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ALERT MEMORANDUM

A Global Overview of Sustainability Disclosure Rules for the Asset Management Industry

Making Sense of the Alphabet Soup

January 18, 2022

The European Union's **Sustainable Financial Disclosure Regulation**, in force since March 2021, was the first effort made globally to regulate transparency on ESG in the **asset management** industry. It requires fund managers and financial advisers to address and disclose the sustainability risks and sustainability impacts of their investment decisions.

Similar rules were passed in late 2021 in other jurisdictions.

On October 14, 2021, the **Financial Stability Board's "Task Force on Climate-related Financial Disclosures"** released a new guidance package, which includes implementing instructions tailored to the asset management industry.

On November 2, the **International Organization of Securities Commission** released new recommendations to financial supervisors on sustainability-related practices, policies and disclosures in asset management.

On November 3, at the COP26 summit in Glasgow, the International Financial reporting Standards ("IFRS") Foundation announced the establishment of the **"International Sustainability Standards Board"**, to oversee and coordinate global sustainability disclosure rules.

Several national regulators are following suit.

This alert *memorandum* provides an overview of efforts undertaken beyond the EU to regulate or harmonise ESG disclosure requirements for the asset management industry.

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I. Background

With the continued growth of sustainable investment, several proposals have emerged globally to regulate ESG disclosures in the financial sector.

The European Union's **Sustainable Finance Disclosure Regulation** ("SFDR"[1]) is so far the most advanced regulation setting mandatory sustainability-related disclosures for asset managers. Other regulators however are gearing up.

II. Most significant global efforts

A. The FSB's Task Force on Climate-related Financial Disclosures

In 2009, G20 Finance Ministers and Central Bank Governors created the Financial Stability Board ("FSB"), to monitor the global financial system. After the signing of the landmark Paris Agreement in 2015, the FSB established a specialised Task Force on Climate-related Financial Disclosures (the "TCFD"), to improve and increase reporting of climate-related financial information.

In 2017, the TCFD released a first set of recommendations for financial and non-financial sector firms, regarding the disclosure of **climate-related risks and opportunities** (the "TCFD Recommendations").[2] This document has provided the foundations for later guidance and regulations worldwide.

According to the TCFD Recommendations, climate-related risks may result from either the **physical impacts** of climate change (*e.g.*, hurricanes) or the **cost of transitioning** to a lower carbon-economy (*e.g.*, new policies, new technologies, a higher number of lawsuits, changes of demand in the market, and reputational risks).

On the other hand, attempts to mitigate climate change may also be seen as a market opportunity. For example, there is evidence of organizations successfully reducing costs by improving energy efficiency across their production and distribution,[3] and shifting their energy usage towards more sustainable sources.[4]

The TCFD's recommendations are structured around four pillars:

I.	The **governance** of **climate-related risks and opportunities**
II.	Their integration in companies' business **strategy and financial planning**
III.	Firms' related **risk management** practices and
IV.	The **metrics and targets** used to measure and assess climate-related risks and progress.

Four years after the original TCFD Recommendations and following two rounds of public consultations, on October 14, 2021, the TCFD released a new and more extended **"Guidance on Metrics, Targets and Transition Plans"**. The Guidance was published jointly with a **"2021 Status Report"** (describing progress and implementation of climate-related disclosures by companies globally), plus an annex on **"Implementing the Recommendations of the TCFD"** (the "Annex").[5]

In addition to expanding on the 2017 TCFD Recommendations, the Annex in particular provides *ad hoc* recommendations for specific sectors.[6] Among these is the asset management industry.

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I. Governance

According to the TCFD, firms should generally

[1] For our analysis of the SFDR, see *2021 Brings Significant New ESG Disclosure Obligations for Financial Services Firms*, Cleary Gottlieb Alert Memorandum (January 5, 2021) (accessible here).

[2] Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017, accessible here.

[3] UNEP and Copenhagen Centre for Energy Efficiency, Best Practices and Case Studies for Industrial Energy Efficiency Improvement, February 16, 2016.

[4] Ceres, "Power Forward 3.0: How the largest US companies are capturing business value while addressing climate change," 2017, accessible here.

[5] The TCFD's complete 2021 package is accessible here.

[6] "Implementing the recommendations of the Task Force on Climate-related financial disclosures", October 15, 2021, accessible here.

disclose their governance plans around climate-related risks and opportunities and, in particular, describe the Board's oversight of climate-related issues (for instance by indicating the processes and frequency by which the Board or its Risk, Audit, or other Committees are informed about climate-related issues, how management is active in monitoring them, and how these issues are considered by the Board when reviewing and guiding the firm's strategy, major plans of action, risk management policies, and even annual budgets).

