- Sustainability-related risks, and climate-related risks in particular, are increasingly recognized as a potential source of financial risk for individual firms as well as for the financial system in general.
- Regulators have identified disclosure of material information and risk management as key elements in their approach to sustainability in securities markets. However, there is a need not only for clarity over what constitutes a sustainable investment but also a common understanding regarding sustainability-related disclosures.
- Regulators are taking steps to ensure that financial market participants consider ESG-related matters or risks that may be material to their business operations. Regulators expect market participants to ensure that these risks are understood, disclosed and, if appropriate, managed.
- Around 75 percent of the regulators that responded to the survey informed that they are participating in domestic private-sector, public-sector or public-private initiatives relating to sustainable finance. Most regulators have identified issues where international supervisory and regulatory coordination is needed and see an important role IOSCO can play going forward.
- All regulators that responded to the survey indicated that they recognize the impact of sustainability matters in the financial markets, particularly in relation to securities regulators’ mandates for investor protection and promoting transparent markets.
- More than half of the respondents indicated that they carry out functions within their core mandates that relate to sustainability, for instance in the areas of corporate governance and ESG reporting.
- A number of regulators indicate that they facilitate sustainable investment by promoting transparency, but they do not have a mandate to specifically promote or incentivize sustainable investment. Of the 34 respondents, only 13 have indicated that they have a specific mandate regarding promoting sustainability.

Networks and other collaborative initiatives

The survey results indicate that most of the securities regulators are participating in several initiatives regarding sustainable finance, including initiatives with an educational focus. Around 75 percent of the respondents indicated that they are participating in domestic private-
sector, public-sector or public-private initiatives relating to sustainable finance. Most of the
initiatives are combined public-private encompassing committees and networks for sustainable
finance at a national level. Specific regulatory initiatives have also been undertaken in some
jurisdictions.

About three-quarters of the respondents (72 percent) believe that their participation in
sustainable finance-related initiatives provides knowledge and enhances information-sharing,
allowing a better understanding of the sustainability-related opportunities and challenges faced
by the industry, including new methodologies, risks, relevant frameworks, and more broadly,
how securities regulators can play a role in promoting sustainable finance. For some EU
regulators, these initiatives strengthen their understanding of how legislative changes related
to ESG risks originating at the EU level may impact the financial sector and allow them to
monitor possible developments around investment in financial products that promote
companies and projects aligned with sustainability principles.

The role of international standards and third-party frameworks

Forty-eight percent of respondents (16) referred to international standards or third-party
frameworks as being commonly used in their jurisdiction, most often mentioning the Global
Reporting Initiative (GRI) (mentioned by 10 regulators), the Task Force on Climate-related
Financial Disclosure (TCFD) (9), the International Integrated Reporting Framework (IIRC)
(8), ICMA’s Green Bond Principles (GBP) (7) and the Carbon Disclosure Project (CDP) (7).
The majority of these 16 regulators indicated that no formal laws or requirements mandating
the use of any specific frameworks have been formulated or implemented. However, many of
them have either issued guidelines referring to these frameworks and standards or are
considering issuing them.

Securities regulators mention several reasons for not having adopted, endorsed or
referred to international standards or third-party frameworks. These include: (i) the
market views on ESG/green/sustainable finance are still pre-mature and under
development and no single ESG reporting framework has emerged;

(ii) on the European scene, significant parts of the EU’s Action Plan were still under
discussion, when the survey was undertaken, including the taxonomy for green
activities; and

(iii) there is no formal endorsement at an international level of any private-led standards.

29 See Appendix 2 for an overview of third-party frameworks and standards.
30 In this context, these labels have the following meaning: Adoption: a jurisdiction has formally adopted and
incorporated the framework/standards issued by a third party into their own domestic legislation, making provisions
so that domestic requirements are aligned with those in the frameworks. Endorsement: a jurisdiction or a regulator
has formally expressed support for incorporating a framework or standard or for making the equivalent local
standards mirror the international standards. Referral: the regulator has referenced or suggested that by using a
certain framework or standard, the local requirements could be met. This is the case for instance when there is no
specific standard for the preparation of non-financial information, but reference is made to those that could serve
that purpose (for instance in the EU Non-financial Reporting Directive).
Many regulators (86 percent) have identified issues where further international supervisory and regulatory coordination is needed. 38 percent of regulators stated that they would like to achieve both clarity over what constitutes a sustainable investment and a common understanding regarding disclosures (some suggest the need for harmonized disclosure standards). To achieve this, some suggest building on the work already carried out by the European Commission and the TCFD. At the same time, with regard to disclosures, only 13 percent of regulators explicitly stated that they are in favor of developing an international disclosure framework for material ESG matters and risks and converging on rules. Several regulators, however, suggested further collaboration among securities regulators at the international level in the area of disclosures and reporting to share issues and exchange supervisory and regulatory practices.

Those respondents that observed cross-border challenges identified the need for action at the global level. For instance, 83 percent of the regulators made concrete suggestions regarding a future role for IOSCO. Their suggestions on possible forms for engagement cover a wide range of possible avenues, including on enhancing the exchange of information between regulators (including future case studies/monitoring exercises) and market participants, monitoring global developments related to ESG standards, capacity-building initiatives that will benefit IOSCO members, or taking a more active role in considering IOSCO recommendations, standards, principles or guidance targeted to market participants.

