TodayESG

2025Q1 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 various ESG summits.

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Global ESG Regulation Development

CDP and EFRAG Release Mapping between CDP Question Bank and European Sustainability Reporting Standard E1[1]

Mapping between CDP Question Bank and European Sustainability Reporting Standard E1

The CDP and the European Financial Reporting Advisory Group (EFRAG) release a mapping document aimed at establishing a link between CDP Question Bank and European Sustainability Reporting Standard E1.

The European Financial Reporting Advisory Group has previously released a sustainability disclosure standard mapping with the Taskforce on Nature-related Financial Disclosures (TNFD), aimed at strengthening the interoperability between international sustainability disclosure standards and European sustainability disclosure standards.

Background of Mapping between CDP Question Bank and ESRS E1

CDP and the European Financial Reporting Advisory Group believe that the CDP question bank has a high degree of interoperability with the European Sustainability Reporting Standard E1 in terms of carbon emissions, internal carbon pricing, climate change targets, climate transition plans, etc. Therefore, mapping documents can be established to improve the efficiency of corporate information disclosure and help stakeholders in using sustainable information. This approach can also help businesses apply the EU Corporate Sustainability Reporting Directive (CSRD).

This mapping is based on the question bank released by CDP in 2024, as well as the Implementation Guidelines Three: European Sustainability Disclosure Standard Data Points released by the European Financial Reporting Advisory Group in May 2024. The mapping file does not include industry related data points from the CDP question bank, nor does it include European sustainability disclosure standard data points not covered by the CSRD.

[1] https://www.todayesg.com/cdp-and-efrag-cdp-question-bank-and-esrs-e1/

Introduction to Background of Mapping between CDP Question Bank and ESRS E1

The mapping between the CDP question bank and the European Sustainability Reporting Standard E1 is based on a spreadsheet, where each row includes the question number, information, and options of the CDP question bank, as well as the data point number, name, and type of the European Sustainability Reporting Standard E1. There are several types of mappings, including Full, Partial, No Correspondence, and Out of Scope. According to statistics, the proportion of data points that meet Full, Partial, Unrelated, and Out of Scope criteria are 43%, 32%, 16%, and 9%, respectively. The reasons given in the document include:

Additional ESRS requirement: Additional data points in E1.

Difference in approach and scope: Differences between CDP question bank and E1.

Difference in semantics: Differences between CDP question bank and E1.

EU specific requirement: E1 requirements under other EU regulatory rules.

Sector specific requirement: Industry requirements in E1.

For the convenience of stakeholders, the mapping file provides Extensible Business Reporting Language (XBRL), which allows direct access to data point information. CDP and the European Financial Reporting Advisory Group plan to continue working together to strengthen the interoperability of information disclosure standards.

ISSB Releases Guidelines for Company Material Information Sustainable Disclosure[2]

Guidelines for Company Material Information Sustainable Disclosure

International Sustainability Standards Board (ISSB) releases guidelines for company material information sustainable disclosure, aimed at helping them understand how to disclose material information.

ISSB has released two sustainable international standards, IFRS S1 and IFRS S2, and the guidelines will help stakeholders understand these two standards deeply.

Definition and Application of Material Information

The definition of material information in IFRS S1 is: in sustainability related financial disclosures, if the omission, misstatement, or concealment of information can reasonably be expected to affect the decisions made by report users based on these reports, then the information is considered material. Companies need to ensure that material information meets the information needs of stakeholders and provide this information to describe sustainability related risks and opportunities. If a certain information does not belong to material information, it does not need to be disclosed.

The definition of material information is similar to that in IFRS Accounting Standards, and companies need to make judgments based on the sustainable and financial characteristics of the information. A certain information may be considered material information in sustainable assessment, but not in financial assessment. Companies need to consider whether the users of this information (such as investors, creditors, etc.) need it to make decisions.

Material Information and Sustainable Risks and Opportunities

IFRS S1 requires companies to disclose substantial information about the risks and opportunities related to sustainable development that can be

[2] https://www.todayesg.com/issb-company-material-information-disclosure/

reasonably expected to affect the company's cash flow, financing channels, and cost of funds in the short, medium, and long term. Companies need to analyze sustainable risks and opportunities based on stakeholder analysis of the value chain. IFRS S1 recommends that companies consider the Sustainability Accounting Standards Board (SASB) standards for identifying sustainable risks and opportunities.

IFRS S1 also provides some sources of information to help businesses identify sustainable risks and opportunities. Companies can refer to the Climate Disclosure Standards Board Framework Application Guidelines to assess potential risks and opportunities for biodiversity and water resources. Companies also provide reference to guidelines issued by their jurisdictions, or consider information disclosure from other companies in the same industry or region.

How to Identify and Disclose Material Information

In order to assist businesses in identifying and disclosing material information on sustainability related risks and opportunities, the ISSB provides a specific four-step process:

Confirm information that may have sustainable risks and opportunities: Companies need to identify information related to sustainable risks and opportunities that will meet the needs of stakeholders. Companies can refer to the information sources provided by IFRS S1 and combine them with their own industry and business activity characteristics to obtain potential material information sets.

Assess whether information is material: Companies need to filter material information from the information sets and measure the impact of information from both qualitative and quantitative perspectives. Companies also need to consider whether this information will bring uncertain results in the future, and regularly consider whether the assumptions and basis of material measurement methods need to be adjusted.

Include information in sustainability related financial disclosure drafts: Companies need to clearly and concisely include material information in sustainability related financial disclosure drafts, and consider whether to summarize and decompose the information. If specific information is necessary for stakeholders, even if the standards do not require disclosure, companies should disclose this information.

Review of sustainability related financial disclosure drafts: Companies need to review sustainability related financial disclosure drafts to confirm whether they contain all material information and ultimately obtain sustainability related financial disclosure documents.

ISSB Releases Climate Disclosure Education Materials[3]

Climate Disclosure Education Materials

The International Sustainability Standards Board (ISSB) releases climate disclosure education materials aimed at helping enterprises understand how to apply IFRS S1 when only disclosing climate information based on IFRS S2.

The ISSB has provided transition relief for companies, allowing them to disclose climate related risks and opportunities solely based on IFRS S2 during the first annual reporting period of applying IFRS S1. This exemption narrows the scope of disclosure for companies based on IFRS S1, from sustainable issues to climate issues.

Introduction to Climate First Disclosure

The transition relief provided by the ISSB can help companies focus on providing climate related risk and opportunity information and prepare to disclose all sustainable development risks and opportunities that may be expected to affect their financial situation in the future. Enterprises can only declare compliance with IFRS S1 and IFRS S2 when they comply with both regulations simultaneously. Some jurisdictions may also adopt a climate first approach, incorporating climate disclosure into regulatory frameworks and expanding regulatory scope in the future.

The ISSB has also released the Preview of the Inaugural Jurisdictional Guide for the Adoption or other Use of ISSB Standards, providing more information for compliance with ISSB standards. The educational materials explain how companies comply with the requirements of IFRS S1 when disclosing climate information based on IFRS S2. This is because certain requirements of IFRS S1 are not applicable when applying IFRS S2.

How to Apply IFRS S1 and IFRS S2 Simultaneously

The ISSB provides an explanation based on the content of IFRS S1:

[3] https://www.todayesg.com/issb-climate-disclosure-education-materials/

Objective: These contents explain why sustainable risks and opportunities impact information users, provide background for the application of ISSB standards, and explain the general requirements for sustainable financial information.

Scope: These contents explain the scope of application of ISSB standards, which require the application of IFRS S1 when preparing and reporting sustainability related financial disclosures in accordance with ISSB standards. Therefore, when applying IFRS S2, it is also necessary to apply IFRS S1.

Conceptual Foundations: These contents explain the relevance and materiality characteristics of information disclosure, as well as the impact of comparability, verifiability, timeliness, and comprehensibility of financial information.

Core Content: These contents explain the governance, strategy, risk management, and metrics and targets related to sustainable disclosure. Enterprises need to disclose indicators used to measure and monitor climate related risks and opportunities, as well as disclosing their performance in response to these risks and opportunities and providing consistent definitions and calculation requirements.

General Requirements: These contents explain other standards that companies can refer to when disclosing climate information, as well as industry specific guidance. Enterprises need to comply with the corresponding reporting period and declare whether they comply with ISSB standards.

Judgments, Uncertainties, and Errors: These contents explain how companies make climate disclosure judgments and how to respond to disclosure uncertainties and errors.

The educational materials also provide some situations where the relevant requirements of IFRS S1 do not need to be applied, such as when identifying sustainable risks and opportunities based on IFRS S1, if a company only discloses climate issues, it does not need to consider other sustainable issues. When determining the applicable disclosure standards based on IFRS S1, if a company discloses climate issues based on IFRS S2, it does not need to consider other specific ISSB standards. There are also some issues that are repeated in IFRS S1 and IFRS S2, and companies do not need to disclose based on IFRS S1 after disclosing based on IFRS S2.

Financial Stability Board Releases Climate Vulnerability Assessment Framework[4]

Climate Vulnerability Assessment Framework

The Financial Stability Board (FSB) releases a climate vulnerability assessment framework aimed at providing a method for assessing climate related vulnerabilities in the financial system.

The Financial Stability Board believes that climate vulnerability may affect the financial system through various transmission channels and amplification mechanisms, and the uncertainty, nonlinearity, and spillover effects of climate shocks will make assessments more complex.

Background of Climate Vulnerability Assessment

Climate change may pose risks to financial stability, and regulatory agencies in various countries are taking measures to include climate related financial risks in their assessments. Financial risks caused by climate shocks may arise through traditional channels, such as credit risk, market risk, and liquidity risk. Traditional micro and macro prudential methods often rely on information such as risk exposure and historical loss experience, while the complexity of climate shocks may lead to a decline in the effectiveness of existing assessment methods.

Climate vulnerability assessment is part of the 2021 Climate Roadmap developed by the Financial Stability Board. The Financial Stability Board has collaborated with the Network for Greening the Financial System to conduct climate scenario analysis and financial risk related researches, and to identify, monitor, and evaluate climate impacts from a forward-looking perspective.