II. Strategy and financial planning

The TCFD generally encourages the disclosure of the actual and potential impacts of climate-related risks and opportunities as part of firms' business, strategy and financial planning – articulated over the short, medium and long-term horizon, and with respect to their financial performance (*e.g.*, revenues, costs) and financial position (*e.g.*, assets and liabilities). Firms are also expected to describe the processes used to determine which risks and opportunities could have a material financial impact on their organization.

Asset managers in particular should explain how climate-related risks and opportunities are considered as part of their product and investment strategies, and describe how these might be affected by the transition to a low-carbon economy.

III. Risk management

The TCFD encourages the disclosure of how firms identify, assess and manage climate-related risks (including relative to other risks to which they are exposed). They should explain also how decisions are made in order to prioritise, mitigate, transfer, accept, or control those risks.

Asset managers in particular should specify how they identify and assess climate-related risks for each product (*e.g.* fund) or investment strategy they undertake (including, for instance, by describing what tools and resources they use for such purpose). They are also expected to engage, where appropriate, with their portfolio companies, so as to encourage better disclosure and practices in connection with climate-related risks at the investees' level.

IV. Metrics and Targets

The TCFD promotes disclosure of the metrics and targets that a firm uses in order to assess and manage relevant climate-related risks and opportunities. The TCFD's 2021 guidance lays out for this purpose a list of the kind of risks (and possible related impacts), and the types of metrics (and related measurement units) that should be used for this purpose.[7]

Asset managers should explain the metrics used for each product or investment strategy, and how the metrics have changed throughout the years. It is also pivotal that they disclose **GHG emissions** for the assets they manage and the **weighted average carbon intensity** of their products or investment strategies.

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Since 2017, the TCFD Recommendations have become a preeminent framework for companies seeking to engage in climate reporting worldwide.

Several organizations and countries all over the world have endorsed them. Some jurisdictions (including the **US, the UK, Switzerland, Japan, Hong Kong, Singapore, Australia and New Zealand**) have also recently taken steps to make the TCFD Recommendations binding to a varying extent.[8] This has made them the most widely used reference globally, with supporters spanning 89 countries and nearly all sectors of the economy, and a combined market capitalization of over USD 25 trillion.[9]

B. The UN Principles for Responsible Investing

The **"Principles for Responsible Investing" ("PRI")** are a United Nations framework originally developed in 2006.[10] Their goal is to promote a better understanding of the investment implications of ESG factors, and to support its signatories in incorporating these factors into their investment decisions.

[7] See Tables A.1 and A.2 (accessible here, at pp. 75-81).

[8] The TCFD ran an overview of some of such global efforts in a recent presentation, accessible here (see in particular on slide 9).

[9] See the TCFD's 2021 "Status Report", accessible here.

[10] The PRI are accessible here.

The PRI integrated several climate-related indicators based on the TCFD Recommendations. Signatories are required to show compliance with these on an annual basis.

In 2021, the TCFD used the PRI's climate-related indicators as a proxy for its 2021 Status Report, so as to gain insight on asset managers' and asset owners' TCFD-aligned reporting practices.[11] Europe remains the leading region for financial ESG disclosures (also due to the entry into force of the EU SFDR, in March 2021).

The TCFD also mapped PRI climate-related indicators against its own recommended disclosures, in Appendix 4 of its 2021 Status Report. [12]

C. The International Organisation of Securities Commissions

IOSCO sets standards to regulate the world's securities and futures markets. It was created in 1983 and its 230 members are national securities commissions in their respective jurisdictions, agencies of governments and international organizations. [13]

On October 14, 2021, IOSCO released its final report dedicated to sustainability-related practices and disclosures in asset management. The report was drafted by IOSCO's "Task Force on Sustainable Finance" and includes **five recommendations** addressed to security regulators and policymakers, providing them with potential areas for regulatory considerations. [14]

(I) IOSCO encourages regulators to set regulatory and supervisory expectations for asset managers in respect of the development and implementation of practices, policies and procedures relating to material sustainability-related risks and opportunities; and related disclosure.

Asset managers should be required to apply the TCFD Recommendations to sustainable financial disclosures when acting in their capacity as fiduciaries of investors' assets.

(II) Regulators should expand on existing regulatory tools and set requirements to improve product-level disclosure to help the clients' understanding of sustainability-related products and risks.

(III) Regulators should introduce supervisory and enforcement tools to ensure that asset managers comply with the requirements and address any breaches.

(IV) Regulators should encourage sustainable finance industry players to adopt a common vocabulary to ensure consistency on ESG across asset management.

