TodayESG

2024Q3 Global ESG Regulation

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About Website

Established in 2021, TodayESG (todayesg.com) focus on providing professional information about ESG regulations, knowledge, research and products.

As a comprehensive website, TodayESG has received numerous citations and has been invited to publicize regional ESG summits.

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Global ESG Regulation Development

International Organization for Standardization Plans to Develop International Standard for Net Zero [1]

International Standard for Net Zero

The International Organization for Standardization (ISO) plans to develop the first international standard for net zero, aimed at guiding enterprises towards net zero transition and promoting global sustainable development.

The new international standard for net zero will be based on the Net Zero Guidelines launched by the Iso in COP27, with thousands of experts expected to participate in collaboration and planned to launch at the COP30 conference in 2025.

Introduction to Net Zero Guidelines

The Net Zero Guidelines launched by the ISO are the foundation of the international standard for net zero. The Net Zero Guidelines provide comprehensive guidance for enterprises on net zero strategies and provide guidance for the validation of net zero plans, reducing greenwashing. The net zero guideline was released at a seminar organized by the British Standards Institute in September 2022. According to the regulations of the International Organization for Standardization, the net zero guideline needs to be reviewed within three years after its publication, and public international standards can be developed based on market demand.

The Net Zero Guidelines mainly provide reference for entities to achieve net zero emissions, and serve as a voluntary document based on scientific pathways consistent with the United Nations Framework Convention on Climate Change. The net zero guide mainly includes the following contents:

Net Zero Guiding Principles: The principles are the foundation for achieving net zero emissions, including consistency, urgency, goals, priorities, scientificity, credibility, fairness, and transparency, in order to provide guidance for entities to develop net zero plans and implement actions.

[1] https://www.todayesg.com/iso-develop-international-standard-for-net-zero/

Establishing Levels and Boundaries for Net Zero: Entities should establish interfaces for the progress of net zero emissions, such as including Scope 1, Scope 2, and Scope 3 carbon emissions in the net zero plan, and confirming the boundaries of departments, organizations, and investment portfolios involved to cover all aspects that may have a substantial impact on GHG emissions.

Leadership and Commitment: Entities should set medium - and long-term net zero goals and include common greenhouse gases such as carbon dioxide and methane in the plan, while ensuring that net zero commitments are not arbitrarily changed. The leadership of the entity needs to play an important role in the net zero plan, supervising the net zero process.

Goals: Entities should identify a series of priorities to achieve the mid-term net zero target and provide support for the long-term net zero target. The goal should include carbon emissions for Scope 1, Scope 2, and Scope 3, with a goal of reducing carbon emissions by 50% by 2030 (relative to 2018) and achieving net zero by 2050. In addition to the net zero target, entities should also set additional individual goals to have a positive impact on the environment and society.

Mitigation: Entities needs to develop a mitigation plan for greenhouse gas emissions reduction, which should prioritize reducing greenhouse gas emissions and measure differences from existing carbon reduction plans. The entity also needs to develop contents related to biodiversity and ecosystems in the net zero plan to plan for climate action and sustainable solutions.

Counterbalancing Residual Emissions: Entities may consider using carbon offsetting technology to reduce carbon emissions. During the carbon offsetting process, it is necessary to ensure a reliable baseline and reporting by qualified third parties. Entities also needs to ensure that carbon offsetting can support environmental and social benefits, and consider the duration of these benefits.

Measurement and Monitoring: Entities should identify indicators and tools for measuring, calculating, and monitoring greenhouse gas emissions, and select quantifiable indicators to reduce the uncertainty of results. They need to continuously improve the quality of data collection and disclose the types, sources, calculation methods, and assumptions of greenhouse gas data.

Wider Impact, Equity and Empowerment: Entities also need to consider their impact on society and the environment in net zero action. For example, entities should consider the impact of net zero action on stakeholders such as labor and communities based on the principles of fairness and justice, and allocate resources to address the problems faced by these groups.

Communication, Reporting and Transparency: Entities are required to disclose specific progress regarding net zero plans, which should be completed at least once a year, and include data collection and calculation methods, data confidence intervals, and third-party audit results in the report.

International Accounting Standards Board Releases Draft on Climate Disclosure in Financial Statements[2]

Draft on Climate Disclosure in Financial Statements

The International Accounting Standards Board (IASB) releases a draft on climate disclosure in financial statements, aiming to provide guidance for companies in preparing financial statements.

In June 2023, the International Sustainability Standards Board (ISSB) released the Climate-related Sustainability Disclosure Standards (IFRS S2), requiring companies to disclose climate information in their financial statements. The IASB and ISSB have collaborated to release the draft for soliciting opinions, as well as providing companies with some disclosure examples.

Example 1: Materiality Judgements Leading to Additional Disclosures

This example illustrates how companies make materiality judgments based on International Accounting Standard 1 Presentation of Financial Statements, which may require additional information disclosure.

For example, companies engaged in capital intensive industries face climate related transition risks. In order to manage these risks, companies have developed climate transition plans and disclosed about the plans in their general financial reports. The enterprise is preparing to invest in energy-saving technologies and change product production methods to reduce carbon emissions, but believes that the transition plan has no impact on its assets, liabilities, and income expenditures. The information source for the enterprise to make this judgment is:

The affected manufacturing equipment has been fully depreciated.

The recoverable amount of cash generating units affected by the enterprise far exceeds its carrying value.

The enterprise has no asset retirement obligations.

[2] https://www.todayesg.com/iasb-climate-disclosure-in-financial-statements/

Example 2: Materiality Judgements not Leading to Additional Disclosures

This example illustrates how a company makes material judgments based on International Accounting Standard 1 Presentation of Financial Statements, which may not result in additional information disclosure.

For example, a company is a service provider whose industry is limited by the impact of climate risks. The company discloses in its general financial report that its greenhouse gas emissions are low and plans to maintain its current emission policies by introducing renewable energy to avoid high carbon emissions. The company did not disclose information on climate transition risks in its general financial reports. When preparing financial statements, the company assessed that emission policies have no specific impact on the financial accounts.

Example 3: Disclosure of Assumptions: Specific Requirements

This example illustrates how a company discloses key assumptions regarding the recoverable amount of assets in accordance with International Accounting Standard 36 Impairment of Assets.

For example, a company's operation generates a large amount of greenhouse gas emissions, the jurisdiction where the company is located requires the company to pay for a portion of the emissions, resulting in emission costs. The company has allocated goodwill to a cash generating unit and conducts impairment testing on it annually. The key assumption for enterprises to confirm future emission costs is the recoverable amount of assets. The company disclosed its future price assumptions and regulatory scope for carbon emissions, as well as the methods used to determine these key assumptions.

Example 4: Disclosure of Assumptions: General Requirements

This example illustrates how a company discloses basic information about assumptions in accordance with International Accounting Standard 1 Presentation of Financial Statements.

For example, companies in capital intensive industries are facing climate transition risks. During the reporting period, some non current assets of the company have been impaired. The company conducts impairment tests on its cash generating units and determines that the recoverable amount of the cash generating units is greater than their carrying value. Therefore, no impairment losses are recognized. When confirming the recoverable amount, the company considers the development of future regulatory policies, consumer demand, product prices, and carbon emission costs.

Example 5: Disclosure of Assumptions: Additional Disclosures

This example illustrates how a company discloses additional disclosures that are not required by International Accounting Standard 1 Presentation of Financial Statements.

For example, the jurisdiction where the enterprise is located has announced a policy restricting its operations, which is unrelated to taxation but may affect the profitability of the enterprise, thereby affecting its ability to recover the carrying value of deferred tax assets. However, the policy has not yet taken effect. The enterprise believes that it needs to recognize deferred tax assets and assumes that policy implementation may result in significant write downs of deferred tax assets.

Example 6 Credit Risk Disclosure

This example illustrates how a company discloses its credit risk exposure and credit risk management practices in accordance with International Accounting Standard 7 Financial Instruments: Disclosures.

For example, as a financial institution, a company needs to confirm the impact of climate related risks on its credit risk exposure as part of its credit risk management practices. The company has identified two loan portfolios, namely:

Loans provided to agricultural clients, but drought may affect their repayment ability.

Mortgage provided to clients in the real estate industry, but properties are susceptible to flood risks.

Considering the scale of the impact of climate risk on the loan portfolio and the development of climate related policies, the enterprise believes that both loan portfolios face material climate risk, and therefore makes disclosures about the credit risk.

Net Zero Asset Owners Alliance Releases Position Paper on Governmental Carbon Pricing[3]

Position Paper on Governmental Carbon Pricing

The Net Zero Asset Owner Alliance (NZAOA) releases a position paper on governmental carbon pricing, aimed at analyzing the development of global carbon pricing tools and providing recommendations for regulatory agencies on carbon pricing design.

The Net Zero Asset Owner Alliance believes that carbon pricing is an important climate policy tool to achieve the Paris Agreement, which can provide incentives for decarbonization activities and promote cost-effective carbon reduction. The NZAOA manages over $9.5 trillion, and carbon pricing will help it establish a net zero investment portfolio by 2050.