Introduction to Climate Vulnerability Assessment Framework

Climate vulnerability assessment aims to evaluate climate related vulnerabilities and analyze the relationship between specific types of climate vulnerability and jurisdictions from a global and cross sectoral

[4] https://www.todayesg.com/fsb-climate-vulnerability-assessment-framework/

perspective. Climate shocks may be transmitted to the real economy and financial system through transition risks and physical risks, leading to financial losses. The transmission channels for climate shocks include:

Credit risk: The ability of counterparties affected by climate shocks to fulfill their obligations may decrease.

Market risk: Market participants incorporate climate risk into pricing, leading to increased market volatility.

Liquidity risk: Counterparties withdrawing funds from financial institutions with significant climate risk.

Underwriting risk: Insurance companies face guarantee risks in the face of climate shocks.

Due to the business cooperation between financial institutions and the joint actions of investors, climate shocks may gradually amplify in the financial system. For example, when climate shocks affect asset prices, investors' redemption demand increases, and funds' ability to repay credit in banks decreases, the impact of climate shocks will expand from market risk to credit risk. Based on the above analysis, the Financial Stability Board has proposed a climate vulnerability assessment framework from three perspectives: climate factors, non-financial sectors, and financial sectors.

To assess climate vulnerability, the Financial Stability Board has developed an analysis toolkit that includes three types of indicators:

Proxies: Provide early signals about transformation risks and physical risks. These indicators include the likelihood and potential size of risk occurrence, as well as the difference between expected and actual carbon emissions.

Exposure metrics: Provide information on the transmission of climate risk factors to both non-financial and financial sectors. These indicators are based on the combination of information from the three parties.

Risk metrics: Based on proxy and exposure metrics, quantify the impact of climate shocks on finance. These indicators include the sensitivity of investment portfolios to climate factors, valuation, leverage, and liquidity.

The Financial Stability Board plans to select a series of specific indicators based on the relevance and foresight of financial stability analysis to assist regulatory agencies in assessing climate vulnerability. These indicators will

be based on climate scenario analysis and information provided by climate information disclosure, considering differences between different jurisdictions. The Financial Stability Board will continue to review and prioritize indicators in the future to enhance their practicality in practice.

Science Based Targets Network Releases First Ocean Targets[5]

First Ocean Targets

Science Based Targets Network releases its first ocean targets, aimed at providing a standardized framework for businesses in sustainable oceans.

Science Based Targets Network believes that the ocean is the world's largest carbon sink and an important buffer zone for addressing climate change. The ocean targets released this time will encourage companies to adopt sustainable activities and protect marine ecosystems.

Introduction to Ocean Targets

The first ocean targets set by the Science Target Network focus on the seafood value chain, where companies can incorporate ocean health into their sustainable development strategies and voluntarily take action to reduce negative impacts on the ocean. Enterprises that adopt ocean targets can enhance the long-term resilience of their supply chain and address the issue of declining marine biodiversity.

The Science Based Targets Network provides three scientific targets for enterprises, which involve key drivers of ocean degradation:

Avoid and Reduce Overexploitation Target: Focus on wild fishery resources, avoid overexploitation of resources, and reduce overfishing.

Protect Marine Habitats Target: To avoid and reduce damage to marine habitats such as coral reefs and seagrass and encourage the restoration and regeneration of important marine habitats.

Reduce Risks to ETP Species target: Reduce the impact of fishing and aquaculture on marine life and improve their living conditions.

For enterprises, the common steps to adopt ocean targets include:

Select data source: Choose the most suitable data to form their targets.

[5] https://www.todayesg.com/sbtn-releases-the-first-ocean-targets/

Determine method: Determine their target methods based on their operational, procurement, and supply chain locations.

Set enterprise level targets: Set specific targets based on enterprise data and methods.

Verify objective: Verify the targets of the enterprise based on SBTN.

The Science Based Targets Network believes that companies need to evaluate whether their business activities have a material impact on ocean targets, rather than directly setting three targets. After setting targets, companies also need to develop a public social responsibility policy for the seafood value chain and submit it as part of the validation objectives. The Science Based Targets Network plans to release a series of targets related to the blue economy in the future, providing more detailed marine conservation guidelines for enterprises.

SBTi Releases Draft of Corporate Net Zero Standard[6]

Draft of Corporate Net Zero Standard

Science Based Targets Initiative (SBTi) releases the draft of corporate net zero standard, aiming to update the standard based on feedback from stakeholders and scientific progress.

SBTi believes that the draft of Corporate Net Zero Standard still uses the 1.5-degree Celsius warming target as the benchmark for net zero path, helping companies set net zero targets to achieve global net zero emissions by 2050.

Draft of Corporate Net Zero Standard Updates

Compared to the previous version of the Corporate Net Zero Standard, the draft of the Corporate Net Zero Standard has made updates in areas such as net zero commitment, goal setting, performance evaluation, and value chain impact. These updates include:

General

The existing standard focuses on setting net zero targets, without distinguishing between types of corporates, and only validate models before setting net zero targets, lacking standardized evaluation of target progress. The new draft covers multiple aspects such as benchmark performance evaluation, net zero target implementation, progress evaluation, etc., covering the entire cycle, and making differentiated requirements based on the size and geographical location of the corporate.

Net zero commitment

The existing standard are mainly based on documents issued by the SBTi, and do not require companies to develop transition plans. The new draft requires companies to develop net zero commitments based on the recommendations of the UN High level Expert Group and recommends that companies develop transition plans.

[6] https://www.todayesg.com/sbti-draft-of-corporate-net-zero-standard/

Assessing performance in the base year

The existing standard does not require companies to provide data verification of their carbon emissions in the base year. The new draft requires eligible companies to obtain limited third-party verification of their greenhouse gas emissions in the base year.

Target setting

The existing standard is based on the Fifth Assessment Report (AR 5) released by the Intergovernmental Panel on Climate Change, which requires all businesses to set short-term and long-term goals related to Scope 1, Scope 2, and Scope 3 (excluding Scope 3 goals for small and medium-sized corporates), and these goals can be combined. The new draft is based on the Sixth Assessment Report (AR 6) released by the United Nations Intergovernmental Panel on Climate Change, which reduces the requirement for companies to set short-term and long-term goals but requires each goal to be set separately.

The new draft provides more detailed requirements for the carbon emissions of Scope 1, Scope 2, and Scope 3, but relaxes the requirements for Scope 3. The new draft proposes three solutions for residual emissions and provides a clearer definition of greenhouse gas mitigation measures.

Addressing the impact of ongoing emissions

The existing standard recommends that companies take mitigation measures for carbon emissions outside the value chain, and the new draft provides stronger incentives for these mitigation measures to encourage companies to apply them.

Assessing and communicating progress against targets

The existing standard lacks guidance on target progress and only requires reporting on the annual net zero target completion status. They also require review every five years and revalidation of targets as necessary, but do not require setting new targets. The new draft provides detailed progress guidelines and requires companies to evaluate progress at the end of the target cycle and set new goals at the end of the cycle.

Claim

The existing standard provides claims based on the SBTi Communications Guide, while the new draft establishes clear claims for net zero statements based on the net zero standard.

The SBTi invites stakeholders to submit feedback by June and revise the Corporate Net Zero Standard based on the new feedback.

Climate Policy Initiative Releases Climate Finance Roadmap[7]

Climate Finance Roadmap

The Climate Policy Initiative (CPI) releases a climate finance roadmap aimed at providing stakeholders with ways to identify and mobilize climate financing.

The Climate Policy Initiative believes that the global climate financing funding gap is $6.1 trillion per year, which is five times the current climate financing. The climate finance roadmap can develop priority investment items and narrow the funding gap.

Background of Climate Finance Roadmap

The climate finance roadmap can help the public and private investors understand the climate financing characteristics of different regions and sectors, effectively guiding fund allocation. The roadmap can also provide intervention measures for regulatory agencies to develop more accurate investment plans. The climate finance roadmap has the following characteristics:

Based on investors' preferences, industry and regional risk situations, invest in different markets.

Based on climate technology and financial market development, search for the most effective financial instruments.

Develop regulatory policies to attract funds based on the obstacles to climate investment.

Adopt a prudent investment approach based on the goals of various market participants.

Contents of Climate Finance Roadmap

[7] https://www.todayesg.com/climate-policy-initiative-releases-climate-finance-roadmap/

The Climate Policy Initiative divides the climate finance roadmap into seven parts:

Determine financing gap: Determine the size of climate financing gap based on country, region, industry, and sub industry. This analysis needs to consider the climate action potential and priorities of countries and regions, as well as the availability of climate data. The financing gap is calculated by subtracting the supply of funds from the demand for funds. The Global Landscape of Climate Finance database provided by the Climate Policy Initiative can provide relevant data.

Assess investment risks and attributes: Determine the investment risks and attributes of climate financing based on the characteristics of the countries, regions, industries, and sub industries. Investment risks include technical risks, governance risks, financing risks, physical risks, and market risks. Investment attributes include investment term, investment scale, and investment return. This information can measure the risks and opportunities of climate financing and create investment standards through qualitative and quantitative methods.

Assess investor characteristics and preferences: Public and private investors have different investment characteristics and preferences. Investment characteristics include risk tolerance, investment term, investment scale, and investment return. Investment preferences include investment objectives, financial instruments, regulatory restrictions, and available funds. This information can be used to confirm which projects may be of interest to specific types of investors.

Match investors and investment projects: Match the investment risks, attributes, characteristics, and preferences obtained from the above steps. These matches can be used to determine which potential investors the project has.

Identify capital structures: Measure the types of capital required for investment projects, such as debt and equity, and whether these investments have favorable conditions, these choices depend on the development of financial markets. Different capital structures are associated with project risks, and some financial instruments may be more suitable for high-risk climate investments.

Assess climate financing funds: Based on the above steps, link investors, investment projects, and capital structures to meet the needs of stakeholders.

Develop climate finance roadmap: After completing the above steps, analyze the key actions of investors and regulatory agencies in narrowing the climate financing gap.

Global Reporting Initiative Seeks Opinions on Financial Industry Standards[8]

Financial Industry Standards

The Global Reporting Initiative (GRI) is soliciting opinions on financial industry standards with the aim of collaborating with stakeholders to revise sustainable disclosures.

