SUSTAINABILITY IN CAPITAL MARKETS – KEY POLICY TRENDS

Daniel Wiseman

Head of APAC Policy

daniel.wiseman@unpri.org

The Principles for Responsible Investment

Investor-led, supported by the United Nations

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice.

Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions.

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

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UN PARTNERS:
UNEP FINANCE INITIATIVE
UN GLOBAL COMPACT

5,000+
SIGNATORIES:
ASSET OWNERS
INVESTMENT MANAGERS
SERVICE PROVIDERS

120+
US$ trn
ASSETS UNDER MANAGEMENT

Key Drivers For Responsible Investment

Manage risks, meet market demand and fulfil investor duty

1

Materiality

Increasing recognition within the financial community that ESG factors often play a material role in determining risk and return.

2

Market demand

Growing demands from beneficiaries and investors for greater transparency about how and where their money is being invested.

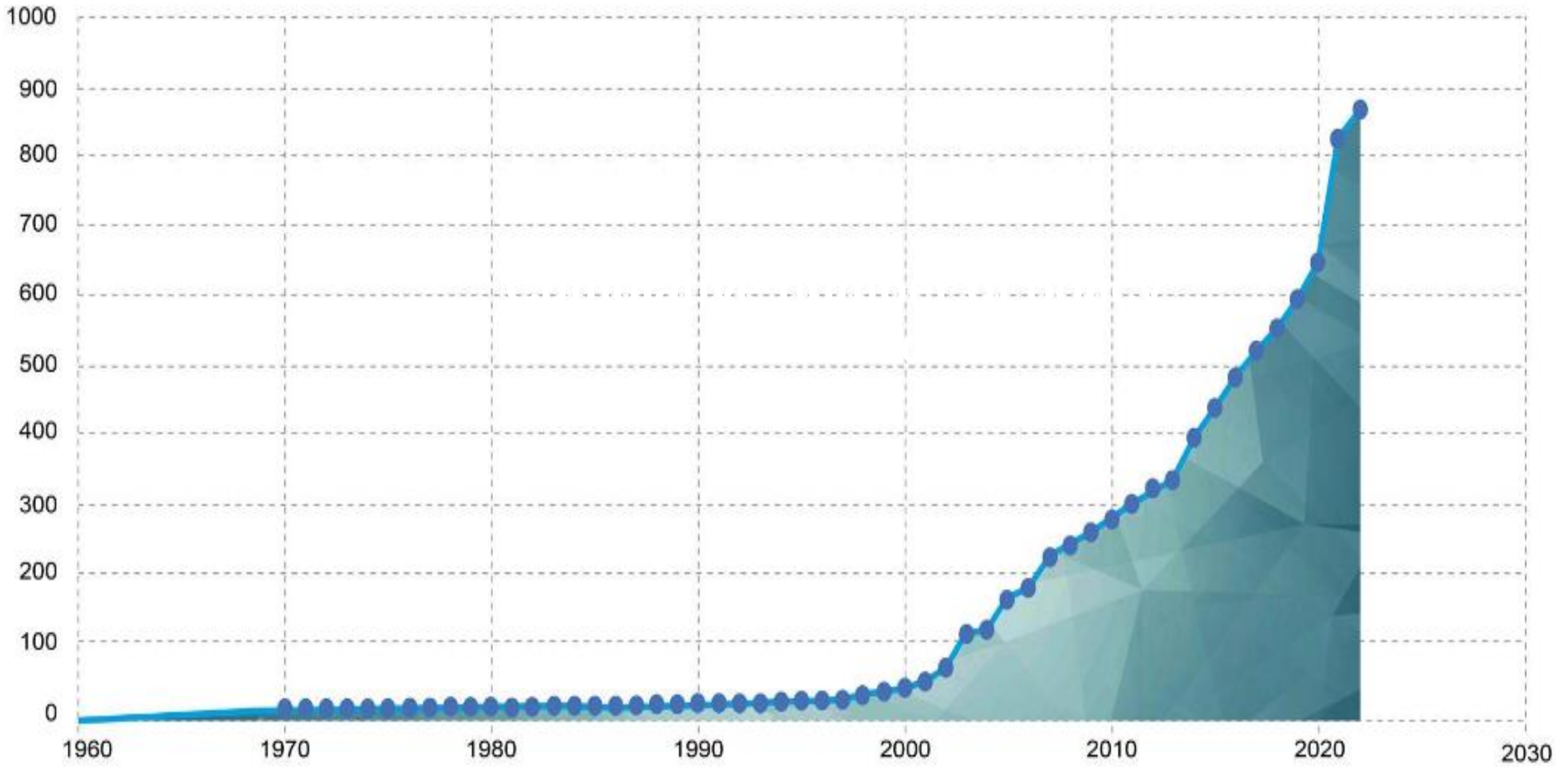
3

Regulation

Higher levels of regulatory guidance that incorporating ESG factors is part of an investor's fiduciary duty to their clients and beneficiaries.

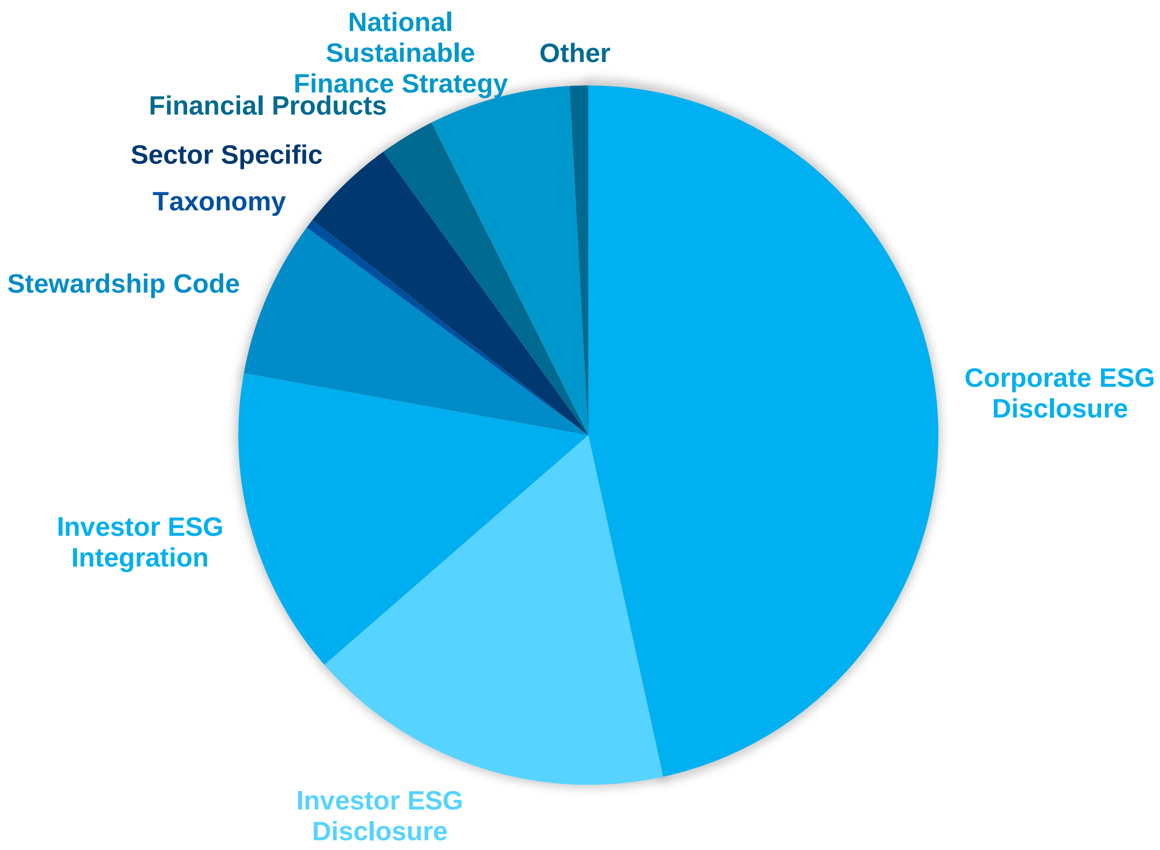
Sustainable Finance Policy Is Becoming Widespread

Cumulative number of policy interventions 1960 - 2022



Source: PRI Responsible Investment Regulation Database

What types of policies are we seeing?