What is Carbon Pricing

Carbon pricing refers to the clear pricing of greenhouse gas emissions, forcing companies to internalize the cost of carbon emissions. It promotes enterprises to reduce emissions or transit from high emission production to low emission production by increasing the cost of carbon emissions. Enterprises may transfer some of the costs generated by carbon pricing to consumers, thereby increasing the prices of products and services. Consumers are motivated to choose low-carbon emission products and services while bearing high costs, thereby reducing the demand for high carbon emission products and services.

Carbon pricing is an effective incentive for emission reduction, which can use market supply and demand to regulate corporate carbon emissions and reduce the impact of direct regulatory intervention. There are two most important carbon pricing methods globally, namely the Emission Trading System and Carbon Taxes. The emissions trading system sets a cap on carbon emissions within the industry and distributes emission permits to enterprises. Enterprises can choose to reduce carbon emissions or purchase emission permits in the market. The carbon tax requires companies to pay a fixed price for their carbon emissions, and its cost is relatively stable and easy to predict.

[3] https://www.todayesg.com/nzaoa-paper-on-governmental-carbon-pricing/

In addition to the two carbon pricing methods mentioned above, hybrid carbon pricing tools are also rapidly developing. This type of tool is mainly based on the emission trading system, but sets price limits and thresholds, and combines the characteristics of the emission trading system and carbon tax. In addition, some jurisdictions have allowed companies to use carbon credits instead of carbon taxes. According to World Bank, there are currently 73 carbon pricing tools and plans worldwide, covering 23% of global carbon emissions. EU research shows that since 2005, the EU Emissions Trading System has reduced carbon emissions by 37%.

Suggestions for Designing Governmental Carbon Pricing Tools

The Net Zero Asset Owner Alliance believes that each jurisdiction needs to design governmental carbon pricing tools based on the following principles:

Ensure appropriate coverage and ambition: The two important factors affecting carbon pricing tools are their coverage and ambition. Currently, most carbon pricing tools include the industrial, power, and construction industries, with a few covering the aviation and transportation industries. According to the global warming target, the current carbon pricing is significantly lower than the warming paths of 2 degrees Celsius and 1.5 degrees Celsius. In OECD countries, 90% of carbon prices are below $37 per ton, and to achieve net zero, carbon prices need to reach $147 per ton by 2030.

Deliver a just transition for society: Although carbon pricing tools can create new investment opportunities, they may lead to greater negative impacts on carbon intensive industries and regions. Therefore, the income generated by carbon pricing tools should achieve fair social transformation. At present, the global carbon pricing revenue is about 95 billion US dollars per year, of which 40% is used for green spending and 10% is used for direct transfer payments.

Provide a predictable price signal: A predictable carbon price can help businesses plan and invest in low-carbon technologies, achieve effective capital allocation, and long-term incentives. For example, regulatory agencies can set a gradually increasing carbon tax to provide stakeholders with adjustment time. Regulatory agencies can also establish price corridors in the emissions trading system to reduce excessive fluctuations in carbon prices.

Minimize competitive distortions for firms: Although carbon pricing may encourage high carbon emitting companies to reduce emissions, it may also lead to carbon leakage, where high carbon emitting companies shift production to jurisdictions with lower carbon prices. Regulatory agencies need to consider how to reduce such risks, such as the Carbon Border Adjustment Mechanisms designed by the European Union, which can reduce the risk of carbon leakage and promote carbon emission activities in the international market.

Promote international cooperation: Various jurisdictions can engage in international cooperation to jointly develop carbon pricing tools. For example, the United Nations Framework Convention on Climate Change is an important channel for international cooperation and has also contributed to the Paris Agreement.

UNEP FI Releases Recommendations for Just Transition in Financial Industry[4]

Just Transition in Financial Industry

The United Nations Environment Programme Finance Initiative (UNEP FI) releases recommendations for just transition in financial industry, aiming to incorporate environmental and social factors into the core business of the financial industry.

The proposal for a just transition of the financial industry was put forward by the UNEP FI to the G20 Sustainable Finance Working Group to improve the G20 Transition Finance Framework.

Introduction to Just Transition

Low carbon transition is an important way to address climate change issues, as it can avoid the climate problems faced by the economy and society, and provide new technological innovations. However, without detailed planning, transition may lead to negative impacts on some groups, making it difficult for them to obtain the economic and social benefits of the transition.

The International Labor Organization believes that just transition refers to promoting an environmentally sustainable economy and creating decent employment opportunities in an inclusive manner. It involves maximizing the social and economic opportunities of climate and environmental actions, creating a favorable environment for sustainable businesses, and treating the challenges with caution. Just transition requires sharing the benefits of the transitional economy with the affected groups during the transition process.

The financial industry has become an important medium in the transition path, providing funds for enterprise transition through financial activities such as investment, financing, and insurance, promoting sustainable development and climate resilience construction. Financial institutions are both creators of transition plans and users of customer transition plans, therefore they play an important role in just transition.

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[4] https://www.todayesg.com/unep-fi-just-transition-in-financial-industry/

Incorporate Just Transition into Transition Plan

The transition plan aims to define and explain the net zero goals of the enterprise in the short, medium, and long term, as well as the plans required to achieve these goals. Some jurisdictions have listed transition plans as mandatory disclosure matters, such as the EU Corporate Sustainability Due Diligence Directive, which requires all companies that meet regulatory requirements to develop climate transition plans to ensure that their business activities are consistent with sustainable economic transition.

The UN High Level Expert Group on Net Zero Emissions Commitments of Non-State Entities recommends that businesses explain in their transition plans how they can contribute to a just transition and achieve net zero emissions and a climate adaptive economy in a fair manner. Although some transition plans have recognized the importance of just transition in achieving climate goals, progress in application is often slow.

Recommendations for Just Transition in Financial Industry

The UNEP FI believes that the financial industry can incorporate just transition into its business strategies and actual operations, reduce adverse impacts on the environment and society, and meet the needs of just transition. Applying just transition can also manage customers' sustainable risks and respond to the demands of stakeholders such as regulatory agencies and shareholders.

Pillar 1 and pillar 5 of the G20 Transition Finance Framework respectively involve methods for identifying transition activities and investments, as well as assessing and mitigating the negative social and economic impacts of transition activities and investments. The financial industry can take the following actions in these two areas:

For pillar 1, the financial industry can strive for a just transition and incorporate it as part of its strategy. The financial industry also needs to understand the impact of just transition on its development and assess its risks and opportunities. They can interact with customers, suppliers, and partners to promote meaningful cooperation and develop strategies for implementing just transition.

For pillar 5, the financial industry can understand the need for just transition and develop related products that can support the priority and help businesses manage transition risks. They should also pay attention to the scope of transitional financing, cover vulnerable groups as much as possible, and design customized green finance and risk management solutions for them.

UNEP FI Releases Guide for Data in Climate Stress Testing[5]

Guide for Data in Climate Stress Testing

The United Nations Environment Programme Finance Initiative (UNEP FI) releases guide for data in climate stress testing, aimed at helping financial market participants in collecting and managing Climate-related data.

Climate stress testing is an forward-looking method for assessing the impact of climate change on financial market participants, and high-quality Climate-related data is crucial for identifying and managing climate risks and opportunities. Collecting, processing, and evaluating Climate-related data requires a comprehensive data management process to meet the requirements of stress testing.

Introduction to Data in Climate Stress Testing

The data required for climate stress testing can usually be divided into two categories: traditional macro financial data and climate data. Traditional macro data has been used in existing stress tests in the financial industry, such as investment portfolio data (such as balance sheet data, counterparty data), credit data (such as default probability, default loss rate), macroeconomic data (such as GDP, interest rates, and exchange rates), forward-looking forecast data (such as economic forecast scenarios), etc.

Climate data typically includes two types: physical data and transition data, which correspond to the physical risks and transition risks caused by climate change respectively. Physical data includes information on the damage caused to assets by weather events, while transition data includes information on the impact on financial participants during the transition to a low-carbon economy. Compared to traditional macro financial data, climate data is less, and the methods are still under continuous researches.

Climate-related Physical Data and Transition Data

[5] https://www.todayesg.com/unep-fi-guide-for-data-in-climate-stress-testing/

Climate-related physical data mainly includes climate disaster data, which is the basis for conducting climate stress tests. It includes physical risks as well as the sensitivity and adaptability of entities to these risks. Climate-related physical data includes historical data of specific regional weather events (frequency of occurrence, degree of impact, etc.), predictions of chronic and acute physical risks (probability of occurrence, expected impact, etc.), and asset distribution information (facilities, supply chains, etc.).

Climate-related transition risk data reflects the impact of policies, investor preferences, and technological developments on the transition path, including:

Transition risk drivers data: The driving factors of transition risk are identified and measured by using proxy variables, such as shadow carbon price.

GHG emissions data: Greenhouse gas emission data can calculate the transition risks faced by enterprises and identify whether investments are carbon intensive. These data can quantify the risk exposure faced by financial market participants.

Alignment and transition data: Transition data includes a roadmap for transition plans, including timelines, resource allocation, and transition strategies. These data can help financial market participants develop more practical transition scenarios.

UNEP FI provides an open-source dataset of climate-related physical and transition data, making it easier for financial market participants to search for relevant data before stress testing.