(V) Regulators should promote financial and investor education.

IOSCO's report also encourages asset managers to consider sustainability-related risks and opportunities in their investment decision-making process and to disclose them to their investors following the TCFD model.

D. The International Financial Reporting Standards Foundation

The IFRS Foundation is an accounting organisation whose objective is the development of standards to promote transparency, accountability and stability in the global economy.

At the November 2021 COP26 summit in Glasgow, the IFRS Foundation made three significant announcements[15]:

- The establishment of an **International Sustainability Standards Board (ISSB)**, set to begin working in 2022. The ISSB will provide help to investors and regulators by setting baseline sustainability disclosures standards to make information comparable across industries and financial markets. The widespread adoption of these new standards will probably take time

[11] TCFD's "2021 Status Report" (accessible here) at pp. 51-54.

[12] See Table A4-1, Appendix 4 of the "2021 Status Report".

[13] IOSCO Fact Sheet, accessible here.

[14] Recommendations on sustainability-related practices, policies, procedures and disclosure in asset management, Final Report, November 2021, accessible here.

[15] IFRS Foundation announces International Sustainability Standards Board, accessible here.

because companies will have to comply with them only once they are adopted at a national level.[16]

- The commitment by leading investor-focused sustainability disclosure organizations – the Climate Disclosure Standards Board and the Value Reporting Foundation – to **merge with the IFRS Foundation** by June 2022.
- The publication of **prototypes of climate and general disclosure requirements** developed by the Technical Readiness Working Group ("TRWG"), a group formed by the IFRS Foundation Trustees to undertake the ISSB preparatory work. The prototypes are structured around the TCFD's four pillars and provide for specific disclosure requirements under each pillar to be issued on at least an annual basis, jointly with the firm's annual financial statement.[17]

Several international bodies contributed to the prototypes, including the World Economic Forum, the TCFD and IOSCO.

In particular, IOSCO is strongly encouraging the ISSB to use as a starting point the content of already existing sustainability-related principles and recommendations – including the TCFD Recommendations. The IFRS Foundation welcomed this suggestion and announced that the work of the ISSB will be based on the four TCFD pillars.[18] Considering also widespread calls to unify the plethora of existing ESG disclosure metrics and practices, it is likely that the two frameworks (TCFD and ISSB) will be aligned.

E. The Global Reporting Initiative

The Global Reporting Initiative ("GRI") is an international organization that sets universal and sector-specific standards to provide companies with a common language to communicate their impact on the environment. The GRI is planning to release disclosure standards for 40 sectors, including asset management.[19]

III. National developments (beyond the EU)

A. The United States

ESG regulation has not escaped the consideration of regulators in the United States, including the U.S. Securities and Exchange Commission (the "SEC"), the regulatory body that oversees fund managers. In March 2021, the SEC announced the creation of a Climate and ESG Task Force in the Division of Enforcement[20] to among other things analyze "compliance issues relating to investment advisers' and funds' ESG strategies". In its review of asset managers and ESG fund products, the SEC has focused on three critical aspects: disclosure, regulation and examination and enforcement.

Disclosure - In a March of 2021 statement, Acting Chair Allison Herren Lee requested public comment on ESG disclosures to aid the SEC staff in an evaluation of "disclosure rules with an eye toward facilitating the disclosure of consistent, comparable, and reliable information on climate change".[21] A multi-month rule making period has followed an active comment period with expectation that the SEC will propose rules mandating certain climate and emissions disclosures early in 2022. The SEC has also reiterated existing guidance as to the need for robust disclosure of material climate risks and opportunities to businesses including potential impact on financial performance.

Asset Manager Regulation – In July of 2021, a subcommittee of the SEC's Asset Management

[16] Michael O'Dwyer, "New body to oversee global sustainability disclosure standards", Financial Times (November 3, 2021), accessible here.

[17] General Requirements for Disclosure of Sustainability-related Financial Information Prototype, November 2021, accessible here.

[18] IFRS Foundation Exposure Draft, April 2021, accessible here.

[19] GRI Sector Program, November 2020, accessible here.

[20] Securities and Exchange Commission. March 4, 2021. "SEC Announces Enforcement Task Force Focused on Climate and ESG Issues." https://www.sec.gov/news/press-release/2021-42.

[21] Statement of Acting Chair Allison Herren Lee. March 15, 2021. "Public Input Welcomed on Climate Change Disclosures." https://www.sec.gov/news/public-statement/lee-climate-change-disclosures.