**Box 1: Examples of recent securities regulators’ work since the completion of the IOSCO survey**

Since the completion of the survey, a number of securities regulators have taken additional steps. Examples of recent publications and announcements include:

- US CFTC, Establishment of the Market Risk Advisory Committee’s Climate-Related Market Risk Subcommittee (10 July 2019)
- French Financial Markets Authority, *Establishment of a Climate and Sustainable finance Committee* (29 July 2019)
- Canadian Securities Administrators, *Staff Notice on Reporting of Climate Change-related Risks* (1 August 2019)
- Spanish National Securities Market Commission, Inclusion of section on Sustainable Finance on its website
- UK Financial Conduct Authority, *Climate change and green finance – Feedback Statement* (16 October 2019)

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31 Regarding capacity-building needs, more than one-third of the regulators recognized the need for technical assistance in the following areas: climate change and climate-related disclosures; increasing awareness and understanding of ESG, social enterprise, quality disclosures on ESG, ESG analysis, promotion and profiling of ESG/SRI products.
3. Views from market participants

This section describes the general findings based on the responses received from market participants:

- Most of the industry respondents inform that they have adopted, endorsed or referred to international standards or third-party frameworks, though a majority have expressed a need for convergence of standards, which could be achieved through different avenues, such as by regulatory measures, market-based solutions, or some combination of these two.

- Consistent with the feedback received at the Stakeholders meeting in June 2019, a clear majority of respondents see a role for regulators to promote transparency and to increase cross-border cooperation. This message is aligned with the discussions at the Stakeholder Meeting in June 2019. There is a split between respondents that advocate that more regulation in this area is necessary and those that have expressed a preference for soft-law instruments instead of regulation.

- Again, consistent with the feedback by market participants at the Stakeholders meeting in June 2019, there are expectations among stakeholders for IOSCO to take an active role in facilitating global supervisory and regulatory coordination and addressing transparency.

- There are differing views on the degree of convergence needed for global standards. There are also differing views as to whether convergence of ESG-disclosure standards should be driven by the market or regulators.

- Respondents have indicated that there are impediments to the development of sustainable finance, such as the lack of reliable and credible data and the lack of standards to promote comparability between sustainable investments. Risks relating to greenwashing and mis-selling are also seen as problems where regulators have a role to play.

Participation in global sustainable finance initiatives and reference to existing frameworks and standards

The industry survey results indicate a high level of explicit support for various initiatives relating to sustainable finance. The respondents refer most frequently to initiatives such as the UNEP Finance Initiative (UNEP FI), a global partnership between the United Nations Environment Program and the financial sector, the UN Principles for Responsible Investments (UN PRI), the UN Global Compact, a corporate sustainability initiative, the CDP, a global disclosure reporting system on environmental impacts, as well as TCFD. More than 50 percent of the respondents among asset and fund managers participate in at least one of these initiatives, most commonly referring to UN PRI, TCFD and CDP. Participation in these initiatives can enable more knowledge and promote information-sharing among participants. Industry participants indicate that these initiatives are necessary because they allow market participants to share and develop best practices.

Seventy-six percent (98) of respondents indicated that they had adopted, endorsed or referred to international standards or third-party frameworks. Among the large issuers, all (14) inform they had adopted, endorsed or referred to international standards or third-party frameworks, with GRI being the most common (11 issuers). A similar pattern was found among audit firms,
where all six had adopted, endorsed or referred to international standards or third-party frameworks, with GRI as the most prominent standard (five audit firms). Eighty-six percent of the stock exchanges indicated they had endorsed some international standard or framework with GRI being the most common standard.

The endorsement level for asset and fund managers and for associations was 65 percent and 56 percent respectively, and the UN PRI was the most common standard endorsed. Eighty-eight percent of other financial advisors and intermediaries indicated they had adopted, endorsed or referred to international standards or third-party frameworks, with PRI and GRI being the most common. For the credit ratings agencies, the corresponding figure was 60 percent.

According to the feedback received, third-party corporate reporting frameworks often refer to “materiality,” but provide no common definition or common assessment guidance for what is considered material in relation to ESG disclosures. In addition, questions have emerged in relation to the challenges to applying the materiality framework to areas that go beyond financial issues from the investor’s point of view when making an investment decision.32

In some cases, market-driven efforts have been made to increase dialogue among these third-party standard setters or develop frameworks that can be used broadly across markets. Examples include the Corporate Reporting Dialogue (CRD)33 or the TCFD recommendations. Some third-party groups have developed standards for ESG-related information tailored to practices in a specific industry in order to facilitate comparability across companies in similar business lines.34

International coordination, regulation and the role of IOSCO

A clear majority of market participants (81 percent) see a role for regulators to promote transparency (see the table below) which would result in an increase of cross-border cooperation and information sharing. In addition, a majority of the market participants (varying between 65 and 85 percent, depending on the type of participant) suggested counteracting greenwashing and misselling as an important issue for consideration by regulators. Some respondents advocated that securities regulators should play a more formal role in identifying and facilitating sustainable investments.

32 In its Guidelines on Non-financial Reporting: Supplement on reporting climate-related information published in June 2019, a double materiality perspective is presented by the European Commission, with the first perspective representing “financial materiality” and the second perspective “environmental and social materiality.” The document suggests that these two perspectives are increasingly likely to overlap.