Challenges Faced by Data in Climate Stress Testing

UNEP FI believes that there are still certain shortcomings in the availability, reliability, and comparability of current climate stress test data, for example:

Data coverage: Most climate data focuses on large companies, with insufficient coverage for small and medium-sized companies. In addition, climate data in Europe and the Americas are relatively complete, while data in other regions is relatively scarce.

Time lag: Companies usually report climate-related data once a year, which may be completed in the months after the end of the fiscal year. Data entry by third-party data companies also require some time, so data users may not be able to capture the latest development trends in a timely manner.

Data availability: Climate-related regulatory policies are transitioning from voluntary disclosure to mandatory disclosure, and historical information in the past is often limited, and statistical methods may change, all of which may reduce data availability.

Data comparability: The climate data disclosed by different companies is related to specific standards in various jurisdictions, making it difficult for financial market participants to standardize this data.

Data processing capability: Financial market participants may incur high costs in data collection, analysis, and processing, requiring significant investment in data processing, storage and infrastructure.

UNEP FI recommends that financial market participants improve the collection and management processes of climate-related data to prepare for climate stress testing.

UNEP FI Releases Climate Target Setting Checklist for Banking Industry[6]

Climate Target Setting Checklist for Banking Industry

The United Nations Environment Programme Finance Initiative (UNEP FI) releases climate target setting checklist for banking industry, aiming to provide climate action guidance for the global banking industry.

In March 2024, the Net Zero Banking Alliance released a new version of its climate goal setting guidelines, which use the latest data and methods to set carbon emission targets for the banking industry for 2030 and 2050. The climate target setting checklist released this time provides a more intuitive climate disclosure for banks based on this guideline.

Contents of Climate Target Setting Checklist for Banking Industry

The climate target setting checklist mainly includes the following contents:

Emission baseline and annual emissions profile: Banks should establish emission baselines based on international and national greenhouse gas emission guidelines and disclose their carbon emissions from loans, investments, and capital market activities annually. The scope of carbon emissions should include most of Scope 1, Scope 2, and Scope 3, with a focus on some carbon intensive industries (such as agriculture, steel, cement, fossil energy, etc.). The indicators need to include absolute emissions, portfolio carbon emission intensity, and industry specific carbon emission intensity. Banks also need to disclose the scope and boundaries of their business activities, as well as the methods used to calculate carbon emissions data.

Targets: Banks should establish mid-term (no later than 2030) and long-term (no later than 2050) climate targets based on science, which need to include absolute emissions and industry emission intensity. Banks need to disclose the scenarios on which their climate targets are based, as well as specific information such as baseline years, target years, and scenario

[6] https://www.todayesg.com/unep-fi-climate-target-setting-checklist/

methods. All information needs to comply with the Paris Agreement's 1.5-degree Celsius warming target and support the net zero goal by 2050.

Target coverage: The bank's climate goals need to include most of Scope 3 and the carbon intensive industries. If there is an exclusion, the bank needs to provide relevant reasons and explain its methodology. With the improvement of data quality, the coverage of these targets will continue to expand. If the bank has formulated a phased-out policy year by year, the carbon emission data of the industries or activities involved in the policy still need to be disclosed year by year.

Transition plans: Banks need to develop a transition plan within one year of publicly announcing climate goals, which should include actions and key indicators taken to achieve the goals. Banks need to pay attention to the impact of climate targets on the real economy in their transition plans.

Banks also need to consider the following aspects when setting climate targets:

Governance: The bank's climate goals should be approved by the board of directors and senior management, with responsibility for overseeing implementation and regulation.

Review and revision of targets: Banks need to review climate targets at least once every five years and revise them as necessary to ensure consistency with the latest scientific data.

Setting new targets: Banks need to gradually establish mid-term climate targets.

Assurance: Banks can seek third-party guarantees for climate targets and climate information disclosure reports to enhance information credibility.

Implementation timeline: Members of the Net Zero Banking Alliance are required to set climate targets within 18 months after signing and set climate targets for carbon intensive industries in the next 18 months.

The UNEP FI hopes that members of the Net Zero Banking Alliance will disclose information based on the banking industry's climate target setting checklist, promoting net zero transition. The checklist also applies to members who prioritize climate mitigation in Principles for Responsible Banking.

UNEP FI Releases Recommendations for Financing Nature-based Solutions[7]

Financing Nature-based Solutions

The United Nations Environment Programme Finance Initiative (UNEP FI) releases recommendations for financing nature-based solutions, aimed at expanding the scale of nature-based solutions financing to address the challenges by biodiversity, and environmental degradation.

The recommendations for financing nature-based solutions by UNEP FI will be provided to the G20 Sustainable Finance Working Group to promote sustainable economic transition.

Introduction to Nature-based Solutions Financing

More than half of the global GDP (approximately $58 trillion) relies on natural systems, and nature-based solutions financing can address the risks of biodiversity loss and climate change. At present, the total amount of global nature-negative capital flows is about 7 trillion US dollars per year, and expanding the scale of financing is an important way to solve this problem.

Nature-based solutions financing can reduce operating costs for businesses, open up new sources of income, increase customer engagement, and provide environmentally friendly products and services. It can also bring net benefits to biodiversity and ecosystems, and provide assistance to the National Biodiversity Strategies and Action Plans.

Although financing for nature-based solutions is crucial, the current investment scale in the market is still relatively small. The financing scale for nature-based solutions in 2022 is $200 billion, which is only one-third of the funding needed to achieve biodiversity goals by 2030. In terms of financing structure for nature-based solutions, governments provide over 80% of the funding. How to encourage private investment and promote cooperation among various stakeholders is the key to expanding the scale of nature-based solutions financing.

[7] https://www.todayesg.com/unep-fi-financing-nature-based-solutions/

Recommendations for Financing Nature-based Solutions

The UNEP FI believes that the Sustainable Finance Working Group can expand the scale of nature-based solutions financing from the following perspectives:

Incorporate nature-based solutions financing criteria into the green taxonomy to align financing activities with sustainable development processes: The green taxonomy can provide standardized guidance to help investors determine which activities can be considered environmentally sustainable, thereby supporting private capital investment in nature-based solutions financing. However, less than half of the existing taxonomies actively consider nature related environmental goals. Defining nature-based solutions financing criteria in the taxonomy can promote financing activities.

Innovative investment products and markets for financing nature-based solutions: In recent years, many financial instruments related to biodiversity conservation and ecosystem restoration have emerged, with 16% of sustainable development bonds targeting biodiversity conservation. Despite the rapid development of investment products, the lack of standardized guidance may lead to greenwashing behavior. Regulatory agencies can provide innovative investment products and markets to ensure the measurability and verifiability of performance indicators.

Establish a biodiversity credit market to reduce transaction costs: Biodiversity credit has become an important tool to support and expand financing for nature-based solutions, representing measured and evidence-based biodiversity outcomes. This market-based incentive mechanism can provide investment opportunities for financial markets and help businesses achieve their natural goals. Regulatory agencies can establish a fair and trustworthy biodiversity credit market, providing opportunities for fundraising.

Prioritize the participation of local stakeholders in nature-based solutions financing: Local stakeholders account for 5% of the global population, but protect 80% of the world's biodiversity, and their inclusion in nature-based solutions financing is crucial. Investors can collaborate with these stakeholders to identify, manage, and mitigate natural risks.

Shift public spending from activities that are detrimental to nature to activities that benefit nature: The Global Biodiversity Framework suggests

that the world should reduce at least $500 billion in negative incentives annually and expand positive incentives for nature. At present, the total scale of negative incentive measures is ten times that of nature-based solutions financing, and regulatory agencies should consider increasing positive incentive measures to have an impact on natural provision.

UNEP FI Releases Recommendations for Nature-related Reporting Framework[8]

Recommendations for Nature-related Reporting Framework

The United Nations Environment Programme Finance Initiative (UNEP FI) releases recommendations for nature-related reporting framework, aimed at summarizing the implementation challenges of nature-related reporting methods.

The recommendations for nature-related reporting framework are proposed by UNEP FI to the G20 Sustainable Finance Working Group, in order to achieve natural economic growth.

Background of Nature-related Reporting Framework

Natural risks can affect developed, developing, and emerging market economies, with biodiversity loss and ecosystem destruction potentially causing global economic losses exceeding $5 trillion. Natural risks often coexist with multiple factors such as the environment and society, forming a complex risk network. However, the impact of these risks has not yet been fully reflected in the financial market.

Over the past three years, progress has been made in nature-related reporting frameworks, such as the development of LEAP methods for locating, evaluating, assessing, and preparing by the Taskforce on Nature related Financial Disclosures, and the release of assessment tools by the Science Based Targets Network to support sustainable information disclosure requirements issued by global regulatory agencies.

Comparison of Natural-related Reporting Frameworks

The UNEP FI compared seven commonly used nature related reporting frameworks globally, analyzed the key terms, methodologies, and framework components, and obtained the following results:

[8] https://www.todayesg.com/unep-fi-nature-related-reporting-framework/

Definition of materiality: Different frameworks have different definitions of materiality, with some focusing on a single financial materiality, such as the International Sustainability Standards Board standards. Some focus on a single environmental substance, such as the Global Reporting Initiative standards. Some also focus on both financial and environmental substance, such as the European Sustainability Reporting Standards.