Advisory Committee (the "AMAC") (a group of outside experts, including individuals representing the views of retail and institutional investors, small and large funds, intermediaries, and other market participants) published recommendations for the SEC relating to management of ESG.[22] In addition to recommending disclosure rules for public companies, the AMAC recommended the SEC should provide guidance to "enhance ESG investment product disclosure, including alignment with the terminology developed by the Investment Company Institute ("ICI") ESG Working Group[23], and clear description of each product's strategy and investment priorities, as well as description of non-financial objectives such as environmental impact or adherence to religious requirements." The subcommittee also recommended SEC best practices related to shared ownership activities, *i.e.*, voting, engagement and activism, and increased disclosure of recent shared ownership activities to evidence compliance with ESG commitments.

Examination and Enforcement – Finally and most immediately important for asset managers, the SEC has increased its examination focus and enforcement related to disclosure of funds labelled as "ESG". In April, 2021, the SEC staff published a "Risk Alert"[24] noting several approaches and areas for concern. The Risk Alert notes that the staff would focus on examination of advisory firms "to evaluate whether they are accurately disclosing their ESG investing approaches and have adopted and implemented policies, procedures, and practices that accord with their ESG-related disclosures." Second, the Risk Alert notes that staff will focus on examination of disclosure including in regulatory filings and on websites and market materials for disclosure relating to firm commitments to follow ESG frameworks. Finally, the Risk Alert provides that examinations will focus on compliance policies, implementation and oversight by firms of with ESG investing practices and disclosures.

It has also been reported that the SEC sent requests to asset managers requesting information on their ESG products and the process for determining how assets are included/labeled as well as requests for information on compliance programs.[25] In the Risk Alert the SEC staff indicated a number of concerns with policies and compliance by asset managers including concerns as to weak procedures or compliance regimes that "did not appear to be reasonably designed to prevent violations of law, or…that did not appear to be reasonably designed to guard against inaccurate ESG-related disclosures and marketing materials."

Public companies, asset managers and the broader market in the US expect 2022 to bring increased SEC rulemaking, guidance and enforcement relating to ESG. Not only is the SEC expected to propose disclosure requirements for public companies, asset managers should also expect continued increased examination focus and SEC investigations and potential enforcement actions related to misleading or overblown disclosure as to ESG investment criteria.

B. The United Kingdom

To implement the TCFD Recommendations, the UK established in 2019 a joint regulator/government taskforce (the "UK Taskforce"), as part of its "Green Finance Strategy". On November 9, 2020, the UK Taskforce published its roadmap towards mandatory climate-related disclosures, announcing the UK's intention to make TCFD-aligned disclosures mandatory across the economy by 2025, with a significant portion of mandatory requirements in place by 2023.

As part of the implementation of this goal, in December 2021 the UK Financial Conduct Authority ("FCA") published new rules and guidance introducing climate-related disclosure requirements

[22] U.S. Securities and Exchange Commission Asset Management Advisory Committee Recommendations for ESG. July 7, 2021. https://www.sec.gov/files/spotlight/amac/recommendations-esg.pdf.

[23] Investment Company Institute. "Funds' Use of ESG Integration and Sustainable Investing Strategies: An Introduction." July 2020. https://www.ici.org/system/files/attachments/pdf/20_ppr_esg_integration.pdf.

[24] SEC Division of Examinations "The Division of Examinations' Review of ESG Investing." April 9, 2021. https://www.sec.gov/files/esg-risk-alert.pdf?utm_medium=email&utm_source=govdelivery.

[25] Bloomberg News "Fund Managers Feel Heat in SEC Crackdown of Overblown ESG Labels." September 3, 2021. https://www.bloomberg.com/news/articles/2021-09-03/fund-managers-feel-heat-in-sec-crackdown-of-overblown-esg-labels"

aligned with the TCFD Recommendations for UK-authorised asset managers (see below) as well as UK-authorised life insurers and FCA-regulated pensions providers.[26] The new rules apply to in-scope FCA-authorised firms in respect of their "TCFD in-scope business" carried out from an establishment maintained by it in the UK, irrespective of where the clients, products or portfolio are domiciled. They do not apply to third-country branches. Moreover, unlike the SFDR, the FCA's rules will not apply to non-UK alternative investment fund managers ("AIFMs") that market their funds to investors in the UK under the Alternative Investment Fund Managers Regulations 2013 (which implemented the Alternative Investment Fund Managers Directive).

Specifically, the FCA has introduced mandatory disclosures to be made:

(1) At the entity-level: requiring firms to publish an annual TCFD entity report in a prominent place on the main website of the firm's business setting out how they take climate-related matters into account in managing or administering investments on behalf of clients and consumers; and

(2) At the product or portfolio-level: – requiring firms, annually, to produce disclosures (including a core set of climate-related metrics) on the firm's products and portfolios made publicly available in a prominent place on the main website of the firm's business and included or cross-referenced in an appropriate client communication, or made available upon request to certain eligible institutional clients.