33 The CRD is a platform convened by the International Integrated Reporting Council (IIRC) to promote greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements. It comprises the following organizations: CDP, CDSB, FASB, GRI, IASB, IIRC, IOS and SASB (see main text for full names).

34 For example, the reporting template for electric and gas companies developed by the Edison Electric Institute (EEI) and the American Gas Association (AGA).
Market participants’ views on the roles for regulators.

The table below reflects market participants’ views on the most important areas for consideration by regulators.

<table>
<thead>
<tr>
<th>Number of respondents</th>
<th>Stakeholder group</th>
<th>Role for regulators</th>
</tr>
</thead>
<tbody>
<tr>
<td>34</td>
<td>Asset and fund managers</td>
<td>- Promote transparency (65%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Prevent greenwashing (50%)</td>
</tr>
<tr>
<td>25</td>
<td>Associations</td>
<td>- Promote transparency (60%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Prevent greenwashing (56%)</td>
</tr>
<tr>
<td>6</td>
<td>Audit firms</td>
<td>- Promote transparency (83%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Prevent greenwashing (67%)</td>
</tr>
<tr>
<td>6</td>
<td>Credit rating agencies</td>
<td>- Promote transparency (67%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Prevent greenwashing (67%)</td>
</tr>
<tr>
<td>13</td>
<td>Large issuers</td>
<td>- Promote transparency (85%)</td>
</tr>
<tr>
<td>26</td>
<td>Other financial advisors and intermediaries</td>
<td>- Promote transparency (70%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Prevent greenwashing (48%)</td>
</tr>
<tr>
<td>20</td>
<td>Stock Exchanges</td>
<td>- Promote transparency (75%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Prevent greenwashing (50%)</td>
</tr>
</tbody>
</table>

**Total 130 respondents**

Sixty-five percent of the respondents expressed a need for convergence of standards, either through regulatory measures (38 percent), for example through coordinated regulatory guidance or endorsement/adoPTION of third-party frameworks, through market-based solutions (19 percent), or some combination of these two (9 percent). Thirty-five percent did not express any specific positions on this issue. However, there is no agreement on how far standards should converge or how to achieve such convergence. One challenge identified is around striking the right balance between flexibility, recognizing the need for issuer-specific disclosure of material information (e.g., high-level principles; non-binding standards; comply-or-explain mechanisms) and enhancing comparability of information that is useful for decision-making.

Some respondents suggested that IOSCO could take a more active role in facilitating coordination to help facilitate comparability. Some respondents pointed to the recent European Union regulatory initiatives as one example.
Forty percent (52) of the industry participants had observed cross-border challenges related to ESG disclosures or sustainability reporting. The key common cross-border challenges are the need for standardization of standards/disclosure frameworks and the variances in local disclosure requirements.

The general view of the industry members and the market participants is that there are certain impediments to the development of sustainable finance, including the lack of reliable and credible data and the lack of standards that promote comparability between sustainable investments. Some respondents believe that challenges around comparability may result from the different levels of development and maturity in markets, the lack of common definitions, and the lack of standardized frameworks.

About half of the respondents consider more regulation to be necessary. Several of the respondents who advocate for more regulation also welcome the European Commission’s proposals on sustainable finance. At the same time, a similar proportion of respondents have expressed a preference for soft-law instruments instead of regulation. Around three quarters (77 percent) of the respondents see a need for more guidance, especially concerning disclosure of ESG information.

Thirty-eight percent of the respondents also express a preference for a coordinated approach by securities regulators when developing ESG-related international standards, which may help develop a commonly accepted definition of ESG. Regardless of the approach preferred, many respondents believe that common guidelines would be useful. Most of them propose that guidelines should be developed jointly by regulators and market participants.

With regard to the role of the IOSCO and the SFN, some respondents suggested that this network should focus on global coordination and promoting regulatory convergence. A few industry respondents (8 percent) suggested that the IOSCO and the SFN should engage with other global standard setters and its members to standardize existing standards rather than creating new ones. Other industry respondents suggested that IOSCO and the SFN should publish recommendations or even establish international standards. However, around 40 percent of the respondents did not offer any suggestions or proposals on the future work of IOSCO and SFN. Since the completion of the survey, a significant number of individual and collective initiatives have also been announced, including at the occasion of the 2020 World Economic Forum.35

4. **Key takeaways and areas in need of improvement**

The results of the SFN’s work indicate that there is strong support for continued work on a number of issues related to the area of sustainable finance.

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35 E.g., the World Economic Forum International Business Council (IBC) in collaboration with the four biggest accounting firms Deloitte, EY, KPMG and PwC, published a consultation draft recommending a set of core metrics and recommended disclosures, with the aim for the metrics to be reflected in the mainstream annual reports of companies on a consistent basis across industry sectors and countries. See WEF, *Toward Common Metrics and Consistent Reporting of Sustainable Value Creation*, January 2020. Furthermore, the world’s largest asset manager Blackrock announced in its annual letter to CEOs that it intends to place sustainability at the center of their investment approach.
In particular, the results indicate a broad acknowledgement among regulators, industry participants and other parties that climate-related risks can be material to firms’ business operations and investors’ decisions, and that regulators are taking steps to ensure that such risks are understood, managed, and, when material, disclosed. Many investors also report that ESG information is or can be relevant to their investment decisions and impacts investors’ pricing of securities. A growing number of investors, including institutional investors, are also increasingly integrating ESG-related issues into their investment strategies.