Coverage of realms: Most frameworks include both terrestrial and freshwater domains, with less consideration given to the marine domain.

Coverage of sectors: Most frameworks aim to cover all industries, but the expected level of information disclosure varies.

Coverage of value chains: Most frameworks include the scope of the enterprise and its upstream and downstream value chains.

Location information requirements: All frameworks require companies to disclose location information.

Nature-related impacts: All frameworks prioritize nature-related impacts as the core of their reports.

Nature-related dependencies: Most frameworks require disclosure of the business's dependence on nature.

Nature-related risks and opportunities: All frameworks adopt similar definitions of nature-related risks and opportunities.

Disclosure metrics: All frameworks encourage companies to incorporate quantitative disclosure metrics alongside qualitative disclosures.

Targets: Most frameworks require companies to set goals and regularly report progress on these goals.

Engagement with rights holders and relevant stakeholders: Some frameworks, such as TNFD, have developed detailed guidance to encourage businesses to engage with stakeholders.

Policy Recommendations for Nature-related Reporting Framework

Based on the above research, UNEP FI has put forward some recommendations to support the availability of nature-related information disclosure, including:

Encourage companies to adopt information disclosure methods consistent with the Global Biodiversity Framework: Companies should adopt information disclosure methods consistent with the Global Biodiversity Framework, covering natural impacts, dependencies, risks, and opportunities, in order to enhance interoperability of information disclosure.

Support the adoption of flexible materiality methods in different countries and regions: companies can consider combining financial materiality and impact materiality, while disclosing according to the characteristics of different countries and regions.

Support the assessment and reporting of natural issues by small and medium-sized enterprises in emerging markets and developing economies: Small and medium-sized enterprises often face high information disclosure costs, so appropriate natural reporting frameworks should be established to reduce the burden of information collection and disclosure.

Encourage interoperability between the natural reporting frameworks of small and medium-sized enterprises and financial institutions: Interoperability between the reporting frameworks of small and medium-sized enterprises and financial institutions can help both parties complete natural related financing business and reduce compliance costs.

UN PRI Released Strategy Plan for Next Three Years[9]

Strategy Plan for Next Three Years

The United Nations Principles for Responsible Investment (UN PRI) releases its strategy plan for the next three years, aimed at promoting the development of global responsible investment and improving the investment environment for signatories.

Over the past two decades, the United Nations Principles for Responsible Investment have collaborated with market participants to establish a global ecosystem for responsible investment. Currently, responsible investment strategies account for 50% of global investments and encourage businesses to incorporate environmental, social, and governance topics into their business operations and risk management.

New Missions for UN PRI in Next Three Years

The United Nations Principles for Responsible Investment believes that an efficient and sustainable financial system is a necessary condition for long-term growth. Therefore, market participants need to implement the principles of responsible investment, establish a sound financial system, create good governance, integrity, and accountability mechanisms, and address regulatory and practical issues. The six principles of the United Nations Principles for Responsible Investment include:

We will incorporate ESG issues into investment analysis and decision-making processes.

We will be active owners and incorporate ESG issues into our ownership policies and practices.

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

We will promote acceptance and implementation of the Principles within the investment industry.

[9] https://www.todayesg.com/unpri-strategy-plan-for-next-three-years/

We will work together to enhance our effectiveness in implementing the Principles.

We will each report on our activities and progress towards implementing the Principles.

The UN PRI has set two goals in its strategy plan for the next three years, namely to provide value to signatories in a rapidly developing responsible investment environment and to support signatories in playing an important role in sustainable financial systems.

Key Strategic Areas for UN PRI

In order to achieve the above goals, the United Nations Principles for Responsible Investment have developed the following four key strategic areas:

Driving signal progress on RI while streamlining PRI mandatory reporting: The UNPRI will implement financial measures in the next three years, recognizing reporting frameworks across different jurisdictions and allowing signatories to simplify information disclosure and promote responsible investment practices. In the future, at least one-third of the signatories will incorporate ESG factors into sustainable investment pathways.

Strengthening regional ecosystems in both mature markets and emerging and developing economies: The UNPRI will establish responsible investment ecosystems globally and collaborate with local sustainable finance associations to expand the scope of responsible investment in emerging markets. The asset management scale of future signatories will increase by an additional $10 trillion to $20 trillion.

Amplifying signal impact by supporting and leading collaborative initiatives: The UNPRI will promote connections and cooperation among different stakeholders through a collaborative platform, and prioritize climate change and biodiversity areas. The signatories will cooperate through existing responsible investment initiatives and future newly established responsible investment initiatives.

Strengthening the enabling environment for RI by influencing government and multilateral policy and financial market practices through influencing policies and market practices: The UNPRI will work closely with

signatories to promote the development of responsible investment policies and regulations, and support signatories' participation in multilateral policy-making. In the future, over 50% of signatories will support the development of sustainable financial policies and establish contacts with regulatory agencies in at least 15 key markets.

How to Implement the Strategy Plan for UNPRI

In order to achieve the strategy plan for the next three years, the United Nations Principles for Responsible Investment organize strategy plans to take action in the following areas:

People and operations: The UNPRI will establish an efficient organization, improve operational efficiency, and continue to expand the geographical distribution of employees, strengthening the connection between employees and signatories.

Long term funding: The UNPRI will consider distributing the costs among signatories equally and providing more value to signatories to meet the development of the responsible investment market.

Strategic risks: In the process of formulating strategies, the UNPRI have considered regulatory, legal, operational, technical, financial, and personnel risks, and will continue to monitor and monitor related risks and evaluate them in the annual strategic review.

NGFS Releases Second Edition of Guide on Climate-related Disclosure for Central Banks [10]

Guide on Climate-related Disclosure for Central Banks

The Network for Greening the Financial System (NGFS) releases the second edition of Guide on Climate-related Disclosure for Central Banks, aimed at helping global central banks prepare for climate information disclosure.

In December 2021, the NGFS released the first edition of Guide on Climate-related Disclosure for Central Banks, which provide initial templates for climate information disclosure for NGFS members. With the development of global climate disclosure standards, NGFS revises some important contents in the second edition of the guide to align with industry developments.

Introduction to Guide on Climate-related Disclosure for Central Banks

The NGFS believes that central banks should implement climate information disclosures consistent with international standards, which can improve pricing mechanisms for climate related risks and enable market participants to identify and utilize climate related opportunities. Climate information disclosure can also help central banks identify and assess climate related risks and consider the impact of climate when formulating regulatory policies.

Most central banks around the world are not subject to mandatory regulatory policies, and there are significant differences between central banks, enterprises and public institutions. The NGFS considers the internal functions of central banks in its information disclosure guidelines, such as formulating monetary policies, providing financial supervision, and holding investment portfolios. The guide will provide central banks with different ranges and depths of choices, including climate issues recommended for disclosure and climate issues encouraged for disclosure.

[10] https://www.todayesg.com/climate-related-disclosure-for-central-banks/

Contents of Guide on Climate-related Disclosure for Central Banks

To improve the consistency between Central bank's climate information disclosure and international information disclosure standards, the NGFS adopts the guidelines of the Task Force on Climate-related Financial Disclosures. It is recommended that Central bank carry out information disclosure through the following four pillars:

Governance: Stakeholders such as governments, financial institutions, and the public are interested in learning about central bank actions in regulating climate risks, which can enhance public confidence in central bank management of climate change and achieving climate governance. Central bank should elaborate on its governance structure for addressing climate related risks and opportunities and clarify the role of central bank management in the design, implementation, and supervision of climate policies. Central bank can also disclose departments and committees specifically established to address climate related issues.

Strategy: Central bank needs to disclose how it is affected by climate related risks and opportunities, and how it takes action to address these impacts. These disclosures include identifying climate factors that pose material risks and how these factors are identified and evaluated. Central bank also needs to disclose strategies for incorporating climate risks and opportunities into monetary policy, financial regulation, investment portfolios, as well as internal construction, external communication, and industry cooperation in response to climate change issues.

Risk Management: Climate risk management information can help stakeholders understand how central banks identify, assess, and manage climate risks. Central bank needs to consider whether to classify climate risk as a separate risk category or treat it as an ancillary part of traditional risks such as market risk and credit risk. Central bank can also disclose how it limits climate related risks and whether it has sufficient financial resources to address these risks.

Metrics and targets: Central bank needs to provide indicators for calculating or evaluating climate risks, as well as the calculation methods and specific results of these indicators. For example, the carbon emission intensity and total greenhouse gas emissions information of the investment portfolio held, as well as the Scope 1, Scope 2, and Scope 3 carbon emission data generated in its business activities. Central bank plays an

important role in financial market regulation, and can also disclose its management on climate risks in regulations.

The NGFS believes that the second edition of Guide on Climate-related Disclosure for Central Banks will help central banks better analyze and manage climate related risks and opportunities. In the future, the NGFS will consider incorporating natural related risks into Central bank's information disclosure framework.

NGFS Releases Framework for Nature-related Financial Risks for Central Banks[11]

Framework for Nature-related Financial Risks for Central Banks

The Network for Greening the Financial System (NGFS) releases the framework for nature-related financial risks for central banks, aimed at providing guidance for central banks to address nature-related financial risks.