Under the new rules, firms' entity- and product-level reports must be consistent with the TCFD Recommendations and Recommended Disclosures – *i.e.*, the four recommendations and the 11 recommended disclosures set out in Figure 4 of Section C of the TCFD Recommendations. Firms must also take reasonable steps to ensure that their disclosures reflect relevant sections of the TCFD Annex.

In-scope asset managers are:

- UK-authorised portfolio managers – this has an extended meaning, discussed below;
- UK alternative investment fund managers – both full scope and small AIFMs are in scope; and
- UK UCITS management companies.

As indicated above, portfolio management for these purposes has an extended meaning, covering managing investments, as well as private equity or other private market activities consisting of either advising on investments or managing investments on a recurring or ongoing basis in connection with an arrangement the predominant purpose of which is investment in unlisted securities. The FCA has stated that the extended meaning is intended to reflect that those services might be provided on a recurring but sometimes irregular basis over the life of the fund at certain important points (*e.g.*, investment, divestment and other lifecycle events) but has clarified that the definition does not include sub-advisory/investment management services where these are ad hoc transactions.

Asset managers managing more than GBP 50 billion are already subject to the rules (from January 1, 2022).[27] For these firms, the first set of reports will be due by June 30, 2023, in respect of the 2022 calendar year. Other firms will become subject to the new rules from January 1, 2023, with reports for calendar year 2023 due by June 30, 2024. Note, however, that an otherwise in-scope firm is exempt from the disclosure requirements if and for as long as the assets under administration or management in relation to its relevant business amount to less than GBP 5 billion calculated as a three-year rolling average on an annual assessment.[28]

The UK Government published a policy paper in October 2021 entitled "Greening Finance: A Roadmap to Sustainable Investing"[29] (the "Green Finance Roadmap"). This elaborated, among other things, on the Government's plan to implement a UK green

[26] FCA PS21/24, accessible here. The new rules and guidance are set out in a new Environmental, Social and Governance sourcebook of the FCA's handbook (ESG).

[27] For this threshold, the new rules use the same method of calculation as for determining whether a firm is an "enhanced scope Senior Managers and Certification Regime ("SM&CR") firm".

[28] Other than clarifying that the method for determining whether a firm is an enhanced scope SM&CR firm does not apply, the FCA has not clarified how the GBP 5 billion exemption threshold is to be calculated.

[29] Accessible here.

taxonomy that will set out the criteria which specific economic activities must meet to be considered environmentally sustainable and therefore "taxonomy-aligned". The UK taxonomy will borrow the six environmental objectives provided under the EU's green taxonomy – that is: (1) climate change mitigation; (2) climate change adaptation; (3) sustainable use and protection of water and marine resources; (4) transition to a circular economy; (5) pollution prevention and control; and (6) protection and restoration of biodiversity and ecosystems. As under the EU taxonomy, each environmental objective will be underpinned by technical screening criteria for each economic activity included in the taxonomy identifying how that activity can make a substantial contribution to the environmental objective. Just as the EU's, the UK taxonomy will also include **"enabling activities"**, which recognize activities that currently support the transition by enabling substantial contributions to environmental objectives in other sectors, but which are not yet sustainable themselves.

In line with the Green Finance Roadmap, in November 2021, the FCA launched a Discussion Paper.[30] This paper seeks views on new sustainability disclosure requirements ("SDRs") for asset managers and certain FCA-regulated asset owners, as well as a new classification and labelling system for sustainable investment products. The SDRs would require firms to report on their sustainability risks, opportunities and impacts, building on the proposed TCFD-aligned disclosure requirements (including disclosure requirements relating to the forthcoming UK Green Taxonomy) but widening the scope beyond climate to other sustainability factors. The labelling system would require certain investment products to display a label reflecting their sustainability characteristics. This will complement entity- and product-level SDR disclosures. The FCA expects to publish draft rules in Q2 of 2022.

The key aims of these initiatives is to "build trust" in the market, enhance transparency in the interest of consumers and meet the information needs of investors.

C. APAC

Hong Kong

Following global trends, in September 2018, Hong Kong's Securities and Futures Commission ("SFC") published its Strategic Framework for Green Finance ("Green Finance Framework")[31], aiming to develop green finance in Hong Kong. The Green Finance Framework seeks to capitalize on Hong Kong's position to complement China's green development ambitions and connect green finance flows between China and the rest of the world. The Green Finance Framework covers asset manager and investment product disclosures and their consideration of ESG factors, especially environmental and climate-related risks.