The financial industry standards are divided into three categories: banking, capital markets, and insurance. The Global Reporting Initiative has developed corresponding standards for each category.

Introduction to Financial Industry Standards

The Global Reporting Initiative believes that the financial industry has a wide-ranging impact on the environment, society, and economy, and is therefore considered a priority industry for standard setting. In February 2023, the Global Sustainability Standards Board (GSSB) approved the development of standards for the financial industry. In July 2023, the board organized three technical committees to develop standards for the banking, capital markets, and insurance industries.

Although banks, capital markets, and insurance all belong to the financial industry, their businesses vary greatly and are usually managed by different regulatory agencies. Therefore, industry standards are developed for each category, and the scope of these standards includes:

Banks: personal banks, commercial banks, corporate banks, and investment banks.

Capital markets: asset management, wealth management, custody services, investment consulting.

Insurance: insurance, reinsurance.

For financial enterprises engaged in two or more categories of business activities, the Global Reporting Initiative recommends that they disclose

[8] https://www.todayesg.com/gri-consults-on-financial-industry-standards/

based on different standards for different businesses. These standards refer to the OECD Guidelines on Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, as well as the Paris Agreement, the Global Biodiversity Framework, and others.

The Global Reporting Initiative believes that material themes refer to issues that may have a substantial impact on business activities in the financial industry. The three categories of banking, capital markets, and insurance consist of 22, 23, and 22 material themes, respectively, with 21 themes shared by all three categories. For 19 of these topics, companies need to release additional industry reports in addition to standard disclosures. The Global Reporting Initiative plans to collect stakeholder feedback by May 31, 2025, and officially release these standards in the second quarter of 2026.

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ESG Regulation in Europe & America

Canada Releases 2035 Carbon Emissions Reduction Target[9]

2035 Carbon Emissions Reduction Target

Environment and Climate Change Canada (ECCC) releases 2035 carbon emissions reduction target, aiming to reduce carbon emissions to 50% to 55% of 2005 levels by 2035.

The Canadian Net Zero Emissions Accountability Act requires the government to set a 2035 greenhouse gas reduction target by 2024 and release a 2035 carbon reduction plan by 2029.

Background of Carbon Emissions Reduction in Canada

The Environment and Climate Change Canada believes that climate change has already had significant impacts on the economy and society. In 2024, insurance losses related to severe weather in Canada reached a record high of CAD 7.7 billion. Climate change in 2025 could result in an economic loss of CAD 25 billion and reach 6% of GDP by the end of this century. From a global perspective, every 1 degree Celsius increase in temperature may lead to a 12% decrease in global GDP, therefore Canada needs to reduce carbon emissions while developing its economy.

The Canada Net Zero Emissions Accountability Act requires the government to set national emissions reduction targets ten years in advance, and the 2035 carbon emissions reduction needs to be set before 2025. In 2025, Canada will submit its Nationally Determined Contributions to the United Nations, including the latest projections of key carbon reduction measures and annual greenhouse gas emissions predictions. Currently, Canada is implementing the 2030 Emissions Reduction Plan to reduce carbon emissions and promote economic development.

The Role of 2035 Carbon Emissions Reduction Target

In addition to regulatory requirements, carbon emissions reduction can also provide economic growth opportunities for net zero transition. The

[9] https://www.todayesg.com/canada-2035-carbon-emissions-reduction-target/

International Energy Agency (IEA) believes that in order to achieve net zero by 2050, the world needs to triple its annual investment in clean energy, which currently amounts to $2 trillion. The Royal Bank of Canada believes that a net zero economy will create 235000 to 400000 new job opportunities in this century.

35% of Canada's commodity exports come from emission intensive and trade intensive industries, which require significant decarbonization actions to maintain their competitiveness. Canada is also one of only two countries in the OECD where greenhouse gas exports exceed imports, and 40% of domestic carbon emissions are driven by foreign demand. Setting carbon reduction targets can meet economic needs and promote sustainable development.

How to Achieve 2035 Carbon Emissions Reduction Target

Canada plans to achieve its 2035 carbon emissions reduction targets from the following perspectives:

Implementing domestic policies: Canada has established a climate framework to reduce greenhouse gas emissions, create economic opportunities, and promote innovation. Some core regulations, such as Clean Fuel Regulations, Clean Electricity Regulations, and Electric Vehicle Availability Standards, are driving industry transition. Some core incentive measures, such as Vehicle Purchase Incentives, Clean Economy Investment Tax Credits, and Canada Greener Homes Initiative, will reduce the cost of green investment. Canada is still developing sustainable investment rules and issuing green bonds to encourage private funds to invest in net zero direction.

Supporting international emission reduction actions: International emission reduction actions will reduce the risk of carbon leakage and establish stronger carbon reduction capabilities. For example, the UK and the EU are implementing a Border Carbon Adjustment mechanism to mitigate the negative impact of unilateral carbon reduction policies. Canada plans to continue advancing international climate change initiatives, strengthen international cooperation, and provide climate funding for developing countries. At COP26, Canada launched the Global Carbon Pollution Pricing Challenge, which aims to cover 60% of global emissions through carbon pricing by 2030.

Exploring potential areas for collaboration: Canada plans to collaborate with various stakeholders to explore tools that meet net zero emissions targets, prioritizing the 2035 carbon reduction target. Each region, indigenous people, private sector, and public have different resources and spheres of influence, which can play an important role in the transition to a green economy.

International Capital Market Association Releases Recommendations on EU Sustainable Finance Regulations[10]

Recommendations on EU Sustainable Finance Regulations

The International Capital Market Association (ICMA) releases recommendations on EU sustainable finance regulations, aiming to provide advice on simplifying EU regulations.

The ICMA is an important participant in the 2018 EU Action Plan on Sustainable Finance and the 2021 Strategy for Financing the Transition to a Sustainable Economy and has provided a series of recommendations for sustainable finance regulations.

Overall Recommendations on EU Sustainable Finance Regulations

The ICMA believes that the EU Taxonomy, the Corporate Sustainability Reporting Directive, and the Sustainable Finance Disclosure Regulation are the most in need of changes in sustainable finance regulations, with the EU Taxonomy serving as the foundation. The availability of Taxonomy and the diversity of information are the focus of revision.

The ICMA proposes the following key measures:

To address the usability challenges in the implementation process of the EU Taxonomy, it is recommended to limit mandatory disclosure obligations to the climate change targets of large, listed companies and develop equivalent standards for other market taxonomies.

The information disclosure of the Corporate Sustainability Reporting Directive focuses on basic data points and maintains consistency with international standards.

Simplify sustainable financial disclosure regulations to avoid confusion with corporate sustainability reporting directives.

[10] https://www.todayesg.com/icma-eu-sustainable-finance-regulations/

Maintain a flexible definition of sustainable investment and avoid single restrictions on sustainable investment under the EU Taxonomy.

Recommendations on Individual EU Sustainable Finance Regulations

The ICMA has put forward suggestions for the three individual sustainable finance regulation mentioned above:

EU Taxonomy

More than 1900 non-financial and financial enterprises have disclosed information based on EU Taxonomy, but non-compliance in disclosure is about 40% to 50%. The consistency between different industries in non-financial enterprises is weak, and few enterprises disclose environmental goals beyond climate. There are differences in the calculation methods for information disclosure of financial enterprises, and the numbers that comply with the Taxonomy are lower. The recommendations are as follows:

Restrict mandatory information disclosure obligations to climate change targets of large, listed companies, disclose revenue and capital expenditure indicators only after passing materiality tests, and remove operational expenditure indicators.

Add voluntary disclosure standards for transition activities to avoid additional disclosure obligations.

Actively evaluate the equivalence between the taxonomies of other jurisdictions and the EU Taxonomy.

Corporate Sustainability Reporting Directive

The Corporate Sustainability Reporting Directive requires companies to disclose a significant amount of information after materiality evaluation, which may have an impact on stakeholders such as investors. The ICMA believes in simplifying the European Sustainability Reporting Standards and proposes the following recommendations:

Adopt simple reporting standards, reduce data points and disclosure requirements, while not compromising dual materiality.

Consider developing materiality evaluation methods for specific industries and providing case studies to enable companies to provide targeted disclosures.

Increase quantitative indicators that are helpful to investors and reduce qualitative indicators.

Provide a legal safe harbor for enterprises to support sustainable information disclosure without the need for limited authentication.

Sustainable Financial Disclosure Regulation

The Sustainable Financial Disclosure Regulation imposes a significant disclosure burden on financial enterprises, with a lack of definition of key concepts and weak data availability. The SFDR should be simplified, with a focus on material issues and avoid duplication with other regulatory policies. The SFDR should also be consistent with the ESG fund naming rules published by the European Securities and Markets Authority. The recommendations are as follows:

Reduce the number of disclosures, focus on material issues, and consider the data availability of future international disclosure standards.

Develop a single disclosure for fund products based on the percentage of enterprise risk exposure to credible transition plans.

Expand the scope of application of the definition of sustainable investment (beyond the definition of the EU Taxonomy).

EU Releases Clean Industrial Deal[11]

Clean Industrial Deal

The European Union releases the Clean Industrial Deal, aimed at accelerating decarbonization of industries and promoting the development of a circular economy.

The EU believes that the climate crisis, competitiveness, and economic resilience are the three biggest challenges. Therefore, EU needs to issue policies in energy intensive and clean technology industries to establish a sustainable industrial ecosystem.

Introduction to Clean Industrial Deal

The Clean Industrial Deal focuses on six business drivers, including:

Affordable Energy

The EU believes that affordable energy is the foundation of the Clean Industrial Deal, and has released the Action Plan for Affordable Energy, which includes three actions:

Reduce energy costs: The EU plans to revise the recently adopted Electricity Market Design and collaborate with the European Investment Bank to launch a pilot of Power Purchase Agreements for businesses. The European Investment Bank will launch a power grid manufacturing plan to increase energy investment.

Accelerate the promotion of clean energy: The EU plans to propose specific measures in the Industrial Decarbonization Accelerator Act to address the issue of decarbonization permits, while accelerating the application of digital technology to accelerate clean energy development.

Ensure the normal operation of the natural gas market: The EU has established a Gas Market Task Force, which plans to comprehensively review the EU natural gas market, coordinate energy market rules, and release a report this year.

