Sustainable Finance and Regulatory Expectations

In the wake of the COVID-19 pandemic, governments are discussing how to rebuild their economies. It should be noted that the pandemic has not stopped the climate emergency and it will not prevent the risks from extreme weather events as well as other climate-related shocks that threaten us now and in the future. This article discusses what can be expected from a securities regulator for sustainable finance development.

According to the European Commission, "sustainable finance refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector". Internationally, sustainable financing and investments have grown significantly over the past decade. According to the World Bank, sustainable finance and investment can:

- support national policy goals on climate change and the sustainable development goals (SDGs) as launch by the United Nations in 2015;
- enhance the resilience and stability of the financial system and the economy;
- improve market efficiency by clarifying and aligning investor and company expectations; and
- increase the attractiveness of countries as investment destinations.

As sustainable finance and investment policies develop, policy makers will need to ensure regulatory frameworks and investment products are compliant with obligations to be sustainable, inclusive and contribute to alleviation of ESG issues.

Corporate ESG disclosures

Internationally some securities and finance sector regulators have issued Corporate ESG disclosure policies to ensure compliance with SDGs. These Corporate ESG disclosures refer to the regulatory measures that define obligations for publication of current, in addition to forward-looking data, and analysis on key ESG issues. These obligations apply to participants/registrants operating in the securities market.

Corporate ESG disclosures can include quantitative as well as qualitative ESG data and analysis on a company's sustainability performance. These disclosures may be integrated with financial and corporate performance disclosures; therefore, they may appear in an organisation's financial statements and annual reports.

These disclosures will provide information on corporate performance in terms of ESG factors that will be used by investors, when making investment decisions, as well as policy makers, to ensure that companies are fulfilling their fiduciary duties. Mandatory and standardised

corporate ESG disclosure regulations are important to facilitate comparability and to ensure that sustainable financing is implemented.

There are four components of Corporate ESG disclosures, specifically:

1) Governance - disclosures should include persons/entities responsible for collecting, analyzing, preparing and publishing the Corporate ESG data and disclosures. This also includes persons/entities responsible for monitoring corporate ESG performance.
2) Strategy - disclosures should demonstrate how ESG issues can possibly affect corporate strategy and performance. Organisations will be expected to set targets to improve ESG performance.
3) Metrics - disclosures will provide a set of indicators that allow for comparability across industry sectors and allow for performance assessments.
4) Risk - disclosures should include how material ESG risks are integrated in corporate risk management processes. It should be noted that these disclosures are to be made accessible to all investors, in a timely manner and free of charge.

At a national level, ESG disclosures for securities can also be included in corporate law and in a stock exchange's listing rules. The World Bank suggested that mandatory disclosure regulations are more impactful than voluntary guidelines.

In Chile there is a proposed update of the General Rule 386, 2020 where the Financial Market Commission of Chile is developing a framework for sustainability disclosures to be made in companies' annual reports. The proposed regulatory update introduces mandatory disclosures on key environmental and social issues.

The Hong Kong Stock Exchange ESG disclosure rules were published in 2012, then updated in 2015 and 2020. The ESG disclosure in Hong Kong is a listing requirement for companies on the Hong Kong Stock Exchange. According to the latest update, companies are required to report on corporate policies, metrics and targets on a select number of ESG issues, applicable on a mandatory or comply-or-explain basis.

In Malaysia, the stock exchange prepared and issued a Sustainable Reporting Guide which was published in 2015 and updated in 2018. This guide helps companies identify, evaluate and manage material economic, environmental and social risks and opportunities.

Some benefits to having a sound framework established by regulators and policy makers, include:

- Improved management and board oversight of performance on key ESG issues;
- Improved information on corporate ESG performance, providing insights into how companies contribute to social development and affect environmental quality; and
- Increased investment in green and more sustainable assets, in areas that align with national economic development priorities and goals

The Trinidad and Tobago Securities and Exchange Commission (TTSEC) supports the regulation of sustainable financing and will continue to provide information as it is developed in our jurisdiction.

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