In April 2019, the SFC issued a Circular to management companies of SFC-authorized unit trusts and mutual funds—Green or ESG funds ("2019 Circular")[32] as its initial step to enhance disclosure standards for ESG funds, and set out disclosure guidelines to enhance comparability, transparency and visibility. The SFC revised the 2019 Circular in June 2021,[33] to provide further guidance on enhanced disclosure, including periodic assessments and reporting for ESG funds. The updated circular provides additional guidance for climate-focused funds, setting out the SFC's expectations with respect to how requirements under the SFC's Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products apply to funds that consider climate change or green or ESG or sustainability factors in their investment process.

On August 20, 2021, the SFC issued its Consultation Conclusions on the Management and Disclosure of Climate-related Risks by Fund Managers ("Consultation Conclusions").[34] These amend the Fund Manager Code of Conduct ("FMCC") to require fund managers managing collective investment schemes to take climate-related risks into consideration in their investment and risk management processes and make appropriate disclosures. On the same day, the SFC also issued a circular[35] that sets out

[30] FCA DP 21/4, accessible here.

[31] Green Finance Framework, April 2021, accessible here.

[32] The Circular, April 2019, accessible here.

[33] The Circular, June 2021, accessible here.

[34] The Consultation Conclusions, August 2021, accessible here.

[35] The Circular, August 2021, accessible here.

the expected standards for complying with the amended FMCC. These include (i) baseline requirements for all those managing collective investment schemes and (ii) enhanced standards for fund managers managing collective investment schemes that equal or exceed USD 8 billion in fund assets.

In additional to the SFC's regulatory requirements mentioned above, on November 5, 2021 the Stock Exchange of Hong Kong ("HKEx") issued guidance for locally listed asset management companies. These implement the TCFD's recommendations in its Guidance on Climate Change (the "Climate Change Guidance").[36] The Climate Change Guidance includes an analysis of HKEx prospective issuers' corporate governance and environmental, social and governance (ESG) disclosures in 2020-2021. It also outlines ways that companies can apply in assessing their responses to risks arising from climate change as well as step-by-step guidance for preparing climate change reporting. Topics covered include formulating a climate action plan, identifying material risks, and developing company-specific metrics and indicators.

The guidance is expected to assist issuers prepare climate change reporting aligned with the TCFD Recommendations.

Singapore

The Monetary Authority of Singapore ("MAS") announced its green finance vision and strategy in November 2019. The vision is to be a leading centre for green finance in Asia and globally. As part of this strategy, the MAS has published several initiatives that aim to enhance the resilience of financial institutions, including asset managers, to environmental risks and strengthen the sector's role in supporting the transition to an environmentally sustainable economy in Singapore and in the region.

On December 8, 2020, the MAS released its Guidelines on Environmental Risk Management for Asset Managers (the "Guidelines")[37]. The Guidelines apply to fund management companies registered in Singapore, as well as the holders of licences for fund management and real estate investment trust management in Singapore. The Guidelines are generally aligned with the TCFD's recommendations and address environmental risk across five pillars: governance and strategy; research and portfolio construction; portfolio risk management; stewardship and disclosure.

To complement the Guidelines, in January 2021 the MAS-convened Green Finance Industry Taskforce ("GFIT") produced a Handbook on Implementing Environmental Risk Management (the "Handbook")[38] to share practical implementation guidance and good practices on environmental risk management. In addition to the implementation of environmental risk management practices, the Handbook provides examples of best practice disclosures. And on May 19, 2021 the GFIT issued the Financial Institutions Climate-related Disclosure Document ("FCDD").[39] This is intended to be a practical reference for financial institutions as they step up their efforts on environmental disclosure. The disclosures set out in the FCDD are divided into four pillars that asset managers are instructed to give additional attention:

- **Governance**: asset managers should describe the board's oversight of climate-related risks and opportunities and describe management's role in assessing and managing climate related risks and opportunities.
- **Strategy**: asset managers are expected to describe the climate-related risks and opportunities that the organization has identified, the impact of these risks and opportunities on their business, strategy and financial planning; and the resilience of their strategy in different climate-related scenarios.
- **Risk management**: asset managers should describe the organization's processes for identifying, assessing, and managing climate-related risks, describing how these processes are integrated into the organization's overall risk management.
- **Metrics and targets**: asset managers are expected to disclose the metrics they use to assess climate-related risks and opportunities in line with their strategy and risk management process; disclosing Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks;

[36] Guidance on Climate Disclosures, November 2021, accessible here.