[11] https://www.todayesg.com/eu-releases-clean-industrial-deal/

Lead Markets

The EU believes that it is necessary to provide leading markets for clean technologies and products for businesses to promote their investment. These measures include:

Publish public procurement incentives: The EU plans to introduce sustainable standards to promote clean technology development in energy intensive industries in Europe, which will incentivize sustainable production. The EU plans to revise the public procurement framework in the future and develop voluntary carbon intensity labels for industrial products, providing incentives for energy intensive products.

Promote the application of renewable and low-carbon energy: The EU will pass a low-carbon energy bill in the first quarter of this year and launch the Hydrogen Mechanism through the European Hydrogen Bank in the second quarter. At the same time, the effectiveness of the hydrogen energy framework will be studied to reduce obstacles to the development.

Financing

The EU plans to increase investment by 480 billion euros annually in energy and industrial innovation, and the Clean Industrial Deal will deploy over 100 billion euros to achieve established goals. Specific measures include:

Strengthen EU level funding: The EU will provide financial support for industrial decarbonization and clean technologies through the Innovation Fund and invest 6 billion euros by 2025. The EU will also establish a new Industrial Decarbonization Bank, raising 100 billion euros to support the transition technology.

Utilize private investment: The EU will revise the InvestEU regulations to enhance the risk bearing capacity of funds and invest 50 billion euros in key areas. The European Investment Bank will collaborate with private investors to deploy the TechEU to support the development of clean energy technologies.

Improve the effectiveness of national aid: The EU will release the Clean Industrial Deal State Aid Framework, which provides member states with a five-year planning period, simplifies national aid principles, and improves efficiency.

Circularity and Access to Materials

The EU plans to make recycling the core of its decarbonization strategy, expanding the recycling potential of the remanufacturing market from the current 31 billion euros to 100 billion euros by 2030. Specific measures include:

Implement the Critical Raw Material Act: The EU plans to prioritize the implementation of the Critical Raw Material Act, ensure diversified value chain supply, and establish an EU Critical Raw Material Centre to collaborate with member states in procuring raw materials.

Develop a circular economy: The European Union will pass the Circular Economy Act in 2026 to accelerate circular transition and collaborate with stakeholders to determine circular transition actions and measures.

Global Markets and International Partnerships

The EU plans to establish sustainable industrial value chains with other countries, including:

Establish Clean Trade and Investment Partnerships: The EU will provide trade and investment opportunities through Clean Trade and Investment Partnerships and collaborate with other countries to achieve green transition.

Improve the Carbon Border Adjustment Mechanism: The EU will simplify the Carbon Border Adjustment Mechanism, reduce industry burden, and encourage carbon pricing. The EU will also release a comprehensive review report in the second half of 2025 to determine follow-up actions.

Ensure a fair competitive environment: The European Union will provide guidance on the Foreign Subsidies Regulation in 2026 to provide a basis for risk assessment in the competitive environment.

Skills

The EU believes that decarbonization and circular transition are closely related to the workforce, and specific measures include:

Support skills development: The EU plans to establish a Union of Skills, simplify industry skills training frameworks, review existing training programs, and focus on human resource investment.

Support labor transition: The EU will improve the Just Transition Fund to ensure inclusive and equitable green transition and release a Quality Jobs Roadmap to assist the labor force during the transition period.

EU Releases Sustainable Finance Standard for Small and Medium-sized Enterprises[12]

Sustainable Finance Standard for Small and Medium-sized Enterprises

The EU Platform on Sustainable Finance releases sustainable finance standard for small and medium-sized enterprises, aimed at addressing the difficulties they face in sustainable financing.

The EU Sustainable Finance Platform believes that small and medium-sized enterprises are the key to the EU's sustainable development transition and providing sustainable financing for them can help the EU achieve its net zero goal and low-carbon economic transition.

Background of Sustainable Finance Standard

The EU believes that small and medium-sized enterprises face challenges in sustainable finance. Research shows that 58% of small and medium-sized enterprises have invested in sustainable projects, but 65% of their sustainable project financing comes from their own funds rather than external financing. The main reasons for this phenomenon include high financing conditions of financial institutions and insufficient sustainable data for small and medium-sized enterprises.

For example, the EU Taxonomy is the EU's sustainable financial regulatory policy and an important reference for financial institutions to provide sustainable financing. Small and medium-sized enterprises are not within the scope of application of EU Taxonomy, and it is also difficult for them to comply with the information disclosure requirements of the taxonomy.

To address the challenges of sustainable finance for small and medium-sized enterprises, the EU Sustainable Finance Platform suggests developing a taxonomy suitable for small and medium-sized enterprises, as well as sustainable performance measurement and information disclosure methods, namely the Sustainable Finance Standard for Small and Medium-sized Enterprises. This standard aims to support the transition of small and medium-sized enterprises and achieve environmental goals,

[12] https://www.todayesg.com/eu-releases-sustainable-finance-standard-for-sme/

while ensuring the compatibility of regulatory policies. Small and medium-sized enterprises can demonstrate the sustainability of their business activities based on this standard.

Introduction to Sustainable Finance Standard

The sustainable finance standard for small and medium-sized enterprises are based on existing sustainable finance policies, focusing on two goals: mitigating climate change and adapting to climate change. They consist of the following parts:

Activities: Activities listed in the Taxonomy Climate Delegated Act and those included in the EU certification list. The EU will simplify the screening criteria and descriptions for these activities to better adapt to the reality of small and medium-sized enterprises and provide alternative indicators beyond turnover.

Enterprises: Small and medium-sized enterprises that incorporate climate related practices into their business models and pursue sustainable economic transition. These companies' activities may not meet the requirements, but they already have measurable climate investments, technologies, and processes, or hold relevant climate certifications issued by the European Union.

Investment: Sustainable investments that contribute to climate mitigation and adaptation. For example, investments in improving energy efficiency and reducing greenhouse gas emissions can be considered compliant with standard.

When small and medium-sized enterprises use this standard, they can evaluate whether their activities, businesses, and investments fall under the above criteria in sequence. As long as one of them meets the criteria, they can apply this standard to seek external sustainable financing. EU financial institutions can refer to this standard when providing debt or equity financing to small and medium-sized enterprises. Financial institutions can also use the EIF Sustainability Guarantee Tool developed by the European Investment Fund or the EIB Green Checker Tool to measure whether small and medium-sized enterprises meet the requirements.

Small and medium-sized enterprises can voluntarily submit sustainability reports to demonstrate the sustainability of their business activities and disclose revenue and capital expenditures consistent with the EU

Taxonomy. For startups, these data can be used as estimates. This information can help financial institutions determine whether small and medium-sized enterprises meet sustainable financial standard and provide them with financing services.

EU Platform on Sustainable Finance Proposes Simplifying EU Taxonomy[13]

Simplifying EU Taxonomy

The EU Platform on Sustainable Finance releases a report on the EU Taxonomy, aiming to provide recommendations for simplifying the EU Taxonomy and promoting sustainable finance development.

The Platform believes that the EU Taxonomy, as the first framework in Europe to measure the sustainability of investment and corporate activities, has contributed to the development of a green economy. The modification and simplification of the EU Taxonomy can make it perform better.

Background of Simplifying EU Taxonomy

The Platform has conducted a survey in the past two years on investors, banking institutions, businesses, auditing institutions, and other entities involved in the EU Taxonomy, aiming to understand how to simplify the Taxonomy. In October 2022, the Platform released recommendations on data and usability, and in January 2024, the Platform released a Compendium of Market Practices to provide recommendations. At present, non-financial enterprises have reported relevant information in 2023 and 2024 (fiscal years 2022 and 2023), while financial enterprises have reported relevant information in 2024 (fiscal year 2023).

In the process of simplifying the EU Taxonomy, the Platform has considered the following key principles:

Principle of Consistency: Ensure that the simplification process does not modify definitions and calculation methods and does not affect the consistency of the Taxonomy with other regulatory policies.

Principle of Relevance: Ensure that the report reflects the green transition of market participants, reducing their funding costs and compliance burdens.

[13] https://www.todayesg.com/eu-proposes-simplifying-eu-taxonomy/

Principle of Proportionality: Ensure fair distribution of reporting burden and avoid unnecessary information disclosure obligations for small and medium-sized enterprises.

Principle of Applicability: Ensure that all recommendations are feasible and can be integrated into existing regulatory frameworks.

Principle of Prevention: Ensure that all modifications are based on the principle of protecting the integrity of the framework.

Proposal for Simplifying EU Taxonomy

The EU Platform on Sustainable Finance proposes simplified EU Taxonomy based on the above principles, which are expected to reduce the information disclosure burden of market participants by one-third. The proposal includes:

DNSH criteria: For non-financial enterprises, the platform recommends reviewing all standards, prioritizing their usability in terms of turnover, and allowing participants to evaluate turnover consistency based on the principle of Comply or Explain. For financial enterprises, the Platform suggests reducing the requirement for financial enterprises to verify compliance with standards, allowing them to estimate their risk exposure to institutions that do not fall within the scope of the Corporate Sustainability Reporting Directive (CSRD).

Corporate KPIs: The platform recommends that the EU only calculate operational expenditure indicators for research and development activities, reduce the disclosure burden on non-financial enterprises, and support enterprises in seeking green financing in research and development financing. The EU should also establish material thresholds for non-financial companies to disclose key performance indicators, to avoid selective disclosure by companies. Thresholds can be based on percentages or absolutes, and companies need to provide clear evidence when not disclosing relevant indicators.

Green asset ratio: The green asset ratio can improve the green transparency of banking institutions' balance sheets. The platform suggests that the EU optimize its calculation method and exclude asset classes that are not applicable. For the risk exposure of non-EU enterprises, banking institutions can use estimated values to create a fair environment for green financing and transition financing.

Underwriting KPIs: Underwriting key performance indicators are related to insurance company information disclosure. The Platform suggests that the EU establish a material threshold for the underwriting ratio of the Taxonomy and explore the contribution of insurance companies to non-climate environmental goals.

Report Template: The Platform has reviewed the report templates applicable to non-financial enterprises, banking institutions, and insurance companies, and recommends that the EU simplify disclosure by reducing fields or merging templates to avoid redundancy and delete information that has no impact on decision-making. The EU can also consider implementing machine-readable automated methods to improve the efficiency of using Taxonomy.