NGFS believes that there is a complex relationship between nature and climate, and policies to address climate change and natural degradation need to be combined in order to effectively manage financial risks. NGFS has released guidelines for central bank climate information disclosure to assist central banks in identifying and assessing climate related financial risks.

Introduction to Nature-related Financial Risks

The impact of nature on the economy is crucial, as it can provide important resources such as food, energy, air, and water. However, due to the development of human society exceeding the capacity of nature to provide resources, natural degradation is increasing. The 2022 Kunming Montreal Global Biodiversity Framework aims to curb and reverse natural degradation.

NGFS believes that nature-related financial risks may have significant impacts on the macro economy, and if the market fails to consider, mitigate, and adapt to these impacts, it may affect financial stability. In order to effectively address these risks, NGFS has established a Task Force on Biodiversity Loss and Nature-related Risks, aimed at developing a framework for nature-related financial risks to guide central bank actions.

NGFS classifies natural risks into physical risks and transition risks. Physical risks stem from natural degradation and loss of ecosystem services, while transition risks stem from the market's inability to effectively protect and restore natural systems. These two types of risks may affect economic activities and transform into financial risks, which

[11] https://www.todayesg.com/ngfs-nature-related-financial-risks/

can have adverse effects on individual financial institutions and the entire financial system. These financial risks include credit risk, market risk, liquidity risk, and operational risk. Nature-related financial risks are very similar to climate-related financial risks, and their impact is equally worthy of market participants' attention.

Introduction to Framework for Nature-related Financial Risks for Central Banks

NGFS, based on its understanding of nature-related financial risks, releases a framework for nature-related financial risks to assist central banks in identifying and assessing natural-related financial risks that are crucial to the economy and financial system. Due to different regulatory requirements for central banks in different jurisdictions, the framework only adopts a principle based approach without detailed regulations. The framework is divided into three phases, namely:

Phase 1: Identify nature-related physical risks and transition risks. The central bank needs to analyze nature-related risks, which may have a material impact on specific industries. Central bank needs to consider which industries have a high degree of dependence on nature and whether these industries have a direct or indirect relationship with nature. At the same time, the central bank also needs to consider the impact of climate change on nature-related risks, as well as which climate change actions may lead to natural risks.

Phase 2: Measure nature-related economic risks. Nature-related physical risks and transition risks may lead to economic risks, and the central bank needs to assess these economic risks. For example, natural risks may have an impact on businesses and individuals that rely on ecosystems for their livelihoods, leading to additional costs in economic processes such as pricing, production, investment, and trade. The central bank needs to consider the sensitivity and adaptability of the economic system to natural risk shocks, as well as whether there are alternative choices.

Phase 3: Evaluate the risks faced by the financial system. The central bank needs to assess the impact of nature-related risks on the financial system, which may lead to collateral impairment, decreased corporate profitability, etc., thereby affecting individual financial institutions. These impacts may pose risks to the entire financial system and therefore require attentions. In addition to nature-related risks, the central bank can also consider taking actions to have a positive impact on nature.

In order to help central banks understand the nature-related financial risk framework, NGFS also provides some case studies. Central banks can also obtain further guidance from the NGFS Technical Document on Nature Scenarios released by NGFS. These information will encourage central banks to identify, assess, and take action to address the material economic and financial risks arising from nature and climate change.

Global Reporting Initiative and Task Force on Nature-related Financial Disclosures Release Interoperability Mapping Resources[12]

Interoperability Mapping Resources

The Global Reporting Initiative (GRI) and Task Force on Nature-related Financial Disclosures (TNFD) releases interoperability mapping resources aimed at improving consistency between TNFD recommendations and GRI standards, assisting businesses in disclosures.

As important global disclosure standards, GRI and TNFD have collaborated with the International Financial Reporting Standards Foundation (IFRS) and the European Financial Reporting Advisory Group (EFRAG) to strengthen cooperation on sustainable disclosure standards.

Introduction to Interoperability Mapping Resources

The interoperability mapping resources mainly involves the GRI 101 Biodiversity 2024 standard issued by the Global Reporting Initiative, some general standards and thematic standards, as well as disclosure recommendations and indicators issued by TNFD. The interoperability mapping resources refer to feedback from market participants to reduce the burden of duplicate disclosures. The resources include:

Use consistent natural-related definitions from the Intergovernmental Science Policy Platform on Biodiversity and Ecosystem Services.

Incorporate material measurement methods from the Global Reporting Initiative into the TNFD Recommendations. The TNFD LEAP method can help companies disclose Impact Materiality and Financial Materiality, which correspond to the information disclosure standards of the Global Reporting Initiative and the International Financial Reporting Standards Foundation, respectively.

The disclosure of the GRI 101 Biodiversity Standard has been reflected in TNFD recommendations. TNFD recommendations have also been

[12] https://www.todayesg.com/gri-and-tnfd-interoperability-mapping-resources/

reflected in GRI standards, in addition to the identification and assessment of nature related risks and opportunities.

The consistency between the Core Global Disclosure Metrics of the TNFD and the indicators in the GRI standard is strong, and the Sector Metrics of TNFD and the GRI Sector Standards are mapped for the first time.

The TNFD LEAP is cited in the GRI 101 Biodiversity Standard to identify the regions with the most significant impacts on biodiversity and measure changes in the state of nature.

Differences between GRI and TNFD Disclosure Frameworks

In addition to improving interoperability between the two, the Global Reporting Initiative and the Task Force on Nature-related Financial Disclosures have also summarized the differences in their information disclosure frameworks for companies to consider when preparing reports. These differences include:

Issues covered and scope: GRI focuses on the impact of nature on the economy, society, and environment, while TNFD focuses on nature related risks and opportunities, as well as biodiversity in natural domains such as land, ocean, freshwater, and atmosphere.

Application of material: The material approach of the GRI is primarily defined as themes that have a material impact on society, economy, and the environment. The material methods of the TNFD are more flexible, including two categories: impact materiality and financial materiality.

Value chain: The GRI focuses on the impact of business activities on the entire value chain, while the TNFD focuses on material issues related to upstream and downstream value chains of businesses.

Location of nature related issues: The GRI focuses on the geographic locations that have the greatest impact on biodiversity and requires reporting on whether these locations belong to ecologically sensitive areas. If some geographical locations have no material impact on biodiversity, even if they may belong to ecologically sensitive areas, they do not need to be reported. The TNFD focuses on the priority locations involved in business operations, including material locations and sensitive locations.

Engagement with indigenous peoples, local communities and affected stakeholders: The GRI focuses on engagement with stakeholders including local communities and vulnerable groups and have provided the definitions in GRI Standards Glossary. The TNFD focuses on stakeholders that are directly or indirectly affected, as well as those who are not affected but may have interests or the ability to influence the outcomes.

TCFD Releases Information Disclosure Guidance for Financial Institutions[13]

Information Disclosure Guidance for Financial Institutions

The Task Force on Nature Related Financial Disclosures (TNFD) releases information disclosure guidance for financial institutions, aimed at providing additional disclosure guidance for financial institutions such as banks, asset management companies, and insurance companies besides the general TCFD recommendations.

TCFD released a general recommendation on nature related information disclosure in September last year, aimed at providing market participants with a universal framework for natural risk management and information disclosure. After considering the suggestions of market participants in the financial industry, TCFD has released guidance for financial institution information disclosure based on industry characteristics and enhance the disclosure results.

Additional Disclosure Guidance for Financial Institutions

The Task Force on Nature Related Financial Disclosures generally recommends a total of 14 aspects for all participants, including governance, strategy, risk & impact management, and metrics & targets. TCFD believes that financial institutions can additionally disclose from these aspects:

Governance: Financial institutions should describe the assessment of natural dependencies, impacts, risks, and opportunities among stakeholders such as customers, counterparties, and invested companies that generate financial relationships with them.

Strategy: Financial institutions should describe policies related to specific natural industries in their consulting, investment, lending, or insurance activities, and disclose how they consider natural related risks and opportunities in their products and services. For example, banks should disclose information about natural dependencies, impacts, risks, and opportunities in their due diligence on customers. In addition, financial institutions need to consider the duration of their business activities in

[13] https://www.todayesg.com/disclosure-guidance-for-financial-institutions/

scenario analysis and conduct risk management based on relevant time frames.

Risk and Impact Management: Financial institutions should focus on risk management in downstream value chains, as well as asset portfolios involved in lending, investment, and financing activities. Financial institutions should also describe how their risk management and business departments (loans, investments, or underwriting) regulate natural risks in their business activities and integrate natural risks into credit risk, market risk, etc.

Metrics and Targets: Financial institutions should focus on disclosing the most relevant indicators to their business models, as well as the basic assumptions and calculation methods of these indicators. These disclosures need to be made at an overall level, rather than as a single investment portfolio or trading exposure. Financial institutions should also consider dividing indicators by industry or region.

Additional Disclosure Metrics for Financial Institutions

The indicator system of TCFD Recommendations is divided into three categories, namely Core Global Disclosure Metrics, Core Sector Disclosure Metrics, and Additional Disclosure Metrics.