Hence, there is an increased market demand from investors to both issuers and financial firms such as asset managers to provide information that enables them to consider ESG matters in their investment decisions and risk management processes. Many stakeholders indicated that they view comparability of ESG- and climate-related information as an issue of concern.

The survey feedback also show the large number of third-party/non-regulatory disclosure frameworks that have emerged, serving different purposes and diverging considerably, in particular, with regard to definitions or key performance indicators. These conclusions are aligned with other recent studies on ESG disclosures conducted by other parties.36

Three recurring issues

The findings of the SFN work, drawing from the responses from both regulators and market participants, its desktop review and Stakeholders Meeting can be summarized in three recurring issues:

1. Multiple and diverse sustainability frameworks and standards;
2. Lack of common definitions of sustainable activities; and
3. Greenwashing and other investor protection challenges.

All these issues may be further exacerbated by the fact that many issuers and asset managers operate cross-border and may be subject to different regulatory regimes and may be involved in multiple regional or international third-party initiatives that may have inconsistent objectives and requirements. Such variances may have an impact on stakeholders’ complete and accurate understanding of sustainable business activities, and the risks and opportunities that these entail.

Multiple and diverse sustainability standards

Worldwide, a number of third-party ESG frameworks and standards have emerged, particularly for issuers’ disclosures on ESG matters. The SFN has noted that many of these are high-level and voluntary in nature, without granular requirements, and purposely allow issuers and asset managers the flexibility to tailor their disclosures.

36 A detailed overview is provided in a recent report prepared at the request of the French Minister of Economics and Finance (P. de Cambourg, Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe, May 2019). In its recent advice to the European Commission, the European Securities Markets Authority (ESMA), based on the evidence collected and a literature review, also recommended improvements in issuers’ ESG disclosures which should respect a minimum level of comparability, relevance and reliability (ESMA, Report on Undue Short-termism, December 2019).
The diverse and voluntary nature of ESG disclosure frameworks encourage adherence by issuers and asset managers but also create challenges to comparability for investors and other stakeholders, including among corporates within the same industry sector.\textsuperscript{37}

The diverse and voluntary nature of ESG-related frameworks may in turn reduce the reliability and usefulness of ESG-related disclosure by financial market participants and financial advisers. Central banks and financial supervisors have also voiced concerns regarding the lack of reliable disclosures and the implications for institution-level and system-wide assessment of risk.\textsuperscript{38} This is the case in particular for climate-reporting where significant gaps remain, including among signatories of the TCFD recommendations.\textsuperscript{39}

The governance, due process, and public-interest focus of third-party standards are key aspects for investors and regulators when considering which standards are suitable. However, compliance-monitoring mechanisms do not generally appear to be well-developed, and lack mechanisms for external validation attesting that non-financial reports have been prepared in accordance with third-party frameworks and represent, in all material respects, an objective view of the related ESG elements/risks/transactions. Some frameworks have different objectives and address a targeted subset of ESG issues. In sum, the voluntary and high-level nature of many of the frameworks and the lack of binding obligations, may impair the objectives of the initiatives to provide relevant and material information to investors and other stakeholders.

Different types of firms and activities are affected by different aspects of sustainability risks, and to very different degrees. Many respondents stressed the need to strike a balance between the need for comparability on the one hand, and the need for flexibility on the other. Such flexibility is important to enable issuers and asset managers to provide investors with material information tailored to their specific circumstances.

\textit{Lack of common definitions on sustainable activities}

Market participants report the lack of a common understanding of what is meant by sustainable investments and sustainability risks. Respondents also raised the absence, or low quality, of relevant data. This hinders the definition of relevant metrics and drawing relevant comparisons. In other words, these issues add to the challenges related to transparency and comparability of material information, particularly for investors who seek to consider sustainability issues in their investment decisions.

This takes many forms and relates to several aspects highlighted by the respondents in the survey. First, it highlights the need for disclosure of relevant and material information. Second, in order to know what should be disclosed, issuers need to know what may be material to an

\\[\text{37} \text{ For example, a recent AMF report (AMF, } \textit{Report on the social, societal and environmental responsibility of listed companies}, \text{ Nov 2019) looked at disclosures from a sample of large corporates, and noted that, despite possible convergence in the choice of key performance indicators and the identification of risks, comparison between companies remains difficult, in particular because of the differences in the definitions and methodologies used (e.g., emission factor).}\]

\[\text{38} \text{ See Luis de Guindos, } \textit{Vice-President of the ECB, statement on Implications of a transition to a low carbon economy for the euro area financial system. November 2019: “Unless disclosures improve, market discipline is unlikely to incentivise financial institutions to address transition risk”.}\]

\[\text{39} \text{ See TCFD 2019 Status Report.}\]
investment decision. This, in turn, points to the challenges around taxonomies and the lack of agreed globally accepted definitions to describe sustainable/green activities. Differences across industries, regions and asset classes make agreeing on possible broad classifications challenging. Furthermore, differences in objectives and social values among investors in their considerations of what kind of ESG information is relevant present additional challenges for regulators, issuers and investors.