EU Approves ESG Rating Regulations[14]

EU ESG Rating Regulations

The Council of the European Union adopts ESG rating regulations aimed at improving the consistency, transparency, and comparability of EU ESG rating activities, and enhancing investors' confidence in sustainable financial products.

The EU requires ESG rating providers to obtain authorization and supervision from the European Securities and Markets Authority (ESMA), and comply with transparency requirements for rating methods and information sources.

Background of EU ESG Rating Regulations

In March 2018, the European Union released the Action Plan on Financing Sustainable Growth, aimed at directing funds towards sustainable investment. As part of this action plan, EU launched the Study on Sustainability related Ratings, Data and Research in 2021, aimed at assessing the development of the sustainable product and service market, analyzing ESG rating methods and the business activities of rating providers.

In July 2021, the European Union proposed Strategy for Financing the Transition to a Sustainable Economy and announced a public consultation on ESG ratings. The 2022 consultation results show that stakeholders have concerns about the transparency and clarity of ESG rating methods and rating activities, and hope that these issues will be addressed. The ESMA believes that the EU should adopt the ESG rating and data product provider recommendations proposed by the International Organization of Securities Commissions (IOSCO) in November 2021.

The EU believes that ESG ratings play an important role in global capital markets, and credit institutions, investment companies, insurance companies, and others use them as a reference for sustainable risks and opportunities in investment activities. ESG ratings have a significant impact on market operations and investor confidence. Therefore, it is

[14] https://www.todayesg.com/eu-approves-esg-rating-regulations/

necessary to ensure that ESG ratings provide important investment strategy, risk management, and disclosure obligation information to rating users, promoting the achievement of the goals of the European Green Deal.

Contents of EU ESG Rating Regulations

The EU believes that ESG rating providers need to ensure the quality of ESG ratings by providing separate environmental, social, and governance ratings. If the rating provider provides a summary of ESG ratings, the weight of each category needs to be disclosed. Rating providers need to use strict, systematic, independent, connected, and verifiable rating methods, and review the rating methods at least once a year. Rating providers need to disclose their rating methods, models, and key assumptions to the public, as well as whether the rating involves dual materiality (financial materiality and impact materiality). The public can conduct due diligence based on this information.

The EU requires ESG rating providers to prevent and mitigate potential conflicts of interest. Providers need to provide consulting, rating, benchmarking, auditing and other activities through different entities, and ensure the quality and integrity of the ESG rating and review process. Providers need to ensure that personnel involved in rating do not have financial, personal, business, or employment relationships with the issuer, in order to avoid affecting their independence and ability to continue participating. ESG rating providers are regulated by the ESMA, which will develop draft regulatory technical standards in the future and submit them for EU approval.

The EU ESG rating regulations does not provide regulations on ESG rating methods or rating contents. ESG rating methods can meet a wide range of user needs and promote market competition. For small ESG rating agencies, the EU plans to introduce a temporary system requiring them to only comply with regulations related to organization and transparency requirements. Small ESG rating agencies only need to apply for authorization to operate in the EU after the temporary system ends, and pay regulatory fees based on their revenue. These measures can ensure full market competition and reduce compliance costs for small participants.

EU Proposes a Product Classification Scheme Based on Sustainable Financial Disclosure Regulation (SFDR)[15]

Product Classification Scheme Based on SFDR

EU proposes a product classification scheme based on the Sustainable Finance Disclosure Regulation (SFDR), aimed at meeting investors' sustainable investment preferences and improving the consistency of sustainable disclosure for financial products.

The EU plans to align the sustainable characteristics of financial products with investors' preferences, to promote capital flows and sustainable economic growth and meet 2050 climate targets.

EU Platform on Sustainable Finance

The EU Platform on Sustainable Finance aims to enhance the effectiveness of the sustainable finance framework and has released two reports on SFDR:

SFDR Level 1 Brief: The EU Platform on Sustainable Finance suggests introducing a universal classification scheme for financial products to address the information confusion in the market and meet the sustainable preferences of investors.

SFDR Regulatory Technical Standards Brief (SFDR RTS Brief): The EU Platform on Sustainable Finance responds to inquiries from EU ESAs (ESMA, EBA and EIPOA) regarding SFDR to prepare for the development of data and methods related to financial product classification.

Introduction to Product Classification Scheme Based on SFDR

The EU Platform on Sustainable Finance plans to establish a product classification scheme based on the Sustainable Financial Disclosure Regulation, which involves three product categories, each with minimum standards. If the product cannot meet any of the standards, it will be marked as unclassified. The EU believes that the current product classification

[15] https://www.todayesg.com/eu-product-classification-scheme-based-on-sfdr/

standards can be relatively low, and in the future, the product classification standards will be combined with the EU Taxonomy to reflect the consistency between product investment objectives and taxonomy based economic activities.

The product categories under proposed product classification scheme include:

Sustainable: X% of funds make positive contributions to environmental or social sustainability investments, or invest in economic activities consistent with the EU Taxonomy, without investing in assets that have a negative impact on sustainability goals. All investments that are inconsistent with the Taxonomy can pass the Do No Significant Harm (DNSH) test. Investment activities should also comply with the EU Paris Aligned Benchmarks (EU PAB).

Transition: X% of the funds are invested in targets with reliable transition paths and plans that meet transition standards or comply with EU PAB or EU Climate Transition Benchmarks (EU CTB), while not having negative impacts on transition activities. When investing in targets without a transition plan, it is necessary for asset managers to develop an engagement strategy.

ESG Collection: X% of funds are invested in targets that have material environmental, social, or governance characteristics and will not have a negative impact on other ESG issues. Investment targets need to undergo negative screening based on climate transition benchmarks.

In addition to the Sustainable Financial Disclosure Regulation, EU Taxonomy, and EU climate benchmarks mentioned above, the classification schemes will also be based on regulatory policies such as the EU Green Bond Standards and Principal Adverse Impacts (PAI). The EU Platform on Sustainable Finance recommends using minimum standards as the primary criterion for category selection, requiring a portion of the assets in the product to meet the corresponding characteristics.

The EU Platform on Sustainable Finance believes that the classification of financial products needs to be accurately and clearly disclosed to investors. These disclosures include pre contract disclosures, website disclosures, and reports. Pre contract disclosure only needs to include the most important information for investors to understand, while the latter two can provide more detailed information. All disclosures must be easy to understand, easy to read, and consistent. In terms of product naming, only products that meet

the requirements of a category can use the corresponding name to avoid greenwashing.

European Commission Released a Proposal to Simplify Multiple Sustainable Regulations[16]

Simplify Multiple Sustainable Regulations

European Commission releases a proposal aimed at simplifying multiple sustainable regulations, reducing the burden of corporate information disclosure, and enhancing EU business competitiveness while achieving sustainable development goals.

European Commission believes that the new proposal will save 6.3 billion EUR in administrative costs annually and release an additional 50 billion EUR in public and private investment to support the priority of sustainable regulatory policies. The regulations involved in this proposal include the Corporate Sustainability Reporting Directive (CSRD), EU Taxonomy, Corporate Sustainability Due Diligence Directive (CSDDD), and the EU Carbon Border Adjustment Mechanism.

Adjustment to Sustainable Disclosure

The EU plans to revise the Corporate Sustainability Reporting Directive and the EU Taxonomy to optimize corporate sustainability information disclosure. These modifications include:

Corporate Sustainability Reporting Directive

Reduce the scope of enterprises involved in the directive (retaining 20%) and focus on enterprises that have the greatest impact on sustainable issues. At present, the threshold for enterprises involved in the directive is 250 employees, and after modification, this threshold will be raised to 1000 employees. The total balance sheet amount (25 million EUR) and net turnover (50 million EUR) remain unchanged.

Ensure that the information disclosure requirements of large enterprises do not impose a burden on small and medium-sized enterprises in the value chain.

Delay the requirement to disclose information in 2026 and 2027 until 2028.

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[16] https://www.todayesg.com/eu-proposal-to-simplify-sustainable-regulations/

EU Taxonomy

Narrow down the scope of enterprises involved in the Taxonomy (consistent with the Corporate Sustainability Due Diligence Directive).

Add activities that are partially consistent with Taxonomy to expand enterprise transition financing.

Simplify 70% of disclosure data points and add a financial materiality threshold (10%).

Simplify the Do no significant harm (DNSH) standard.

Adjustment to Sustainable Due Diligence

The EU plans to revise the Corporate Sustainability Due Diligence Directive to support responsible business practices. These modifications include:

Corporate Sustainability Due Diligence Directive

Narrow down the scope of due diligence and change the regular evaluation of partners from once a year to once every five years.

Reduce the disclosure of value chain information by large enterprises, thereby reducing the burden on small and medium-sized enterprises.

Strengthen due diligence coordination and provide a fair environment within the European Union.

Cancel civil liability conditions to avoid excessive compensation by enterprises.

Postpone the disclosure deadline for large enterprises by one year to July 2028.

Adjustment to Fair Trade

EU plans to modify Carbon Border Adjustment Mechanism to achieve fair trade. These modifications include:

Carbon Border Adjustment Mechanism

Exempt small importers from reporting obligations and retain 99% of carbon emissions coverage.

Simplify the emission calculation, information disclosure, and financial responsibility.

Strengthen the mechanism rules to ensure long-term effectiveness.

Release new proposals in 2026 to further simplify the mechanism.

Adjustment to Investment Plan

In addition to simplifying sustainable regulatory policies, the EU will also optimize green investment programs, including InvestEU. These modifications include:

Use InvestEU investment returns for reinvestment, expected to increase the investment by 50 billion EUR.

Simplify investment process costs, expected to save 350 million EUR in compliance costs.

Strengthen cooperation among member countries under investment plans to support their enterprises.

EFRAG Releases Voluntary Sustainability Reporting Standards for Non-listed SMEs[17]

Voluntary Sustainability Reporting Standards for Non-listed SMEs

The European Financial Reporting Advisory Group (EFRAG) releases voluntary sustainability reporting standards for SMEs, aiming to provide sustainable disclosure guidelines for non-listed small and medium-sized enterprises.