TCFD divides information disclosure indicators in the financial industry into two categories: operating activity indicators and financial portfolio indicators. For core global disclosure indicators, financial institutions need to disclose operating activity indicators that have substantial impact and can disclose financial assets directly when data allows. For core industry disclosure indicators, financial institutions do not need to disclose operating activity indicators, but need to disclose financial asset indicators related to the industry and location. For additional disclosure indicators, financial institutions can choose to disclose substantial indicators of operating activities and financial assets.

TCFD recommends that financial institutions consider additional information disclosure indicators, including:

Indicators based on footprint methods, such as ecosystem footprint and biodiversity footprint.

Principal Adverse Impact (PAI) indicators based on the European Sustainable Financial Disclosure Regulations (SFDR).

The number and proportion of companies that have negative impacts on biodiversity, lack of biodiversity policies, or controversy events related to biodiversity and ecosystem.

TCFD plans to release an information disclosure report on the impact of financial assets by the end of this year, supplementing additional disclosure indicators for financial institutions.

TodayESG

ESG Regulation in Europe

European Securities and Markets Authority Releases Multilingual ESG Fund Naming Guidelines[14]

Multilingual ESG Fund Naming Guidelines

The European Securities and Markets Authority (ESMA) releases multilingual ESG fund naming guidelines, aimed at providing guidelines for the use of ESG and sustainability related terms by funds in the EU region, ensuring that investors are protected from unverified or expanded sustainable term marketing in fund names, and providing clear and measurable fund naming standards for asset management companies.

ESMA believes that fund names are an important way for funds to convey information and an important tool for fund marketing. Although investors should pay attention to the fund's information disclosure, fund name still has an impact on their investment decisions. The ESG fund naming guidelines released this time will standardize fund naming and reduce greenwashing.

ESG Fund Naming Guidelines Development

In November 2022, the ESMA released a consultation document soliciting opinions from the asset management industry on the naming of ESG funds, and received 125 responses. In December 2023, the ESMA updated the draft ESG fund naming guidelines based on these opinions. In March 2024, the guidelines were published in the EU Official Journal and officially released in May 2024. In August 2024, the guidelines were translated into multiple EU official languages.

The ESMA has released guidelines on its official website, requiring financial regulatory agencies in EU member states to respond within two months, stating whether they comply with the guidelines. The asset management industry does not need to response, but adjustments need to be made in accordance with the requirements of regulators. The guidelines will take effect three months after release. After the guidelines come into effect, any newly established fund must immediately comply with the guidelines, and existing funds need to make adjustments within six months.

[14] https://www.todayesg.com/esma-multilingual-esg-fund-naming-guidelines/

Contents of ESG Fund Naming Guidelines

The ESG fund naming guidelines apply to all management companies of the European Union's Undertaking for Collective Investment in Transferable Securities (UCITS) and Alternative Investment Funds (AIF). The guidelines require companies to conduct business honestly and fairly, and ensure that all information is fair, clear, and not misleading in marketing communications. The ESG Fund Naming Guidelines standardize the terminology used by funds, including:

When using terms related to transition, society, and governance: the proportion of investments that meet sustainable characteristics reaches 80% of the total assets of the fund, while not investing in companies involved in Article 12 (1) (a) to (c) of the CDR (EU).

When using environmental or impact related terms: the investment proportion that meets sustainable characteristics reaches 80% of the total assets of the fund, and cannot invest in companies involved in Article 12 (1) (a) to (g) of CDR (EU).

When using sustainability related terms: the investment proportion that meets sustainability characteristics reaches 80% of the total assets of the fund, and cannot invest in companies involved in Articles 12 (1) (a) to (g) of the CDR (EU), while committing to invest in companies involved in Article 2 (17) of the Sustainable Finance Disclosure Regulation (SFDR).

When using transition or impact related terms: In addition to meeting the above conditions, it is also necessary to ensure that these investments can generate clear and measurable environmental or social impacts.

The naming supervision of ESG funds will be the responsibility of financial regulators in various jurisdictions. When the above conditions are violated, regulatory agencies need to distinguish between different situations. If the fund uses ESG or sustainability related terms but temporarily deviates from the investment threshold, it can be considered a passive violation and corrected in a timely manner. If a fund adopts these terms but intentionally fails to meet the relevant threshold, regulators may consider that the fund will result in investors receiving unfair and unclear information, leading to greenwashing.

ESMA Releases European Sustainability Reporting Standards Statement[15]

European Sustainability Reporting Standards Statement

The European Securities and Markets Authority (ESMA) releases the European Sustainability Reporting Standards (ESRS) statement, aimed at helping for ESRS applications.

The first batch of large entities will disclose information based on ESRS comply with the revised Accounting Directive and Transparency Directive in 2025. The European Securities and Markets Authority plans to provide entities with disclosure guidelines developed by the European Commission and the European Financial Reporting Advisory Group (EFRAG), as well as areas of attention for entities in the disclosure process.

Guidelines by European Commission and EFRAG

Although most entities already have experience in disclosing information based on Non-Financial Reporting Directives (NFRDs), there are still challenges in applying the new version of sustainable reporting standards. The European Commission has released FAQs to assist entities in applying ESRS Set 1.

The European Financial Reporting Advisory Group has prioritized the development of ESRS implementation guidelines in response to the EU's request. EFRAG has released three ESRS implementation guidelines, namely the IG1 Material Assessment Implementation Guidelines, the IG2 Value Chain Implementation Guidelines, and IG3 List of ESRS Datapoints.

In order to improve the interoperability between ESRS and international sustainable information disclosure standards, the European Financial Reporting Advisory Group has also released the Interoperability Guidelines for Sustainable Disclosure Standards with the International Financial Reporting Standards Foundation (IFRS), and the EFRAG-GRI Joint Statement of Interoperability with the Global Reporting Initiative (GRI).

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[15] https://www.todayesg.com/european-sustainability-reporting-standards-statement/

While collaborating with global regulatory agencies, the European Financial Reporting Advisory Group has launched an online platform to collect practical problems related to ESRS implementation. These problems will be classified and written in explanatory documents in the future. The European Securities and Markets Authority recommends that entities refer to the materials provided by EFRAG and regularly communicate with stakeholders. These materials will become an important source for entity employees to conduct internal training on sustainable information disclosure.

Areas of Attention for Entities in Sustainable Disclosure

The European Securities and Markets Authority has summarized the areas of attention that entities should note when disclosing information based on European Sustainability Reporting Standards, including:

Establish governance arrangements and internal controls that can implement high-quality sustainable information disclosure: entities should establish data collection and analysis systems and internal control systems to conduct assessments and disclose detailed sustainable information, which are crucial for sustainable reporting auditing. Enterprises with previous experience in sustainable information disclosure need to consider whether their existing information disclosure processes need to be adjusted in order to maintain information quality and credibility.

Properly design and conduct double materiality assessments: entities should identify significant impacts, risks, and opportunities related to sustainability, and select material issues related to it. The entities are required to comply with ESRS requirements, confirm material issues, and publicly disclose the evaluation process. Entities are also required to comply with minimum disclosure requirements and disclose each applicable data point.

Use transitional reliefs appropriately: Entities may face challenges in data availability and quality when conducting information disclosure based on ESRS for the first time, and they need to obtain data information related to their value chain to meet disclosure standards. If there is a data gap, the entity needs to explain the reason for its occurrence and develop a solution. For exemptions arising from insufficient number of employees, the European Securities and Markets Authority recommends that entities still need to disclose relevant information.

Prepare a clear sustainability report: entities needs to ensure that the information elements in the sustainability report remain in a clear and identifiable state, and comply with the requirements of ESRS. Entities also need to consider how to disclose information digitally and refer to the standard data point list published by the European Financial Reporting Advisory Group. The final disclosure requirements will refer to the upcoming European Single Electronic Format.

Establish connectivity between financial information and sustainable information: entities need to disclose the relationship between sustainable information and financial information, and describe the current or expected financial impact of sustainable information. At present, ESRS stipulates that entities can omit this disclosure in the first year and only implement qualitative disclosure in the first three years.

UK FCA Sets Out Temporary Measures for Sustainability Disclosure Requirements[16]

Temporary Measures for Sustainability Disclosure Requirements

The UK Financial Conduct Authority (FCA) sets out temporary measures for Sustainability Disclosure Requirements (SDR), delaying the effective date of naming and marketing rules for sustainability funds until April 2025.

The assets of sustainable funds, represented by environmental, social, and governance, may reach $34 trillion by 2026. Sustainable disclosure requirements will help investors make investment decisions and maintain the UK's position as a world leading center for sustainable investment.

Naming and Marketing Rules for Sustainable Funds

In November 2023, the UK Financial Supervisory Authority released a draft of the Guidance on the Anti-greenwashing Rule and began public consultation. The anti-greenwashing rule was officially released in April 2024, and asset management companies were able to use investment labels in their investment products starting from July 2024. The naming and marketing rules for sustainable funds will come into effect in December 2024.

Through contacts with companies in the industry, the UK Financial Conduct Authority has found that some companies take longer than expected to make changes. Given the importance of sustainable disclosure requirements, the UK FCA plans to provide support to these companies by delaying the effective date of sustainable fund naming and marketing rules until April 2025, while encouraging companies to comply with this regulation in advance.