Greenwashing and other investor protection issues

There are investor protection challenges that have emerged alongside the increased demand for ESG investment and the development of third-party ESG frameworks. One obvious issue relating to investor protection concerns greenwashing, which is highlighted by both regulators and market participants. The multiplicity of voluntary frameworks, the risk of confusion for investors regarding existing terminologies and the lack of a uniform taxonomy for sustainable activities may aggravate these problems, as they can lead to issuers/asset managers “cherry-picking” which initiatives to use.

Investor protection issues may also arise from a lack of effective assurance processes to ensure that investors are not misled about the sustainable practices of a company. Several aspects contribute to the concerns raised; (i) availability and quality of corporate ESG data, (ii) the integrity of the reporting frameworks themselves, and (iii) a company/firm’s compliance with a framework. Altogether, this may undermine investor’s confidence in sustainability-related information and, more generally, in the nascent market of sustainable investing.

Sustainability-related disclosure is under development

It should be noted that sustainability-related disclosure is a relatively new concept and the proliferation of third-party reporting frameworks in this area in part reflects that such initiatives have been developing organically amid rapid innovation. Nonetheless, the existing multiplicity of frameworks constitutes a problem for companies as well as investors. Improving sustainability-related disclosure by facilitating engagement among companies in similar industries and across differing frameworks could facilitate cross-border activity, increase economic efficiency, and provide investors with better, more comparable and decision useful information to make informed economic choices.

In this context, financial accounting has experienced similar challenges in the past. A couple of decades ago, a patchwork of national accounting requirements constituted an obstacle to cross-border activities. The challenges in comparing financial statements prepared under differing standards added costs, complexity and risk to cross-border transactions for both issuers and investors. In response to these challenges, organizations such as IOSCO, the World Bank, the FSB and G20 promoted the development of global accounting standards. Today

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40 E.g., IIF, the case for simplifying sustainable investment terminology, 6/11/2019 and IA, Responsible Investment Framework, 18/11/2019. IA notes that consumers could easily be left “confused” or “unable to find the investment opportunities” that match their responsible investment goals due to the variety of terms and phrases, used in a number of different ways, that are attached to investment funds. Similarly, IIF finds that “firms are using close to 80 different terms to describe various forms of sustainable investing. At best, this confusion makes it hard to compare investment products and for clients to understand the differences in offerings. At worst, it facilitates greenwashing.

41 The IOSCO Sydney 2000 Resolution included a recommendation that IOSCO members permit incoming multinational issuers to use IASC standards (the predecessors to IFRS standards) to prepare their financial...
many firms across the world adhere to one of the two globally dominant accounting standards.⁴² Some of this alignment, such as the use of IFRS in Japan, has been on a voluntary basis, with firms citing cross-border business activity or improved comparability with competitors as the main motivation.⁴³ However, sustainability-related disclosures present different challenges because they are often non-financial and based on forward-looking risks.

**Current efforts to address challenges**

The SFN has identified several actions that could contribute to enhanced comparability of sustainability related disclosure, whether through separate industry or regulatory initiatives or through joint action by the industry and regulators. In certain cases, work is already underway. This section describes a number of such actions. Building on these, section 5 sets out the role that IOSCO can play and a proposal for next steps.

**Alignment of frameworks and requirements**

There could be further alignment of frameworks, bearing in mind that different reporting frameworks might have different objectives and serve different audiences. Alignment of disclosure frameworks could be a way to increase clarity and ensure a more common understanding. At the same time, the need for comparability needs to be balanced against the possible consequences of increased costs and potentially immaterial or misleading disclosures. For example, it may be easier to achieve improved comparability between firms within the same industry, at least for certain industries.

Work on this aspect has already begun. For example, the CRD has rolled out its Better Alignment Project, which has mapped how the participant frameworks interface with the TCFD recommendations. The first phase of the project focused on identifying areas of overlap, consistency and degrees of alignment between the participating frameworks. The project has helped the participating frameworks to enhance their coordination and collaboration, to gain a better understanding of the commonalities, differences, and the unique features of the frameworks and how ESG information can integrate with mainstream reporting.

**Identification of relevant components of disclosure**

Similarly, there could be an increased alignment of disclosures through international discussions and coordination on standards, metrics and indicators. Furthermore, promoting a better common understanding of cross-border approaches to labelling of ESG products could encourage efficiencies for issuers operating across borders and assist in the mobilization of capital in this area.