The European Financial Reporting Advisory Group has issued sustainability reporting standards for large public enterprises and small and medium-sized public and released a draft for voluntary sustainability standards for SMEs last year.

Background of Voluntary Sustainability Reporting Standards for Non-listed SMEs

The European Financial Reporting Advisory Group believes that this standard can help non-listed small and medium-sized enterprises meet the sustainable information needs of large enterprises, banks, and investors, enhance corporate sustainability management, and promote sustainable economic development. Based on the total balance sheet, net revenue, and number of employees, small and medium-sized enterprises can be classified into three categories (meeting only one or two conditions):

Micro enterprise: total balance sheet of 450000 euros, net turnover of 900000 euros, and 10 employees.

Small business: total balance sheet of 5 million euros, net turnover of 10 million euros, and 50 employees.

Medium enterprises: total balance sheet of 25 million euros, net turnover of 50 million euros, and 250 employees.

The above-mentioned small and medium-sized enterprises are not within the scope of application of the Corporate Sustainability Reporting

[17] https://www.todayesg.com/voluntary-sustainability-reporting-standards-smes/

Directive (CSRD), but the European Financial Reporting Advisory Group referred to the European Sustainability Reporting Standards (ESRS) when developing standards to enhance consistency.

Introduction to Voluntary Sustainability Reporting Standards for Non-listed SMEs

The voluntary sustainability standards for SMEs include two modules, namely the Basic Module and the Comprehensive Module. The basic module is the minimum requirement for disclosure by small and medium-sized enterprises, while the comprehensive module discloses more information that may be needed by stakeholders.

The basic module requires companies to disclose their environmental, social, and business behavior matters, including:

B1: Basis for preparation.

B2: Sustainable economic transformation practices, policies, and future measures.

B3 to B7: Environmental indicators, including energy and greenhouse gas emissions, air and water resources and soil pollution, biodiversity, water resources, resource utilization, circular economy, and waste management.

B8 to B10: Social indicators, including labor force characteristics, sources of Ghana, salaries, and training.

B11: Governance indicators, including bribery fines.

The comprehensive module provides information disclosure of interest to stakeholders, including:

C1: Business model and sustainable strategy.

C2: Sustainable economic transformation practices, policies, and future measures.

C3 to C4: Environmental indicators, including greenhouse gas emission reduction targets, climate transition, and climate risks.

C5 to C7: Social indicators, including other labor characteristics, human rights policies, and negative events.

C8 to C9: Governance indicators, including income for specific industries and gender diversity of governance institutions.

The voluntary standard considers that the information disclosed by enterprises needs to be based on the principles of relevance, truthfulness, comparability, comprehensibility, and verifiability. Enterprises may disclose additional information that is not included in the above scope to provide supplementary information for information users. If some of the information is not suitable for enterprises, they can assume that that part is not necessary for disclosure.

For ease of comparison, companies need to disclose information from the previous year in the second year. The preparation time of sustainable reports can be consistent with financial reports, and cross reference can help information users understand the connection between the two reports. If a company considers some information to be sensitive, it can omit disclosure, but it needs to explain this situation. To avoid duplication, if information is already available in other reports, enterprises can refer it in sustainability report.

European Banking Authority Releases Consultation Paper on Guidelines on ESG Scenario Analysis[18]

Guidelines on ESG Scenario Analysis

The European Banking Authority (EBA) released a consultation paper on Guidelines on ESG Scenario Analysis, aimed at providing banking institutions with ESG scenario analysis methods and soliciting opinions.

The European Banking Authority has released Guidelines on Management of ESG Risks, providing standards and methods for identifying, measuring, managing, and monitoring ESG risks. The Guidelines on ESG Scenario Analysis will serve as an important supplement to Guidelines on Management of ESG Risks.

Background of Guidelines on ESG Scenario Analysis

Scenario analysis is an important tool for strengthening the ability of banking institutions to predict and manage ESG risks. ESG risks may become a potential driving factor for traditional financial risks, affecting credit, market, operational, liquidity, and reputation risks. However, the time frame and risk transmission channels of ESG risks are uncertain and not suitable for traditional risk management methods.

The Taskforce on Climate-related Financial Disclosures believes that scenario analysis is a process of identifying and evaluating a range of possible future impacts under uncertain conditions. Scenario analysis is not intended to provide precise results and predictions, but rather to provide an analytical tool in a constantly changing environment. The European Banking Authority proposes in its ESG risk management guidelines that scenario analysis has the following uses in the banking industry:

Banking institutions need to set some conditions for conducting scenario analysis. Firstly, the institution should analyze the business environment in which it operates and determine the scenarios to be used for analysis. These scenarios come from institutions such as the Network for Greening the Financial System and the International Energy Agency. In addition, banking institutions need to define the transmission channels through

[18] https://www.todayesg.com/eba-draft-guidelines-on-esg-scenario-analysis/

which ESG risks affect financial indicators. The European Banking Authority summarizes this as follows:

Contents of Guidelines on ESG Scenario Analysis

The European Banking Authority believes that ESG scenario analysis can be used in two directions, namely:

Climate Stress Testing: Climate stress testing measures the financial adaptability of banks and analyzes whether their funds and liquidity are sufficient based on short-term (within five years) uncertainty assumptions.

Climate Resilience Analysis: Climate resilience analysis measures the adaptability of a bank's business model and based on a long-term (over ten years) perspective, analyzes whether the bank's business model is sustainable in the face of climate change.

The Guidelines on ESG Scenario Analysis recommend that banking institutions use scenario analysis to identify business risks and opportunities, assess the impact of physical and transitional risks on investment portfolios, and test their resilience to ESG risks. The steps of scenario analysis include:

Setting climate scenarios: Banking institutions need to consider factors such as social background, technological progress, climate policies, consumer preferences, etc., use scientific and credible scenarios, and choose scenarios that are consistent with their own business models based on their scope and goals. Banking institutions need to incorporate physical and transitional risks into scenario analysis based on substantive assessments, using baseline scenarios and a set of adverse scenarios to measure potential tail risks.

Defining climate transmission channels: Banking institutions need to consider the risk transmission channels of climate scenarios, considering their business models, investment portfolios, and geographic risk exposures, and focusing on material risks. Risk transmission channels can be divided into two categories: macro and micro and consider how climate risks can be transformed into traditional financial risks. Banking institutions also need to analyze transmission channels as a continuous process, considering changes in their operating environment, as well as changes in investment portfolios and customers.

The European Banking Authority plans to conduct a three-month consultation on Guidelines on ESG Scenario Analysis and release an official version in the second half of 2025. Institutions other than small and non-complex institutions will officially apply this guideline in January 2026, and small and non-complex institutions will officially apply this guideline in January 2027.

European Banking Authority Officially Releases Guidelines on Management of ESG Risks[19]

Guidelines on Management of ESG Risks

The European Banking Authority (EBA) officially releases guidelines on management of ESG risks, aimed at providing European banking institutions with standards and methods for identifying, measuring, and managing ESG risks.

The European Banking Authority believes that ESG risk may be a potential driving factor for traditional financial risk, and banking institutions need to apply risk management tools to reduce short-term, medium-term, and long-term ESG risk.

Background of Guidelines on Management of ESG risks

The European Banking Authority believes that ESG risk management is still in its early stages, and there are differences in the understanding, measurement, and management of ESG risks among different banking institutions. With the sustainable economic transition and development of the European Union, ESG risks may have a greater impact. As the regulatory body for the European banking industry, the European Banking Authority needs to monitor financial risks arising from ESG factors and assess the impact of ESG risks on the short-term, medium-term, and long-term risk situation and solvency of banking institutions.

The European Banking Authority has incorporated ESG risk into some guidelines and standards, such as the Guidelines on Loan Origin and Monitoring, which incorporate ESG risk into credit risk policies, and the Guidelines on Internal Governance, which incorporates ESG risk into governance arrangements. In the future, ESG risks will be included in policies such as the Guidelines on Fit and Property Assessment and the Guidelines on Remuneration Policies and will be consistent with Guidelines on Management of ESG risks.

[19] https://www.todayesg.com/eba-guidelines-on-management-of-esg-risks/

Introduction to Guidelines on Management of ESG risks

The Guidelines on Management of ESG risks require financial regulatory agencies in EU member states to comply with and incorporate them into practice. The guidelines cover the ESG risk management process of banking institutions and are an important part of the overall risk management framework. This guide will apply to banking institutions other than small and non-complex institutions starting from January 11, 2026, and will apply to small and non-complex institutions no later than January 11, 2027.

The Guidelines on Management of ESG risks require banking institutions to conduct at least one material ESG risk assessment annually, mapping ESG risks to traditional financial risk categories. Banking institutions need to consider the likelihood of short-term, medium-term, and long-term (at least ten years) ESG risks occurring and their potential financial impacts, as well as their impact on credit, market, liquidity, operations, and reputation risks. Materiality evaluation requires the use of both qualitative and quantitative information and includes both physical and transitional risks.

For independent environmental, social, and governance risks in ESG risk, the guidelines stipulate that banking institutions need to quantify climate related risks and correctly understand the potential impacts of other environmental risks, establishing key risk indicators including short-term and medium-term. For social and governance risks, banking institutions can first qualitatively assess their financial risks and gradually improve their assessment methods by developing more advanced qualitative and quantitative indicators. Banking institutions also need to consider the connection between these three types of risks.

Banking institutions need to incorporate ESG risks into their regular risk management systems and processes, and develop methods to manage and mitigate short-term, medium-term, and long-term ESG risks. The guidelines provide the following risk management tools:

Collaborate with counterparties to understand their risk profile and ensure alignment with their own risk preferences.

Adjust business processes and terms based on risk strategies and internal capital policies.

Incorporate ESG risks into global, regional, and industry risk exposure measurement methods.

Diversify loans and investment portfolios according to ESG risk standards.

Adopt risk management tools that align with risk preferences to enhance the risk resistance capabilities of different departments.

Banking institutions need to regularly review and update their risk management plans, considering new materiality assessments, available scenarios, benchmarks, and industry pathways, as well as the impact of current or upcoming regulatory policies.