The naming and marketing rules for sustainable funds stipulate that funds can only use relevant terms when they have material pursuit of ESG and sustainable characteristics in terms of investment objectives and policies, otherwise it may be misleading. For funds that conduct marketing based on sustainable development terminology but do not have labels, the new naming rules require funds to have sustainable characteristics while

[16] https://www.todayesg.com/uk-fca-sustainability-disclosure-requirements-2/

accurately reflecting these characteristics in their names. For example, sustainable funds need to invest at least 70% of their funds in sustainable financial assets. If the company finds it difficult to comply with these principles, the corresponding sustainable terminology cannot be used.

TodayESG

ESG Regulation in Asia

Australia Passes Mandatory Climate-related Financial Disclosure Bill[17]

Mandatory Climate-related Financial Disclosure Bill

The Australian Senate passes a mandatory climate-related financial disclosure scheme, aimed at formally requiring eligible enterprises and asset owners to disclose climate-related financial information.

The mandatory climate-related financial disclosure scheme is the fourth part of the Treasury Laws Amendment, which refers to the climate-related financial disclosure framework consultation document previously released by the Australian Treasury, as well as the International Sustainability Standards Board Standards (ISSB Standards).

Background of Climate-related Financial Disclosures

Climate-related financial disclosures aim to report on how climate change affects a company's financial performance. As public awareness of climate change increases, investors are demanding that enterprises disclose climate-related risks and opportunities. Considering the potential financial risks associated with the impact of climate change on corporate financial performance, regulatory agencies are also developing climate disclosure policies.

At present, Australia already has some voluntary climate-related financial disclosure policies, such as the Australian Securities Exchange issuing guidance that large listed enterprises need to write sustainability and climate change reports in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) framework. However, the existing climate-related financial disclosures lack sufficient information quantity and standardization, which may affect investor decision-making and increase greenwashing risks.

Introduction to Mandatory Climate-related Financial Disclosures

[17] https://www.todayesg.com/australia-climate-related-financial-disclosure/

Last October, the Australian Accounting Standards Board (AASB) released a draft of the Australian Sustainability Reporting Standards (ASRS), which is based on the International Sustainability Standards Board standards and aligned with major climate-related financial disclosure frameworks worldwide.

The mandatory climate-related financial disclosure bill will require enterprises to disclose in stages, and enterprises need to meet specific thresholds or comply with the disclosure requirements of the National Greenhouse and Energy Reporting Scheme. The new information disclosure will be completed in the sustainability report and included as part of the company's annual report, while hiring a third party to audit the sustainability report.

The Australian Treasury believes that at least 1800 large corporations and asset owners are required to disclose climate information. These enterprises and asset owners will be divided into different groups:

The first group, starting from January 2025, requires enterprises to meet at least two of the following three conditions: revenue exceeding 500 million or total assets exceeding 1 billion or number of employees exceeding 500.

The second group, starting from July 2026, requires enterprises to meet at least two of the following three conditions: revenue exceeding 200 million, total assets exceeding 500 million, or a workforce exceeding 250. Asset owners need to meet the requirement of AUM greater than 5 billion.

The third group, starting from July 2027, requires enterprises to meet at least two of the following three conditions: revenue exceeding 50 million or total assets exceeding 25 million or number of employees exceeding 100.

The Australian Treasury expects that the three groups will involve 729, 755, and 278 enterprises or asset owners respectively, with some enterprises in the first group already disclosing information in accordance with the requirements of the Australian Securities Exchange. Although the AUM of asset owners may reach the threshold of the first group, information disclosure is still required under the second group. For the third group of enterprises, if they can prove that there are no material climate-related risks and opportunities, they are exempt from information disclosure.

According to the Australian Sustainability Reporting Standards, a company's climate-related financial disclosure must include the following:

The material climate risks and opportunities faced by enterprises.

Corporate governance, strategy, and risk management plans.

Climate-related indicators and targets, including Scope 1, Scope 2, and Scope 3 carbon emission indicators.

Corporate directors are required to declare in the sustainability report that the report complies with the sustainability reporting standards in the Act, but according to the three-year transition period of the Act, directors only need to declare that the company has taken reasonable measures to ensure compliance with the sustainability reporting standards set forth in the Act. In addition, mandatory audit requirements for sustainable development reports are still being developed, but according to the consultation document of the Auditing and Assurance Standards Board, the latest deadline for auditing reports for all groups is July 2030.

Hong Kong Launches Green and Sustainable Fintech Proof of Concept Funding Support Scheme [18]

Green and Sustainable Fintech Proof of Concept Funding Support Scheme

The Financial Services and Treasury Bureau of Hong Kong launches the Green and Sustainable Fintech Proof of Concept Funding Support Scheme, aimed at providing funding to companies offering practical green and sustainable fintech solutions.

Hong Kong has planned to launch the Green and Sustainable Fintech Proof of Concept Funding Support Scheme in the first half of this year in the green future plans of the 2024-25 fiscal budget report, promoting the development of green financial technology enterprises and helping Hong Kong achieve green transition.

Introduction to Green and Sustainable Fintech Proof of Concept Funding Support Scheme

The Green and Sustainable Fintech Proof of Concept Funding Support Scheme will involve five aspects of green financial technology research and application, including:

Green & Digital Finance and Investment: assist financial institutions in providing green and sustainable financial products. For example, green tokenized bonds, green derivatives, green investment funds, green credit scoring algorithms, green financial planning, and digital savings solutions linked to green behavior.

ESG Disclosure, Compliance & Regulatory Reporting: help enterprises and financial institutions complete ESG information disclosure and helps regulatory agencies monitor whether these reports meet requirements. For example, climate information disclosure and compliance of listed companies, regulatory technology, and supplier reporting.

Carbon Trading, Analytics and Technology: support the development and trading of carbon products, and assists businesses and financial institutions

[18] https://www.todayesg.com/green-and-sustainable-fintech-proof-of-concept-funding-support-scheme/

in collecting and analyzing carbon emission data. For example, carbon credit trading, carbon registry and trading infrastructure, carbon accounting, and carbon emission tracking.

ESG Data, Intelligence and Analytics: provide ESG data analysis, ratings, and indices. For example, ESG data collection and aggregation, enterprise ESG rating, and green index.

ESG / Climate Risk Modeling & Assessment: promote ESG and climate related risk assessment and management. For example, bank climate modelling, scenario analysis and stress testing, portfolio climate modeling and analysis.

Qualified green and sustainable fintech projects must be directly related to the aforementioned aspects, solve practical problems, and currently have no similar use cases in the market, while demonstrating strong commercial potential. Some basic research related to this field or experimental designs that do not have practical value do not meet the application requirements.

The applicant needs to register a company in Hong Kong and have a three-month business operation experience, as well as acting like a practitioner in green and financial technology related activities. In addition, the applicant must have a qualified project sponsor, including financial institutions, listed companies, etc. These sponsors may not directly invest in the project, but must demonstrate active participation and commitment, and must sign a written agreement with the applicant.

After meeting the above requirements, applicants can submit documents to Hong Kong Cyberport to participate in the selection. The selection criteria include the impact, innovation, commercial potential, functionality, and reasonableness of details of the project. The successfully approved project will receive a maximum funding of HKD 150000, with the first funding to be disbursed after the project is approved, and the second funding to be disbursed one month after the project is completed and all information is submitted. Applicants can submit up to five projects for selection, each of which will be independently evaluated and receive separate funding after successful approval. There is no limited number restrictions for qualified sponsors.

The application period for the Green and Sustainable Fintech Proof of Concept Funding Support Scheme is from June 28, 2024 to September 20, 2024. Applicants can browse information, download the registration form, and submit their application on the Cyberport’s website. After receiving the

documents, Cyberport may need about six weeks to decide whether the application is successful.

HKICPA Releases Exposure Draft HKFRS S1 and HKFRS S2[19]

Exposure Draft HKFRS S1 and HKFRS S2

The Hong Kong Institute of Certified Public Accountants (HKICPA) releases Exposure Draft HKFRS S1 and HKFRS S2, aimed at soliciting opinions on Hong Kong sustainable development disclosure rules.

The two drafts are namely the Exposure Draft HKFRS S1 General Requirements for Disclosure of Sustainability related Financial Information and the Exposure Draft HKFRS S2 Climate related Disclosures. They are created based on IFRS S1 and IFRS S2.

Development of Sustainable Disclosure Rules in Hong Kong

With the release of international sustainable disclosure regulations, the Hong Kong government announced in its 2023 Policy Address that it will collaborate with financial regulators and stakeholders to develop a roadmap for Hong Kong to adopt ISSB standards. In March 2024, the Financial Services and Treasury Bureau of Hong Kong reiterated this point in its Vision Statement, planning to establish a sustainable information disclosure ecosystem.

The Exposure Draft HKFRS S1 and HKFRS S2 are based on the International Sustainability Standards Board (ISSB) standard and will officially come into effect in August 2025. Its priority scope of application includes Hong Kong listed companies and regulated financial institutions such as banks, asset management companies, and insurance companies. HKICPA plans to collect stakeholders' opinions before October 27, 2024, in order to adjust the two sustainable financial reporting standards, and release the final version by the end of 2024.

