INVESTOR BRIEFING

2022 POLICY ROUNDUP

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PRI Association

Registered office: 25 Camperdown Street
London, UK, E1 8DZ Company no. 7207947
T: +44 (0) 20 3714 3220 W: www.unpri.org E:info@unpri.org

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

THE PRINCIPLES FOR RESPONSIBLE INVESTMENT

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. More information: www.unpri.org

ABOUT THIS BRIEFING

In 2022 there was a strong focus of sustainable finance policy reforms across jurisdictions worldwide. In this briefing we provide a short roundup of policy developments in each of the PRI Policy Team's key jurisdictions. In 2023 PRI will continue to engage with policymakers, and support signatories to do so, to ensure policy measures are effective, efficient, support sustainable financial returns and deliver clear social and environmental benefits. The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research.

For more information, contact:

Margarita Pirovska

Director of Policy

Margarita.pirovska@unpri.org

AUSTRALIA

Activity on climate change and sustainable finance policy in Australia increased significantly in 2022. The year started with the Senate disallowing controversial regulations introduced by the former Treasurer that would have hindered ESG proxy advice. The Federal Government's approach to ESG issues shifted after the Labor party formed government in May. Shortly thereafter, Australia passed its first Climate Change Act legislating the Government's emission reduction targets. The new Treasurer is now focused on hosting investor roundtables to address social housing issues and the clean energy transition. The Minister for Financial Services has also signalled possibly introducing ESG legislation to address greenwashing.

Meanwhile, Australian Securities & Investments Commission (ASIC) prioritised action on sustainable finance practices and released guidance for how funds can avoid greenwashing when promoting sustainability-related products. ASIC, Australian Prudential Regulation Authority (APRA), Treasury and the Reserve Bank of Australia (RBA) have also engaged in Australian Sustainable Finance Institute (ASFI) development of a sustainable finance taxonomy. Through the Council for Financial Regulators, each of these organisations responded to ISSB's consultation broadly supporting its draft disclosure standards. Finally, to close out the year, the Australian Treasury also released its consultation paper on climate-related financial disclosures.

CHINA

The development of green finance policies and regulations on sustainable development have become more structured in China. Four main financial regulators issued a plan to improve green financial standards during the 14th FYP period, setting up a basis for ESG regulation plans including disclosure, evaluation and transition finance.

Following that, China established a standardized carbon emission accounting and statistics system and published a self-regulated framework on the green bond to unify domestic green bond regulation. On the investor regulation and stewardship front, China Banking and Insurance Regulatory Commission (CBIRC) issued Green Finance Guidelines for Banking and Insurance Industry. China Securities Regulatory Commission (CSRC) also encouraged public fund companies to implement responsible investment and promote active ownership. As for information disclosure, CSRC incorporated ESG information into the Investor Relations Management Guidelines, and State-owned Assets Supervision and Administration Commission of the State Council (SASAC) plans to promote ESG disclosure for all SOEs by 2023. The Ministry of Finance (MOF) and CSRC sent responses to ISSB on the exposure drafts to reflect current barriers and concerns regarding the implementation in China.

Hong Kong SAR has also continued to make progress on sustainable investment regulation and addressing climate change. Hong Kong SFC published new agenda for Green and Sustainable Finance and the Hong Kong Monetary Authority (HKMA) plans to embed climate risk management in banking supervision processes.

JAPAN

PM Fumio Kishida's policy priorities became clearer as the Grand Design and Action Plan for a New Form of Capitalism (June 2022) strengthened commitment on sustainable finance policies, particularly on impact investing through public policy.

The Cabinet-approved plans are both compatible with and inform sustainable finance policies led by the Financial Services Agency (FSA), the Ministry of Economy, Trade and Industry (METI) and other key ministries. The FSA continued to lead on Japan's sustainable finance policies through advice provided by the Expert Panel on Sustainable Finance, whose immediate priorities were outlined. The FSA published the Supervisory Guidance on Climate-related Risk Management and Client Engagement clarifying its position on climate-related risks for insurance companies and banks. The FSA also provided drafts and opened consultations regarding the IOSCO report-aligned The Code of Conduct for ESG Evaluation and Data Providers and revisions to the Cabinet Ordinance on Disclosure of Corporate Affairs to introduce mandatory sustainability reporting aligned with the IFRS Sustainability Disclosure Standards.

Meanwhile METI is progressing real economy policies to influence corporate action on sustainability issues, publishing Japan's Guidelines on Respecting Human Rights in Responsible Supply Chains and continuing its efforts to establish a climate transition finance ecosystem alongside the FSA and the Ministry of Environment (MOE).

EU

Implementation of the EU Sustainable Finance Action Plan continued throughout 2022. The Commission adopted much anticipated SFDR technical standards for entity and fund-level investor reporting, which will apply from 1 January 2023. Such reporting will be supported by the newly adopted Corporate Sustainability Reporting Directive, a milestone which should provide investors with comparable and meaningful sustainability data (the first set of European Sustainability Reporting Standards will be finalised next year). The Commission has also commenced new work, proposing a directive on Corporate Sustainability Due Diligence and calling for technical advice from EIOPA regarding the evaluation and review of the IORP Directive, looking at concepts such as the ''long-term best interests of members and beneficiaries'' and the ''prudent person rule''. Finally, the EU continues to drive crucial real economy reforms to meet their 2030 climate and environmental objectives (Fit for 55) – covering carbon pricing, renewable energy, and energy efficiency to name a few.

UK

The UK government has made little progress on 2022 planned policy work from the Greening Finance Roadmap. This includes delays on the UK Green Taxonomy consultation, on the update to the Green Finance Strategy, and decisions not to legislate on the Sustainability Disclosure Requirements (SDR).

However, some progress was made: the Department for Work and Pensions introduced new disclosure requirements for pension schemes, regulators have continued the roll-out of Task Force on Climate-related Financial Disclosures requirements, the Financial Conduct Authority published a consultation on SDR, and the Transition Plans Taskforce launched a consultation on a Disclosure Framework and Implementation Guidance intended to create a gold standard for transition plans.

The PRI has championed high ambition from policymakers. In October we published "A Legal Framework for Impact UK: Integrating sustainability goals across the investment industry", setting out recommendations to better enable investors to work towards sustainability impact goals. The PRI also convened a joint letter calling on the UK government to uphold net zero ambition and implement green finance policy reforms despite changes in leadership.

US

Since the publication of a series of sustainable financial policies by the White House, including Executive Order 14030, signed by President Biden on May 20, 2021, there has been a surge of legislative and regulatory developments and initiatives in the US financial services industry this year. For instance, the Securities and Exchange Commission (SEC) has released a series of sustainability-related proposals that PRI supported, such as proposals that would enhance and standardize registrants' climate-related disclosures for investors. The SEC also proposed adviser and fund disclosure as well as fund names requirements, whose main purpose is to reduce greenwashing. It is noteworthy that the Supreme Court rendered a decision on June 30, 2022, that could adversely impact climate-related proposals of US federal agencies.

Another major development is the Inflation Reduction Act's adoption, enabling climate actions in various sectors and paving the way for a just and inclusive transition to net zero. Moreover, the Department of Labor issued a new rule allowing private pension managers to consider ESG factors in their investment practices.