Why Sustainable Finance Policy & Regulation Is On The Rise

Driving investments towards sustainable, inclusive, zero-carbon economies will require global regulatory alignment

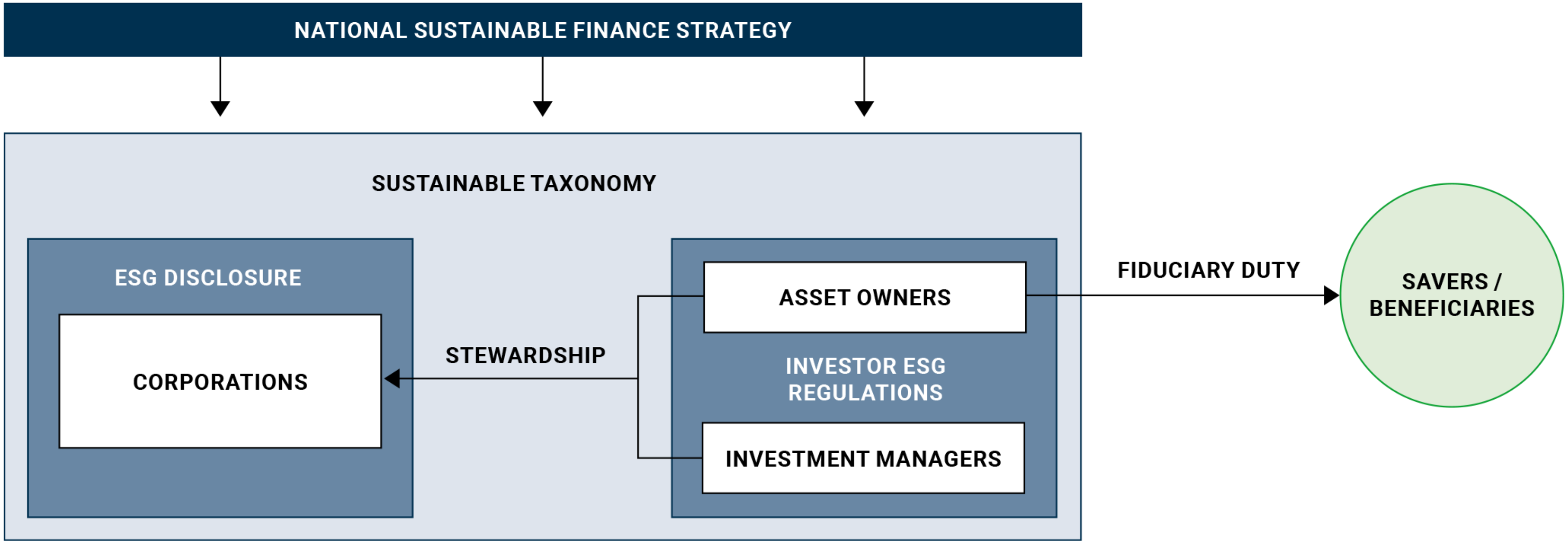
Sustainable finance and investment can:

- support national policy goals on climate change and the Sustainable Development Goals;
- enhance economic resilience and stability;
- improve market efficiency;
- increase countries' attractiveness as investment destinations.

As sustainable finance and investment policies develop, driving investments towards sustainable, inclusive and zero-carbon economies will require aligning regulatory frameworks globally.

Elements Of Sustainable Finance Policy & Regulation

Sustainable investment policy and regulation needs to cover five areas



Corporate ESG Disclosures

A lack of standardised regulations create a major barrier to sustainable investment

Corporate ESG disclosure policies:

the regulatory measures defining issuers' obligations to publish ESG data and analysis.

Corporate ESG disclosures:

- aim to provide investors with corporate ESG performance information that will inform investment decisions and engagement.
- are a prerequisite for responsible investment.

Without mandatory and standardised corporate ESG disclosure regulations, the resulting information is incomplete and not readily comparable, creating a major barrier for sustainable investment.