Switzerland Plans to Revise Corporate Climate Disclosure Regulation[20]

Corporate Climate Disclosure Regulation

Switzerland plans to revise Corporate Climate Disclosure Regulation, aiming to increase mandatory climate disclosure requirements and reflect developments in EU regulatory policies.

The Swiss Corporate Climate Disclosure Regulation officially comes into effect in January 2024, and eligible large companies and financial institutions are required to disclose climate information.

Revised Corporate Climate Disclosure Regulation

In November 2022, the Swiss Federal Council passed the Corporate Climate Disclosure Regulation, which clarified the requirements for companies to disclose non-financial information such as the environment issues. The regulation requires companies with at least 500 employees and total assets exceeding 20 million CHF or turnover exceeding 40 million CHF for two consecutive fiscal years to disclose climate information.

The Corporate Climate Disclosure Regulation are based on the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. In recent years, the IFRS S2 Climate Information Disclosure Standard issued by the International Sustainability Standards Board (ISSB) and the European Sustainability Reporting Standards (ESRS) issued by the European Union have become reference for regulatory policies in multiple European jurisdictions. In November 2024, the European Financial Reporting Advisory Group (EFRAG) released guidelines for implementing transition plans, providing a basis for companies to develop transition plans.

Based on the development of EU regulatory policies, the Swiss Federal Council releases a consultation document on the Corporate Climate Disclosure Regulation in December 2024. The revised contents of the regulation includes:

[20] https://www.todayesg.com/switzerland-corporate-climate-disclosure-regulation/

Disclose climate information based on international standards: Companies should disclose climate information based on international standards or European Sustainability Reporting Standards, including quantitative information and its basic assumptions and methods.

Develop a net zero roadmap: The Swiss Climate Protection Law requires achieving carbon neutrality by 2050, and companies need to develop a net zero roadmap that meets this goal.

Disclose information in electronic format: Corporate climate information disclosure needs to comply with machine-readable electronic formats, such as eXtensible Business Reporting Language (XBRL).

The Swiss Federal Council plans to collect market opinions by March 2025 and implement the revised regulations in January 2026.

Switzerland Updates 2035 Carbon Reduction Target in NDC[21]

2035 Carbon Reduction Target

Switzerland updates 2035 carbon reduction target in its Nationally Determined Contributions, aiming to develop a new plan that aligns with emission reduction pathway.

Switzerland plans to reduce carbon emissions by 65% by 2035 and by 59% between 2031 and 2035, with a baseline period of 1990.

Carbon Reduction Background

Switzerland signed the Paris Agreement in 2015, aiming to achieve net zero by 2050 while taking measures to address climate change and deploying funds consistent with climate goals. In 2021, Switzerland formulated the Long-Term Climate Strategy and submitted it to the United Nations Framework Convention on Climate Change (UNFCCC). Currently, the strategy is still effective.

In December 2023, the signing parties of the Paris Agreement reached an agreement on a long-term climate strategy, which plans to combine Nationally Determined Contributions with the long-term climate strategy. Based on this background, Switzerland submits a long-term climate strategy amendment and a nationally determined contribution from 2031 to 2035.

The total greenhouse gas emissions in Switzerland in 2022 were 45.9 million tons of carbon dioxide, a decrease of 21% compared to 1990. The per capita greenhouse gas emissions are 4.7 tons of carbon dioxide, a decrease of nearly 50% since 1990 and consistently below the global average. Currently, Switzerland's total carbon emissions account for 0.1% of the global greenhouse gas emissions. From an industry perspective, the emissions of the three high carbon emissions industries of construction, transportation, and industry have been continuously decreasing for many years.

[21] https://www.todayesg.com/switzerland-2035-carbon-reduction-target-updates/

Switzerland Carbon Reduction Legal Framework

In January 2025, both the Swiss Climate and Innovation Act and the Carbon Dioxide Act came into effect, laying the legal foundation for Switzerland's climate policy. The Climate and Innovation Act is a framework for Switzerland's medium - to long-term climate policy development, which sets greenhouse gas emission reduction targets and benchmarks for key industries. Based on 1990, carbon emissions need to decrease by 75% by 2040 and achieve net zero by 2050. From 2025 to 2030, Switzerland will provide 1.2 billion Swiss francs to support the development of carbon capture and storage and carbon removal technologies.

The Carbon Dioxide Act sets short-term carbon emission targets for Switzerland, with a 50% reduction in carbon emissions by 2030 based on 1990, and a 35% reduction in carbon emissions from 2021 to 2030. The bill stipulates a carbon tax of 120 Swiss francs per segment of carbon dioxide, with most of the revenue used for energy-efficient building construction and renewable energy applications. The Swiss Emissions Trading System will closely monitor the development of the EU Emissions Trading System and gradually reduce free quotas.

In addition to the above-mentioned bills, some regulatory agencies have also formulated policies related to climate change and carbon emissions. In June 2021, Switzerland released its 2030 Sustainable Development Strategy, with climate, energy, and biodiversity as its priority themes. In January 2024, Switzerland released the Ordinance on Climate Disclosure, requiring large corporations and financial institutions to disclose climate related information and develop transition plans.

Introduction to Switzerland 2035 NDC

Based on 1990, Switzerland plans to reduce greenhouse gas emissions by 65% by 2035 and by 59% from 2031 to 2035. If the previously set target is followed, greenhouse gases will be reduced by 62.5% by 2035. The new target considers the application of carbon capture and storage, allowing for an increase in emissions reduction. The emission reduction targets for various industries by 2035 are:

Construction industry: 66% carbon reduction.

Transportation: 41% carbon reduction.

Industry: 42.5% carbon reduction.

Other industries: 33% carbon reduction.

The Carbon Dioxide Act sets carbon reduction targets for these industries by 2030, while the Climate and Innovation Act sets carbon reduction targets for 2040 and 2050. In addition to the industries, other industries also need to contribute to greenhouse gas emissions reduction.

UK Develops Regulatory Regime for ESG Ratings Providers[22]

Regulatory Regime for ESG Ratings Providers

The HM Treasury develops a draft regulation for ESG ratings providers, aimed at incorporating ESG ratings into regulations.

The HM Treasury expects the global ESG market size to exceed $40 trillion by 2030. Incorporating ESG ratings into regulation can enhance investor confidence, drive ESG investment decisions, and improve financial market transparency.

Consultation Response for ESG Ratings Regulation

In March 2023, the UK government released a consultation document on the regulation of ESG ratings providers, soliciting market opinions on the definition of ESG ratings, industry regulatory scope, specific exemptions, and ultimately receiving 94 responses. The Financial Conduct Authority (FCA) also holds a series of seminars to solicit opinions from stakeholders. In the future, ESG ratings providers will be included in the mandatory regulatory scope and directly managed by FCA.

95% of respondents support the establishment of ESG rating regulation, while the remaining 5% do not support regulation due to reduced market competition, increased costs for businesses, and increased burden on small ESG ratings providers. Respondents who do not support regulation suggest adopting voluntary code of conduct for ESG rating providers developed by the ESG Data and Ratings Working Group (DRWG) under the International Capital Market Association (ICMA).

65% of respondents believe that regulation will have a significant impact on their business. Some respondents believe that regulation may overlap with the UK's Sustainability Disclosure Requirements (SDR), Credit Ratings Agencies Regulation (CRAR), and anti-greenwashing rules. The respondent suggests that HM Treasury adopt ESG rating definitions consistent with existing international ESG rating standards to address interoperability issues.

[22] https://www.todayesg.com/uk-regulatory-regime-for-esg-ratings-providers/

Considering the response to the consultation, the HM Treasury plans to introduce ESG ratings providers supervision and is expected to design, develop, and launch the system within four years. Regulatory policies will be based on guidelines issued by the International Organization of Securities Commissions (IOSCO) and take into account some potential impacts mentioned by respondents. For example, the HM Treasury will consider setting a grace period for some small ESG rating providers to extend their compliance with regulatory requirements.

Future Regulatory Actions for ESG Ratings Providers

The HM Treasury amends the Financial Services and Markets Act 2000 to include ESG rating after the regulations on benchmarks. The HM Treasury believes that ESG ratings are produced by ESG rating providers using established methods and definitions, and may affect specific investment decisions. All ESG rating providers located in the UK and non-UK ESG rating providers with business ties to the UK are subject to regulation. The HM Treasury has exempted certain situations, such as ESG ratings used within the group and ESG ratings used for academic activities.

The HM Treasury plans to submit a revised draft to Parliament in 2025, waiting for approval before the UK FCA can carry out regulatory activities. The HM Treasury will release a review report within five years after the regulatory draft takes effect to measure its effectiveness.

UK Financial Conduct Authority Suspends Diversity & Inclusion Legislation[23]

Diversity & Inclusion Legislation

The UK Financial Conduct Authority (FCA) announces the cessation of diversity & inclusion legislation aimed at avoiding additional burdens on enterprises.

The UK Financial Conduct Authority released a consultation document in September 2023, seeking advice on the regulation of diversification and inclusivity in the financial industry, and formulated a framework for the implementation of diversification and inclusivity in financial enterprises in the consultation document.

Stop Legislation on Diversity & Inclusion

In the consultation document for September 2023, the UK Financial Conduct Authority developed a diversity & inclusion framework for large financial enterprises with over 250 employees, which includes several parts such as strategy, goal setting, data reporting, information disclosure, and risk management. Small and medium-sized enterprises are encouraged to use this framework to improve their governance structure. This framework mainly regulates the diversified and inclusive development of the financial industry from the perspectives of work culture, talent standards, and employee participation.

The UK Financial Conduct Authority believes that diversity & inclusion can improve corporate governance, decision-making, and risk management, and attract talent in the medium to long term to enhance the competitiveness of the financial industry. Most respondents in the consultation document agree with this judgment but suggest that regulatory agencies align policies with existing voluntary industry organizations to reduce compliance costs.

The UK Financial Conduct Authority plans to stop diversity & inclusion legislation but will continue to support voluntary industry organizations. For example, the CFA Institute has issued relevant initiatives, and financial

[23] https://www.todayesg.com/uk-fca-suspends-diversity-inclusion-legislation/

enterprises can join this initiative and disclose their implementation of diversity & inclusion. The initiative has been joined by dozens of asset management companies, with a total asset management scale exceeding $17 trillion.