[37] The Guidelines, December 2020, accessible here.

[38] The Handbook, January 2021, accessible here.

[39] FCDD, May 2021, accessible here.

and describe their targets.

China

The Chinese government has issued various policies to stimulate green finance services and improve disclosure practices as part of the country's overall efforts on sustainability. For example:

- On August 31, 2016, seven Chinese regulatory authorities jointly issued the country's first green finance policy (the "Guidelines for Establishing China's Green Financial System"), which included steps to gradually establish and improve green finance information disclosure.[40]
- In 2019, the country's principal economic regulator, the National Development and Reform Commission, issued the Green Industry Guidance Directory (2019 edition), which require local governments and regulatory departments to issue policies to guide investors to invest in the sectors listed in the Directory.[41]
- On October 21, 2020, six Chinese environmental, economic and financial authorities jointly issued a policy document on promoting financing that will help slow climate change or assist in adapting the economy to climate change.[42] It called for improving information disclosures on climate change-related financing, including establishing information disclosure standards.
- On October 24, 2021, the Central Committee of the Communist Party of China and the State Council jointly released a comprehensive guidance document on the country's path to achieve the country's commitments to reach its peak carbon emissions by 2030 and carbon neutrality by 2060.[43] The document outlines China's green finance strategies and requires improvements in China's carbon emission reporting and information disclosure by business enterprises and financial institutions.

Notwithstanding that China does not yet have mandatory requirements for asset management firms to consider ESG factors or disclose ESG-related information in their investment decisions, the Chinese government and industry associations have been introducing guidelines to enhance information disclosure requirements and standards. Examples of recent efforts include:

- On November 16, 2018, the Asset Management Association of China ("AMAC") published Green Investment Guidelines (for Trial Implementation) to promote green investment. These guidelines encourage fund managers to adopt responsible investment practices and carry out annual self-evaluations on their firm's green investments.[44] The evaluation report should include the firms' green investment ideas and systems, considerations in investment and risk controls. In 2020, 475 AMAC member institutions submitted self-evaluation reports, showing varying degree of adoption of the guidelines.[45]
- On July 22, 2021, China's central bank, the People's Bank of China ("PBOC"), launched the Guidelines for Environmental Information Disclosure by Financial Institutions (JR/T 0027-2021), establishing the standards of environmental information disclosure for banking, asset management, insurance and other financial institutions in China. The Guidelines encourage financial institutions to disclose environment information at least once a year and for their green financial products on an as-needed basis. PBOC has announced it plans to continue to promote environment information disclosure by financial institutions.[46]
- On November 4, 2021 (during COP26), the EU and China published a "Common Ground Taxonomy". The document is the product of a working group set up in 2020 (co-chaired by both jurisdictions) to undertake an assessment of the

[40] The Guidelines for Establishing China's Green Financial System Commission, August 2016, accessible here. (in Chinese)

[41] The Green Industry Guidance Directory (2019 edition), February 2019, accessible here. (in Chinese)

[42] The Guiding Opinions on Promoting Climate Change Financing, October 2020, accessible here. (in Chinese)

[43] The Working Guidance For Carbon Dioxide Peaking And Carbon Neutrality In Full And Faithful Implementation Of The New Development Philosophy, October 202, accessible here (in Chinese).

[44] Green Investment Guidelines (for Trial Implementation) November 2018, accessible here.

[45] Guidelines for Environmental Information Disclosure by Financial Institutions, July 2021, accessible here (in Chinese).

[46] Guidelines for Environmental Information Disclosure by Financial Institutions, July 2021, accessible here (in Chinese).

existing taxonomies for environmentally sustainable activities and provide more clarity and transparency about the commonalities and differences in the two countries' respective approach and outcomes.[47]

In addition to the above guidelines and standards on information disclosure, the China Securities Regulatory Commission and the country's securities exchanges have issued standards and requirements for climate and environmental information disclosure by listed companies. Furthermore, the PBOC has indicated its plan to introduce mandatory climate-related information disclosure for commercial banks, followed by listed companies.[48]

D. Russia

In Russia, disclosure of ESG factors or ESG-related information is not obligatory. Recent efforts to make them mandatory have so far focused on listed companies, rather than the asset management industry. Following global trends, the Russian Government and the Central Bank of Russia encourage Russian companies to report on ESG factors and risks and implement principles of responsible investment. As part of these efforts they have introduced guidelines and recommendations to enhance ESG information disclosure requirements and standards:

- On May 5, 2017, the Russian Government adopted the concept of public non-financial reporting, aiming at systematizing introduction of public ESG reporting into the management practices of Russian organizations.[49] It is not mandatory for non-state-owned Russian entities, but contains guidelines for all Russian companies and establishes a framework for future development of Russian legislation on ESG reporting;
- In July 2020, the Central Bank of Russia published an informational letter setting out recommendations for the implementation of the principles of responsible investment.[50] According to these recommendations, the investors, among other, should analyse and take into consideration ESG factors when making their investments;
- In July 2021, the Central Bank of Russia published an informational letter setting out recommendations for public Russian companies on disclosure of non-financial information.[51] In August 2021, the Central Bank of Russia announced its plans to transform these recommendations into mandatory requirements for listed companies in the future.