Effective stewardship frameworks

Stewardship:

the use of influence by investors to maximise the overall long-term value on which returns, and clients' and beneficiaries' interests, depend.

Stewardship codes:

- aim to formalise this investor expectation in regulation or guidance;
- are key tools for sustainable finance policy.

Effective stewardship produces real-world outcomes at scale. This matters because systemic risks seriously threaten the long-term performance of economies, investment portfolios and the world in which beneficiaries live.

Investor ESG Regulations

Investor ESG regulations:

measures that encourage investors to incorporate ESG issues in their investment decisions and disclosures to beneficiaries and other stakeholders.

They help remove the barriers to action by requiring investors to:

- integrate ESG issues into their investment practices; and
- report how they do so.

The definition of investor duties has profound implications for the investment chain – affecting decision-making processes, ownership practices and company management.

Taxonomies

Sustainable taxonomy:

a classification system to help investors understand whether an economic activity is environmentally and socially sustainable, and to navigate the transition to a low-carbon, inclusive economy.

A taxonomy aims to:

- set a common language between investors, issuers, project promoters and policy makers;
- help investors assess whether investments meet robust sustainability standards and are aligned with high-level policy commitments.

It can to help to increase investments that are consistent with sustainability goals, such as creating a net-zero, resilient and sustainable economy.

National Sustainable Finance Strategies

National sustainable finance strategies:

the broader national policy frameworks that aim to ensure that the finance sector supports the goals of sustainable and inclusive growth.

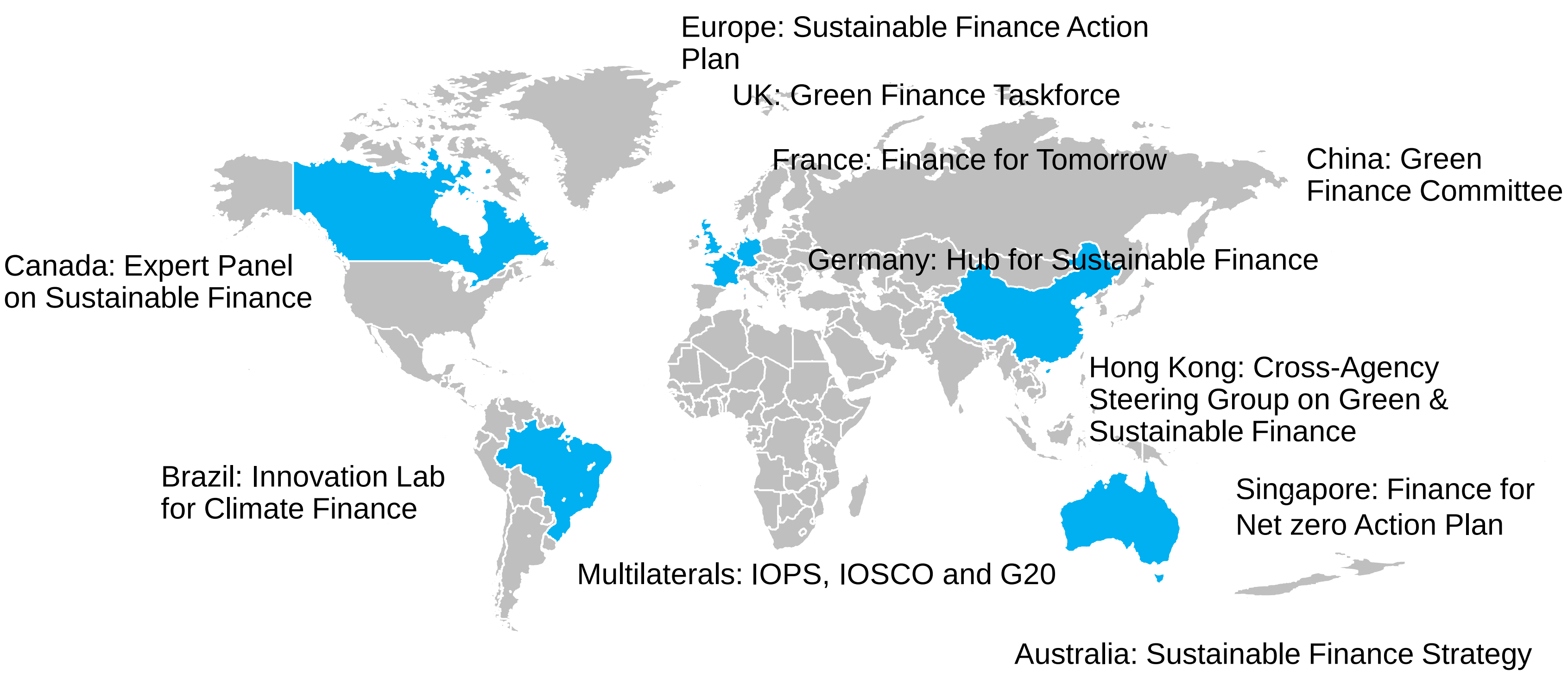
Decisions on capital allocation are ultimately driven by the views of companies and the finance sector on the risks and opportunities presented by different investments.