Efforts are underway to facilitate transparency of the information disclosed by companies that would facilitate a better understanding by financial institutions and other stakeholders of issues such as a company’s exposure to sustainability-related risks and opportunities and its ability to

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⁴² The international financial reporting standards (IFRS) of the IASB have been adopted by the EU and a large number of other jurisdictions. In addition, IASB and FASB continue to work to improve comparability of IFRS and US-GAAP.

handle them. The availability of such information also facilitates the incorporation of ESG issues into decision making processes in a relevant way. An important step in this respect is identifying key disclosure components that make assessments possible. There are both industry- and regulator-driven efforts underway. E.g., the Edison Electric Institute (EEI) and the American Gas Association (AGA) has developed an ESG reporting template, with the goal of helping electric and gas companies provide the financial sector with more uniform and consistent ESG data and information. The NGFS communicated that they intend to initiate work with interested parties to establish a detailed list of data items currently lacking, which authorities and financial institutions would need to enhance the assessment of climate-related risks and opportunities.44

**Increased public accountability and assurance standards**

Relevant features of other international financial reporting and auditing frameworks could also inform IOSCO as it considers issues related to sustainable finance. The level of global adoption of the IFRS and ISA standards, their perception as high-quality international standards, and their international legitimacy are leveraged, to a large extent, by their governance structure, despite the fact that they are issued by private organizations and only become effective regulation upon formal adoption at a national level. The success of these standards relies on certain key characteristics including: (i) public accountability and the independence of its respective standard setting bodies; (ii) rigorous, transparent and participatory due process; (iii) a clear mission statement and a defined targeted audience; (iv) assurance standards applying to the information published; and (v) a robust process for selecting topics for new standard setting that focus on specific accounting issues where enhanced comparability would be meaningful.

**Increased engagement with asset managers on the integration of ESG factors in investment decision processes**

There could be further discussion on how asset managers incorporate ESG factors into their risk management and investment strategies and how regulators consider their supervision of asset managers’ approach to this integration. For example, the UN PRI published a case study of how the US Employee Retirement Income Security Act (ERISA) plan sponsors dealt with the incorporation of ESG factors into their plans.45 The NGFS is working on guidelines for climate and environment-related risk management for bank and insurer supervisors which could be further considered in the context of regulators of asset managers.

Within this context and given the growing role of ESG ratings in risk management and investment strategies and the development of new market indices based on such ratings, there could be further exploration into potential emerging risks in relation to ESG ratings. Topics to be considered could include recent changes in the market landscape and the increase in market concentration, the role of ESG ratings for financial intermediaries and the implications for corporates and investors, the current dispersion in ESG ratings and scores (as evidenced by a growing body of analysis), the transparency of the methodologies, and issues regarding governance and the management of conflicts of interest.

44 NGFS (2019).
Chapter 5 - IOSCO’s continued work within sustainable finance

1. IOSCO has a role to play

The results of the SFN survey and outreach indicate that securities regulators are generally viewed as having a role with respect to sustainable finance and that there is strong support for regulators to continue working within this area. A majority of the market participants (over 80 percent) see a role for regulators, especially in relation to promoting transparency and countering greenwashing, and 65 percent of the market participants look forward to some form of convergence of standards, whether driven by regulators, by the market or by a combination of the two.

Various important constituencies, including investors, market participants and governmental bodies, would like IOSCO to play a meaningful role in furthering investment opportunities for those focused on sustainability. There are many areas of possible focus for IOSCO and consideration should be given to the fact that various other governmental and non-governmental bodies, such as TCFD, IPSF and NGFS, are also active in this area. These bodies bring a range of perspectives and objectives and their work to date confirms some of the significant challenges faced in facilitating sustainable investing. The fact that work is ongoing, and the task is challenging should not prevent IOSCO from moving forward to make improvements in this area. However, this background suggests that IOSCO’s contribution can be most valuable by identifying areas for cross-border improvement and by drawing upon the knowledge and expertise of its members.

In response to these demands, IOSCO is looking to play an important role in addressing the challenges identified by the SFN while avoiding duplicating work done or being carried out by other standard-setting bodies or similar organizations.

In particular, facilitating the provision of disclosure, both qualitative and quantitative, that is decision useful for both investors and companies is an area where IOSCO should be able to contribute meaningfully.

Securities regulators encounter difficulties when examining the extent to which securities laws and regulations may be of relevance to the proliferation and adoption of voluntary third party ESG disclosure frameworks and standards, especially those relating to climate change. Existing, legally enforceable requirements imposed on companies to disclose material information may not apply to (i) some types of disclosures that these ESG third-party frameworks and standards request, or (ii) the documents in which the disclosure is provided if made outside of regulatory filings. ESG disclosures are often forward-looking and are often founded on “what if” scenarios and related assumptions that are inherently uncertain. There may be, as a result, a significant gap between many ESG disclosures, which may in practice be “decision useful” for investors, and the categories of information disclosure which normally fall within the ambit of conventional securities law and regulation. Given that IOSCO is a membership organization of securities regulators, the SFN should address these investor protection concerns in carrying out its work.

In addition, the SFN work to date points to a need to improve the comparability of sustainability-related disclosures. The lack of consistency and comparability across third party frameworks could create an obstacle to cross border financial activities and raise investor protection concerns.
The SFN recognizes that many stakeholders view material ESG disclosures by issuers, in particular material climate change related disclosures, as fundamental within the field of sustainable finance. Many stakeholders argue that there is a need to coordinate different standards in order to achieve more coherent practices at the international level regarding ESG disclosures by issuers. However, mandated disclosures that are not useful to investors and companies can cause investor harm and suboptimal capital allocation.