In addition, in July 2021, the Moscow Exchange ("MOEX") issued guidance for issuers on how to comply with best practices in sustainable development, including in terms of ESG reporting.[52]

E. MENA

The drive to improve ESG reporting standards in the MENA region has mainly been a combination of government encouragement and stock exchanges' voluntary guidelines. Even though there have been recent moves towards mandatory disclosure, this has typically focused on disclosures by issuers, rather than disclosure requirements and standards aimed at institutional investors and the asset management industry. For example, in 2021 the UAE's Securities and Commodities Authority ("SCA") ruled that public companies listed on the Abu Dhabi Securities Exchange ("ADX") and Dubai Financial Market ("DFM") must publish an annual, standalone sustainability report compliant with GRI standards.

Instead of top-down regulation of asset managers' ESG-related disclosures, in the MENA region it is market-driven demand from asset managers and other institutional investors themselves that has been a key

[47] The "Common Ground Taxonomy" report can be downloaded here.

[48] For PBOC announcement, accessible here (in Chinese).

[49] Resolution of the Government of the Russian Federation On Adoption of Concept of Public Non-Financial Reporting and Plan of its Implementation, May 2017, accessible here (in Russian).

[50] Information Letter on Recommendations for the Implementation of the Principles of Responsible Investment, July 2020, accessible here.

[51] Information Letter on Recommendations for Disclosure by Public Joint-Stock Companies of Non-Financial Information Relating to their Activities, July 2021, accessible here (in Russian).

[52] How to Comply with Best practices in Sustainable Development, July 2021, accessible here (in Russian).

factor in encouraging regulators to improve ESG disclosure standards, with over 50% of CIOs at asset managers in the GCC expecting double-digit growth in net inflows for ESG-compliant investments in 2022.[53] As further evidence of the increasing trend of regional asset managers' focus on sustainable investment generally and ESG reporting in particular, Emirates NBD Asset Management recently became the first UAE bank-owned asset manager to sign up to the UN's PRI framework, which will involve it implementing ESG-focused disclosure and reporting procedures.

UAE

That being said, two of the three "Guiding Principles of Sustainable Finance" published in January 2020 by the leading regulatory authorities in the UAE – namely, (i) the integration of ESG factors into governance, strategy and risk management, and (ii) the promotion of appropriate ESG-related reporting and disclosures – are applicable to "investors" such as asset managers and sovereign wealth funds, as opposed to solely issuers.

Building on this initial step, during the recently held COP26 in Glasgow, the UAE Sustainable Finance Working Group (which includes (among others) the ADGM's FSRA, the DIFC's DFSA, the SCA and the UAE Ministry of Finance) set out a roadmap for the implementation of the Guiding Principles, focusing on strengthening sustainability disclosure and establishing a unified UAE taxonomy of sustainable activities. It will therefore be interesting to observe whether such near-term priorities result in more tangible disclosure requirements that specifically apply to the UAE asset management industry.

Egypt

In July 2021, the Egyptian Financial Regulatory Authority went further than regulatory authorities in the UAE and elsewhere in the MENA region by passing certain resolutions related to disclosures by companies engaged in non-bank financial activities (including asset managers). From 1 January 2022, such companies with at least EGP 100 million of issued capital or net ownership rights will need to publish disclosure reports relating to their ESG practices and those with at least EGP 500 million of issued capital or net ownership rights will be required to make disclosures regarding climate-related risks in accordance with the TCFD's recommendations.

Conclusion

There is no doubt that all of the developments here cited have significantly contributed to the global discussion on ESG disclosures in the financial sector.

Inevitably, however, different national supervisors will implement at different speeds, with some acting as standard setters and others perhaps even deliberately looking to set looser requirements.

While the European Union has taken leadership in this space, it is uncertain whether other country regulators will subject national players to similarly strict standards. It is also for this reason that IOSCO, the TCFD and the ISSB are all making an effort to align their work and establish a common baseline. Standardization is essential to create a level playing field, and ensure an effective transition to a sustainable economy.

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[53] See here.