The Prudential Regulation Authority of the Bank of England has also released a consultation document with the UK Financial Conduct Authority and announced that it will not advance diversity & inclusion legislation. Meanwhile, the Prudential Regulation Authority of the Bank of England will continue to monitor the development of voluntary industry organizations in this field.

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ESG Regulation in Asia

Japan Releases First Sustainability Disclosure Standards Based on ISSB Standards[24]

Japan Sustainability Disclosure Standards

The Sustainability Standards Board of Japan (SSBJ) releases first sustainability disclosure standard based on the ISSB standards.

The Sustainability Standards Board of Japan believes that sustainable development disclosure standards based on the ISSB guidelines can improve information comparability and have interoperability with standards developed in other jurisdictions.

Introduction to Japan Sustainability Disclosure Standards

In July 2022, the Sustainability Standards Board of Japan was established with the aim of developing sustainable development disclosure standards applicable to Japan. In March 2024, the Board released drafts for soliciting opinions on a universal sustainable disclosure standard and two thematic sustainable disclosure standards. The solicitation of opinions ended in July 2024, and the committee revised the standards based on over 100 feedback and officially released the sustainable disclosure standards in March 2025.

The Japan Sustainability Disclosure Standards include three documents, namely:

Universal Sustainability Disclosure Standard "Application of the Sustainability Disclosure Standards".

Theme based Sustainability Disclosure Standard No.1 "General Disclosures".

Theme based Sustainability Disclosure Standard No.2 "Climate related Disclosures".

The first two documents are based on IFRS S1 published by the International Sustainability Standards Board (ISSB), which include contents related to sustainable risks and opportunities in the general

[24] https://www.todayesg.com/japan-sustainability-disclosure-standards/

standard and other contents in Theme based Sustainability Disclosure Standard No.1. The third document is based on IFRS S2 published by the ISSB.

At present, there is no specific scope and timeline for sustainable disclosure standards, but in the future, all companies listed on the Prime Market of the Tokyo Stock Exchange must adopt this standard. Other companies can voluntarily adopt this standard. The standards have set a one-year transition period for companies to prepare for sustainable disclosure. The Sustainability Standards Board of Japan plans to release supplementary documents and educational materials in the future to provide more information for companies to prepare sustainability reports.

Shanghai Stock Exchange Releases Action Plan for ESG Disclosure of Chinese Listed Companies[25]

Action Plan for ESG Disclosure of Chinese Listed Companies

The Shanghai Stock Exchange (SSE) releases an action plan for ESG disclosure of Chinese listed companies, aiming to provide guidance for high-quality ESG information disclosure for companies.

The Shanghai Stock Exchange plans to increase the quantity and quality of ESG information disclosure from 2024 to 2026, to help companies obtain green financing and promote ESG development.

Introduction to Action Plan for ESG Disclosure of Chinese Listed Companies

The Action Plan for ESG Disclosure of Chinese Listed Companies is divided into six parts, namely:

Information disclosure capacity building: SSE will study domestic and international ESG information disclosure systems, release guidelines for the preparation of sustainable reports for listed companies in batches and reduce the difficulty of information disclosure. SSE will conduct ESG information disclosure training and offer training courses by industry and topic to meet the training needs of listed companies.

Information disclosure services and regulation: SSE will conduct ESG themed activities to help listed companies strengthen communication with stakeholders such as investors, support industry organizations in publishing ESG information disclosure practice cases, and support ESG report assurance. SSE will also strengthen the verification of the authenticity, accuracy, and completeness of ESG information disclosure to address the issue of greenwashing.

ESG disclosure and capital support for green transition of listed companies: SSE will support China Securities Index to launch more ESG indices, support fund companies to issue ESG themed products, and attract funds to invest in the field of sustainable development. SSE will encourage listed

[25] https://www.todayesg.com/china-sse-action-plan-for-esg-disclosure/

companies to achieve low-carbon transition by issuing ESG bonds and green bonds, and provide financing incentives for listed companies with high ESG ratings.

ESG evaluation and rating of listed companies: SSE will support China Securities Index to dynamically update their ESG evaluation methods to enhance market recognition. SSE will also engage in exchanges with international rating agencies to support their evaluation of listed companies' ESG performance and sustainability related risks and opportunities, to obtain objective, fair, and reasonable ESG rating results.

Promotion and international exchange: SSE will invite listed companies with high ESG information disclosure quality to carry out activities and help them participate in ESG international forums to enhance the international influence of Chinese enterprises in ESG. SSE will also showcase its work on green finance and sustainable development and promote the ESG achievements of China's capital market.

ESG digitalization construction: SSE plans to develop ESG data collection functions, form an ESG database for listed companies, and support market data collection, infrastructure construction, and application. SSE will also explore the application of ESG data information in fund investment portfolios to provide reference for sustainable investment.

Hong Kong Mandatory Provident Fund Authority Strengthen ESG Fund Information Disclosure Requirements[26]

ESG Fund Information Disclosure Requirements

The Hong Kong Mandatory Provident Fund Schemes Authority (MPFA) releases a document aimed at requiring Mandatory Provident Fund trustees to strengthen ESG fund information disclosure requirements.

The Hong Kong MPFA believes that Mandatory Provident Fund trustees typically disclose information based on the Code on Disclosure for MPF Investment Funds. This document will strengthen the disclosure requirements for ESG funds in the Code.

Introduction to ESG Fund Information Disclosure Requirements

The Hong Kong MPFA plans to strengthen the disclosure requirements for ESG fund information from the following aspects:

ESG Fund Name

ESG fund names need to accurately display their investment strategies and reflect ESG characteristics correctly. ESG fund names should not be misleading and should not expand or emphasize ESG characteristics. Non ESG funds cannot be named, displayed, or marketed as ESG funds.

Disclosure of MPF Scheme Brochures

ESG funds need to disclose their investment priorities (such as climate change, green, low-carbon, or sustainable) and ESG evaluation criteria (indicators, ratings, or third-party labels) in the prospectus of the Mandatory Provident Fund plan. ESG funds need to disclose their investment strategies and how they consistently implement this strategy in their investment decisions. ESG funds also need to disclose asset allocation ratios, reference benchmarks, and risks or limitations in ESG investments.

More Information Disclosures

[26] https://www.todayesg.com/mpfa-esg-fund-information-disclosure-requirements/

ESG funds need to provide supplementary explanations of the above information, as well as ESG measurement and monitoring methods, ESG feature implementation, ESG asset due diligence, and data sources and assumptions, in the prospectus of the Mandatory Provident Fund plan or on the website. ESG funds that focus on climate themes need to disclose methods for measuring climate indicators.

Regular Review and Disclosure

The trustee of the Mandatory Provident Fund shall conduct an evaluation of ESG funds at least once a year and disclose information on ESG fund investment ratios, performance comparisons, participation in actions, etc. in the annual report. The trustee also needs to compare the information from the previous evaluations and provide relevant educational materials to assist investors in understanding ESG characteristics and risks.

Application of ESG Fund Information Disclosure Requirements

After the release of this document, Mandatory Provident Fund trustees are required to comply with information disclosure requirements. For existing ESG funds, trustees are required to disclose information as required before September 30th and in annual reports after November 30th. For new ESG funds, trustees need to provide self-compliance assessment documents or third-party certification documents to the MPFA to confirm their compliance with requirements. The Hong Kong MPFA plans to closely monitor regulatory policy developments and may provide further guidance on ESG funds in the future.

ASIFMA Releases Sustainability Guidelines for Asset Management Industry[27]

Sustainability Guidelines for Asset Management Industry

The Asia Securities Industry and Financial Markets Association (ASIFMA) releases sustainability guidelines for the asset management industry, aimed at summarizing methods for incorporating sustainable practices into the asset management industry.

The ASIFMA believes that sustainability policies and investor sustainability preferences require the asset management industry to incorporate sustainability factors into governance and decision-making to mitigate the reputation and greenwashing risks.

Sustainable Governance

The asset management industry needs to clarify the importance of sustainable development. In terms of governance, sustainable concepts and methods should be clarified by senior management, and sustainable goals should be supported by investment leaders to meet sustainable policies and provide corresponding products to customers. Asset management companies can create governance structure diagrams that illustrate how sustainable working groups or committees are incorporated into the governance structure and comply with risk management requirements in local jurisdictions.

Asset management companies also need to design cross functional sustainable investment policies to connect stakeholders such as investment, sales, risk, and compliance departments. These collaborations can include multiple aspects such as sustainable tools, guidelines, research, and monitoring of the sustainable features of products. For example, the compliance department will learn how to disclose sustainable information in fund prospectuses, annual reports, and other legal documents based on existing regulatory policies.

[27] https://www.todayesg.com/sustainability-guidelines-asset-management/

Sustainable Risk Management

Different jurisdictions have different attitudes towards sustainability, and for asset management companies operating globally, it is necessary to establish a comprehensive sustainability framework and adjust it according to local conditions. For example, companies operating in the European Union are required to comply with the Sustainable Finance Disclosure Regulation (SFDR), while companies operating in the UK are required to comply with the Sustainability Disclosure Requirements (SDR).

Asset management companies also need to pay attention to greenwashing risks when conducting business, that is, continuous information or statements that do not accurately reflect the sustainable characteristics of the company or product. The company needs to consider the anti-greenwashing rules issued by regulatory agencies and provide training to employees to understand the latest definition and expectations of greenwashing risks.

Sustainable Talent and Data

Asset management companies need to have sustainable talent to incorporate sustainability into their development. Singapore has released a sustainable finance transformation map, which mentions the sustainable skills required for different positions in the asset management industry. The company can consider hiring talent with sustainable investment experience and providing sustainable training to all employees. Companies can also incorporate sustainable goals into performance evaluations such as compensation to ensure the smooth implementation of sustainable goals.

To disclose sustainable information or obtain sustainable labels, asset management companies need to collect, organize, and analyze sustainable data. Some jurisdictions, such as Hong Kong and Singapore, have issued voluntary codes of conduct for ESG ratings and data providers, which asset management companies can refer to when adopting ESG data. Asset management companies can also apply ESG data solutions to investment analysis, risk management, and information disclosure to ensure consistency in output results.