2. **Next steps for IOSCO**

In light of the issues described above and the desire to move forward, IOSCO has decided to establish a Sustainability Task Force (STF) with a mandate to promote the two main objectives identified through the work of the SFN: (1) Addressing Transparency and (2) Promoting Investor Protection, and should focus on the following main tasks:

1. With a view to improve sustainability-related disclosures made by issuers and asset managers, the Task Force will i) identify and develop categories of disclosure which are material for investors (“decision useful”) and which are capable of falling within the supervisory and regulatory competence of securities regulators, and ii) assist IOSCO members to identify and address greenwashing and other investor protection concerns. As part of this work the Task Force would examine categories of disclosure to assess whether industry specific or more broad metrics would provide decision useful information and comparability between different issuers. The Task Force would engage with the industry, voluntary third party disclosure standard setters and other relevant organizations.

2. To work in collaboration with other international organisations and regulators (for example, IPSF\(^{46}\) and NGFS\(^{47}\)), in order to avoid duplicative efforts and to enhance coordination of relevant regulatory and supervisory approaches. Other collaborations could include the FSB Standing Committee on Assessment of Vulnerabilities’ (SCAV) Analytical Group on Vulnerabilities’ (AGV) work on the financial stability implications of climate change.\(^{48}\)

3. To conduct case studies and analyses of transparency, investor protection and other relevant issues within sustainable finance, which could include (i) transparency issues among ESG data providers, (ii) disclosure of methods and governance among CRAs and ESG rating agencies, (iii) practices and experiences of asset managers on the use of sustainability-related factors in investment decisions processes, and (iv) risks of greenwashing in the market for sustainable investment products.

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\(^{46}\) The International Platform on Sustainable Finance (IPSF) was established in October 2019 with IOSCO as an observer. The IPSF covers the international cooperation of regulatory tools and initiatives for the capital markets that are fundamental for private investors to identify and seize environmentally sustainable investment opportunities and hence ultimately key to scaling up environmentally sustainable finance, in particular in the field of: i) taxonomies, ii) financial products standards and labels and iii) disclosures.

\(^{47}\) The Network for Greening the Financial System (NGFS) was established in December 2017. In November 2019, IOSCO joined the NGFS as an observer. The NGFS is developing a guide on how to encourage financial institutions, including asset managers, to develop and adopt Environmental Risk Analysis (ERA) methodologies, improve data availability and disclose ERA results. It is also developing a guide on climate and environment-related risk management to give guidance for supervisors in how to address these issues in their supervision.

\(^{48}\) The Standing Committee on Assessment of Vulnerabilities (SCAV) is the FSB’s main mechanism for identifying and assessing risks and vulnerabilities in the financial system. The SCAV’s work is supported by an Analytical Group on Vulnerabilities (AGV), a technical standing sub-committee which provides an analytical forum to discuss new and evolving risks to the financial system.
Appendix 1. Membership of the IOSCO Sustainable Finance Network

<table>
<thead>
<tr>
<th>#</th>
<th>Member</th>
<th>Jurisdiction</th>
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<tr>
<td>1.</td>
<td>Finansinspektionen. SFN Chair: Mr. Erik Thedéen.</td>
<td>Sweden’</td>
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<tr>
<td>2.</td>
<td>Comisión Nacional del Mercado de Valores. Chair Work Stream 1: Ms. Ana Martínez-Pina</td>
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<td>4.</td>
<td>Comisión Nacional de Valores</td>
<td>Argentina</td>
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<td>5.</td>
<td>Australian Securities and Investments Commission</td>
<td>Australia</td>
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<td>6.</td>
<td>Financial Services and Markets Authority</td>
<td>Belgium</td>
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<td>7.</td>
<td>Comissão de Valores Mobiliários</td>
<td>Brazil</td>
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<td>8.</td>
<td>Autoriti Monetari Brunei Darussalam</td>
<td>Brunei</td>
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<td>9.</td>
<td>Autorité des Marchés Financiers</td>
<td>(Quebec) Canada</td>
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<td>10.</td>
<td>Ontario Securities Commission</td>
<td>(Ontario) Canada</td>
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<td>11.</td>
<td>China Securities Regulatory Commission</td>
<td>China</td>
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<td>12.</td>
<td>Cyprus Securities and Exchange Commission</td>
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<td>13.</td>
<td>Financial Regulatory Authority</td>
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<td>European Securities and Markets Authority</td>
<td>Europe</td>
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<td>15.</td>
<td>Autorité des marchés financiers</td>
<td>France</td>
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<td>16.</td>
<td>Federal Financial Supervisory Authority (BaFin)</td>
<td>Germany</td>
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<td>Guernsey Financial Services Commission</td>
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<td>Securities and Exchange Board of India</td>
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<td>Securities and Exchange Organization</td>
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<td>Financial Services Agency</td>
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<td>27.</td>
<td>Securities Commission</td>
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<td>Dutch Authority for the Financial Markets</td>
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<td>35.</td>
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<td>Bank of Russia</td>
<td>Russia</td>
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<tr>
<td>36.</td>
<td>Capital Market Authority</td>
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<td>37.</td>
<td>Financial Services Regulatory Authority</td>
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<td>38.</td>
<td>Securities and Exchange Commission</td>
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<td>39.</td>
<td>Capital Markets Board</td>
<td>Turkey</td>
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<td>40.</td>
<td>Financial Conduct Authority</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>41.</td>
<td>Securities and Exchange Commission</td>
<td>United States of America</td>
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## Appendix 2. Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<tr>
<td>BIS</td>
<td>Bank for International Settlements</td>
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<tr>
<td>CBI</td>
<td>Climate Bonds Initiative</td>
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<td>CDP</td>
<td>Carbon Disclosure Project</td>
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<tr>
<td>CDSB</td>
<td>Climate Disclosure Standard’s Board</td>
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<td>CRD</td>
<td>Corporate Reporting Dialogue</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<tr>
<td>CWC</td>
<td>Committee on Workers’ Capital</td>
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<td>ERA</td>
<td>Environmental Risk Analysis</td>
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<tr>
<td>ESG</td>
<td>Environmental, Social and Governance</td>
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<td>ESMA</td>
<td>European Securities and Markets Authority</td>
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<tr>
<td>FASB</td>
<td>Financial Accounting Standards Board</td>
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<tr>
<td>FSB</td>
<td>Financial Stability Board</td>
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<td>GHG</td>
<td>Greenhouse Gas Emissions</td>
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<td>GRI</td>
<td>Global Reporting Initiative</td>
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<td>IASB</td>
<td>International Accounting Standards Board</td>
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<td>ICMA GBP</td>
<td>International Capital Market Association Green Bond Principles</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>IIRC</td>
<td>International Integrated Reporting Council</td>
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<td>ILO</td>
<td>International Labor Organization</td>
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<td>IOSCO GEMC</td>
<td>IOSCO Growth and Emerging Markets Committee</td>
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<tr>
<td>ISO</td>
<td>International Organization for Standardization</td>
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<tr>
<td>KPIs</td>
<td>Key Performance Indicators</td>
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<td>NGFS</td>
<td>Network for Greening the Financial System</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>UN PRI</td>
<td>United Nations Principles for Responsible Investment</td>
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<td>UNEP FI</td>
<td>United Nations Environment Programme Finance Initiative</td>
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<td>Sustainable Development Goals</td>
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<td>SRI</td>
<td>Socially Responsible Investing</td>
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<td>TCFD</td>
<td>Task Force on Climate-Related Financial Disclosures</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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Appendix 3. Frameworks and standards included in the desktop survey