ISSB stipulated in the first Preview of the Inaugural Juridical Guide for the Adoption or Other Use of ISSB Standards that jurisdictions should adopt sustainable information disclosure before 2030. The Hong Kong Stock Exchange, Hong Kong Monetary Authority, Hong Kong Securities and Futures Commission, Hong Kong Insurance Regulatory Authority, and

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[19] https://www.todayesg.com/hkicpa-exposure-draft-hkfrs-s1-and-hkfrs-s2/

Mandatory Provident Fund Schemes Authority will conduct consultations on HKFRS S1 and HKFRS S2 to confirm the timing of adopting the standards. Although HKFRS S1 and HKFRS S2 are established based on ISSB standards, HKICPA will consider whether to adopt other standards published by ISSB in Hong Kong case by case in the future.

HKFRS and HKEX Climate Disclosure Rules

HKICPA compares HKFRS S1 and HKFRS S2 with the climate disclosure rules issued by the Hong Kong Exchange, and believes that there are several differences:

Reporting boundary: The HKEX requires entities to decide which entities to include in the scope of information disclosure, while the ISSB standard requires all entities in the consolidated financial statements to be included in the scope of information disclosure. At present, most entities only include substantive entities in their information disclosure. However, excluded entities may still face climate related risks and opportunities. Therefore, when adopting ISSB standards, these entities need to adjust their reporting scope to be consistent with their financial statements.

Industry-based metrics: The HKEX encourages entities to disclose industry-based indicators, such as the carbon emissions involved in the business activities of banks, asset management companies, and insurance companies, but does not require mandatory disclosure. The ISSB standard requires entities to provide industry-specific disclosures and refer to and consider their applicability in the final standard, in order to enhance the credibility of information disclosure.

Carbon emissions disclosure: The ISSB standard requires consolidated entities to disclose their Scope 1 and Scope 2 carbon emissions data separately. The HKEX encourages listed companies to adopt this method, but there is no mandatory requirement.

Percentage of remuneration related to climate considerations: The HKEX does not require listed companies to disclose the percentage of compensation related to climate issues, only whether or how they have included climate issues in their compensation policies. The ISSB standard requires listed companies to disclose the specific proportion of climate related remunerations.

HKICPA has conducted a Technical Feasibility Study with HKEX to analyze the differences mentioned above. HKICPA believes that HKFRS S1 and HKFRS S2, which are fully aligned with ISSB standards, can strengthen the connection between global investors and the Hong Kong market.

Singapore Exchange Releases Sustainable Disclosure Rules for Listed Companies[20]

Sustainable Disclosure Rules for Listed Companies

The Singapore Exchange (SGX) releases sustainable disclosure rules for listed companies, aiming to incorporate international sustainable disclosure standards into listed companies.

In March 2024, the Singapore Exchange released a consultation on sustainable information disclosure, proposing to develop climate disclosure guidelines for listed companies in accordance with IFRS sustainable disclosure standards, and to shift sustainable information disclosure from comply or explain to mandatory disclosure, while soliciting a timetable from stakeholders.

Response to the Consultation on Sustainable Information Disclosure

The Singapore Exchange collects stakeholder opinions on three major issues related to sustainable information disclosure.

Align with ISSB standards: Many respondents approve of incorporating international sustainable disclosure standards into Singapore's listed company disclosure rules, believing that this can improve transparency, consistency, and interoperability. These measures can help investors evaluate and compare the sustainable performance of listed companies and encourage companies to manage climate related risks. A small number of respondents believe that the company will face an increase in compliance costs and request regulatory agencies to provide more training guidance. On the issue of Scope 3 carbon emission data disclosure, some respondents believe that the complexity of its calculation methods and the possibility of duplicate calculations will have a significant impact, and therefore suggest delaying or phasing in the introduction of Scope 3 carbon emission information disclosure.

From comply or explain to mandatory disclosure: Most respondents agree to change the sustainable information disclosure rules to mandatory

[20] https://www.todayesg.com/singapore-sustainable-disclosure-rules/

disclosure to compare sustainable information. A small number of respondents believe that the method of explaining without compliance can be more flexible, and mandatory disclosure will bring about disclosure costs and resource issues. Some respondents also believe that when a listed company is unable to meet information disclosure requirements, the impact it receives should be lower than when it fails to meet financial information disclosure requirements.

Sustainability disclosure timetable: Most respondents agree that listed companies should release sustainability reports for the fiscal year starting in January 2026, while a few believe that sustainability reports should be released together with financial reports. Some respondents also believe that when listed companies choose to conduct external audits of sustainability reports, they need to consider the timing of the audit and therefore can postpone its release.

Introduction to Sustainable Disclosure Rules for Listed Companies

After considering the responses to the above three questions, SGX formulates sustainable disclosure rules. This rule is a revision of the Listing Rules and will take effect in two years.

Fiscal year starting from 2025 (sustainability report released in 2026): Mandatory climate report based on IFRS standards, including Scope 1 and Scope 2 carbon emission data, with no requirement for Scope 3 carbon emission data. The sustainable development report is still based on comply or explain basis.

Fiscal year starting from 2026 (sustainability report released in 2027): Mandatory disclosure for sustainable development report and released together with financial reports. For listed companies that have conducted external audits, they can release reports within five months after the end of the fiscal year. Large companies are required to disclose Scope 3 carbon emission data in their climate reports, while small and medium-sized listed companies are not required to do so.

To help listed companies understand how to carry out sustainable disclosure, the Singapore Exchange will collaborate with the Institute of Singapore Chartered Accountants to release sustainability report illustrative that provide detailed explanations of sustainable disclosure rules. The Singapore Exchange will also collaborate with the Global

Reporting Initiative to provide training on Scope 3 carbon emissions calculation and reporting for large companies.

ASIFMA Releases Position Paper on International Sustainability Standards Board Standards[21]

Position Paper on International Sustainability Standards Board Standards

The Asia Securities Industry and Financial Markets Association (ASIFMA) releases a position paper on the International Sustainability Standards Board Standards (ISSB Standards), aimed at helping financial market participants in Asia understand the requirements and application details of ISSB standards.

The Asian Securities Industry and Financial Markets Association is composed of banks, asset management companies, accounting firms, law firms, and market infrastructure service providers in Asia, aiming to promote the development of Asian capital markets. As various jurisdictions in Asia incorporate sustainable information disclosure into their regulatory framework, the market's attention to international sustainability reporting standards is gradually increasing.

Application of International Sustainability Standards Board Standards

The International Sustainability Standards Board Standards will serve as a global benchmark to enhance the consistency, comparability, and practicality of sustainable information disclosure. Based on this standard, entities can accurately and timely disclose sustainable information, which can help market participants assess sustainable risks and opportunities. Some Asian entities also need to disclose information based on the European Sustainability Reporting Standards (ESRS) in order to comply with local regulatory requirements.

The Asian Securities Industry and Financial Markets Association recommends that all jurisdictions in Asia adopt both IFRS S1 and IFRS S2 simultaneously. The general principles in IFRS S1 are the basis for climate information disclosure in IFRS S2 and future sustainability reporting standards. Currently, Hong Kong and Singapore have planned to adopt sustainable development reporting standards by 2025. The Asian Securities

[21] https://www.todayesg.com/international-sustainability-standards-board/

Industry and Financial Markets Association supports the phased disclosure approach adopted by two jurisdictions to reduce the reporting burden on entities. Meanwhile, each jurisdiction may add new disclosure requirements based on international standards, but should not reduce existing disclosure requirements.

The Asian Securities Industry and Financial Markets Association believes that sustainable information can have a material financial impact on entities, so entities can consider including sustainable information disclosure reports in their annual reports. Although the international sustainability reporting standards do not require entities to disclose data from the previous year for comparison in the first year, the association still recommends entities to disclose comparable information to facilitate investors.

Application of ISSB Climate Disclosure Standards

The Asian Securities Industry and Financial Markets Association recommends that entities be required to disclose Scope 1 and Scope 2 data and clarify the scope of disclosure. For Scope 3 data, the ISSB Standards allows entities to freely decide which material carbon emission information to disclose. The association believes that regulators can develop policies to help entities understand their value chain and improve the quality of information disclosure. For industry related climate indicators, the association recommends that entities refer to the standards developed by the Sustainability Accounting Standards Board and provide corresponding climate related information.

Climate based scenario analysis can help investors understand the climate risks faced by entities in different scenarios. The association recommends that entities disclose details such as assumptions and calculation processes of scenario analysis, so that investors can estimate physical and transition risks. With the development of climate information disclosure, regulators should consider incorporating some practical climate indicators, such as carbon emission intensity.

The Asian Securities Industry and Financial Markets Association believes that regulators should be careful about the degree of application of the "comply or explain" principle. When jurisdictions adopt this principle, entities should be encouraged to disclose information where feasible. At the same time, premature mandatory disclosure may impose a significant burden on entities and reduce the quality of information disclosure.

Therefore, as information disclosure standards and methods gradually mature, voluntary disclosure can be gradually transformed into mandatory disclosure.