Corporate ESG disclosures, stewardship codes, investor ESG regulations and taxonomies will only drive capital flows to the extent that investments are incentivised or rewarded.

National sustainable finance strategies bridge this gap between the finance sector and the wider economy.

Key Trend: We are moving from sporadic adoption to comprehensive national sustainable finance strategies

Further policy making is inevitable.



Key Trend: Role of investors in policy making

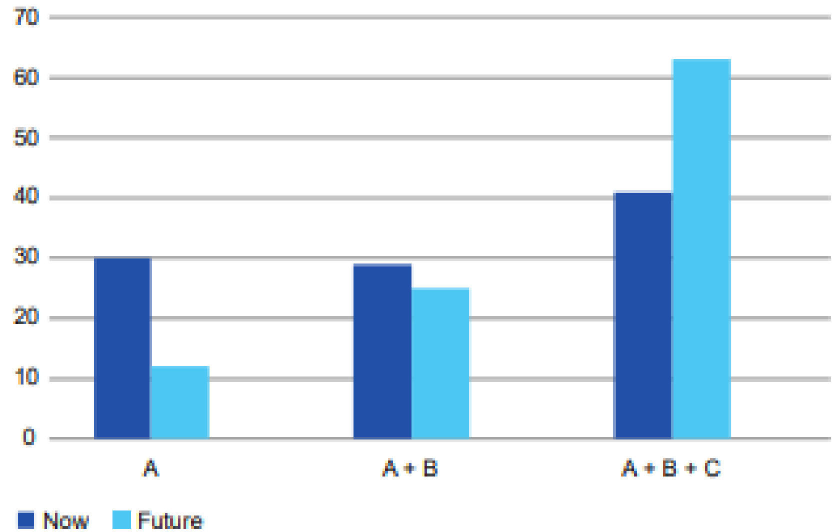
- Major sustainable finance developments being led/driven by industry
- Close collaboration developing between, government, financial regulators, industry associations and market actors
- Emerging norm of ‘market stewardship’ to help mitigate systemic sustainability risks and impacts,
- PRI
  - Global Policy Reference Group (GPRG)
  - Collaboration Platform

Key Trend: Real economy outcomes are the new focus for investors and for policymakers.

The new generation of government strategies have articulated a clear vision for sustainable finance which encompasses not just risks to the financial system, but the role the financial system has to play in financing the real economy.

At my organisation, responsible investment is:

- **A.** Managing risks
- **B.** Identifying real-world sustainability outcomes
- **C.** Taking action on real-world sustainability outcomes.



Source: PRI in a changing world consultation – what does responsible investment mean now and in the future?

To Conclude, Key Trends…

- **Sustainable finance policy matters.** There have now been over 730 hard and soft-law policy revisions, across some 500 policy instruments, that support, encourage or require investors to consider long-term value drivers, including ESG factors.

- We are **moving from sporadic adoption to comprehensive national sustainable finance strategies**. Further policymaking is inevitable.

- **Investors are increasingly involved** in public policy development and implementation on sustainable finance.

- **Real economy outcomes** are the new focus for investors and for policymakers.