In carrying out its desktop review, the SFN reviewed existing ESG-related initiatives, dividing these into five categories. These five categories, and the frameworks and standards included in each, are presented below.

1st category – Disclosure and reporting principles and frameworks used by companies and issuers

1. Task Force on Climate-related Financial Disclosures (TCFD) recommendations
2. Sustainability Accounting Standards Board (SASB) Standards
3. Climate Disclosure Standard’s Board (CDSB) Climate Change Reporting Framework
4. CDSB Framework for Reporting Environmental Information
5. The Carbon Disclosure Project (CDP) Platform
6. Global Reporting Initiative (GRI) Standards
7. International Integrated Reporting Council’s (IIRC) Integrated Reporting Framework
9. UN Global Compact and its “Communication on Progress” Reporting Framework
10. UN Guiding Principles Reporting Framework
11. OECD Guidelines for Multinational Enterprises
12. Science Based Targets Initiative

2nd category – Principles and frameworks applicable to asset managers

1. UN Principles for Responsible Investment (UN PRI)
2. UNEP FI Principles for Positive Impact Finance
3. CWC Guidelines for the Evaluation of Workers’ Human Rights and Labour Standards
4. European SRI Transparency Code

3rd category – Green bond principles and taxonomies

1. ICMA Green Bond Principles
2. ICMA Social Bond Principles
3. ICMA Sustainability Bond Guidelines
4. CBI Climate Bond Standard & Certification Scheme
5. EU taxonomy (under development)
6. China’s Green Bond Taxonomy
7. ASEAN Green Bond Standards

4th category – Coalitions and alliances related to ESG

The list below includes:

- Commitments from corporates on specific ESG matters
- Commitments from asset owners and asset investors, on areas such as engagement with the investee companies on ESG matters, including for better ESG disclosure, or responsible investments/action for climate change
Corporates or asset managers may refer to their engagement in one or several of these initiatives as part of their corporate or ESG information. The list also refers to initiatives other than standards reviewed in Bucket 1 aiming at improving ESG transparency and/or ESG action.

**Corporates**

1. We Mean Business Coalition
2. World Business Council for Sustainable Development
3. WASH Pledge (The WBCSD Pledge for Access to Safe Water, Sanitation and Hygiene at the Workplace)
4. The Alliance to End Plastic Waste
5. RE100
6. Ethical Trading Initiative (ETI)
7. 30%Club

**Investors**

8. UNEP FI Portfolio Decarbonization Coalition (PDC)
9. Institutional Investors Group on Climate Change (IIGCC)
10. Climate Action 100+
11. Montréal Carbon Pledge

**Additional initiatives**

12. The Network for Greening the Financial System (NGFS)
13. Sustainable Stock Exchange Initiative
14. Reporting exchange
15. Corporate Reporting Dialogue
16. World Benchmarking Alliance
17. Science based targets

**5th category – Initiatives not captured in the other buckets**

1. ISO 9001
2. ISO 14001 (environmental management)
3. ISO 14064 (quantification and reporting of greenhouse gas emissions and removals)
4. GHG Protocol
5. UN System of Environmental Economic Accounting for Water
6. ISO 45001 (health and safety management systems)
7. ISO 26000 (social responsibility)
8. ILO International Labor Standards