



# International Approaches to Sustainability Reporting

Sustainability Reporting Landscape Profiles of  
Selected Countries Around the World: An Overview  
for Policy Makers

Mikael Henzler, Christian Metzler

In cooperation with

**giz**

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This publication is part of a series called “International Approaches to Sustainability Reporting”, produced by adelphi on behalf of the European Commission. Research has been conducted between Autumn 2020 and Summer 2021 in collaboration with local country experts and the [Reporting Exchange Database](#) by the World Business Council on Sustainable Development (WBCSD).

**The project underlying this report was contracted and funded by the European Commission. The responsibility for the content of this publication lies with the authors.**

## Imprint

**Suggested citation:** Henzler, M., Metzler, C. (2021): International Approaches to Sustainability Reporting, Sustainability Reporting Landscape Profiles of Selected Countries Around the World: An Overview for Policy Makers, International Approaches to Sustainability Reporting Series, Full Report, Berlin: adelphi.

**Published by:** adelphi consult GmbH  
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**Place and Date of Publication:** Berlin, July 2021

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# **International Approaches to Sustainability Reporting**

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## Abstract

Legislation, regulation and market conduct around sustainability reporting is changing at a fast pace in recent years. As jurisdictions and sustainability reporting initiatives around the world are ramping up their approaches to the topic, several actors – private ones such as corporates and investors, as well as public authorities such as regulators and supervisors – demur potential market fragmentation of national reporting requirements.

To support current debates of the standard setting community regarding the development of interoperable sustainability reporting standards, and to facilitate international cooperation in the standard setting process, this report aims to provide background information on the sustainability reporting landscape of eight countries. The information presented below is based on expert interview(s) and desk research.

Each country profile is structured as follows: **Section one** provides an overview on how international cooperation could benefit the country's development of sustainability reporting standards. **Section two** focusses on the main actors and legislations or market codes shaping the sustainability reporting landscape. The **third section** assesses current trends and dynamics. **Section four** provides some views on technical discussions in national context and the **last section** puts the country's developments into perspective with international trends.

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# Sustainability Reporting Landscape in Brazil

## 1. Potential benefits for international cooperation on sustainability reporting<sup>1</sup>

- If companies listed in the US and Europe, Brazilian companies operating multi-nationally and Brazilian companies owned by international investors were to align practice around international reference systems like TCFD (or the SDGs), this might lead the way for national companies, and build reporting capacity in Brazil.
- Developments increasing requirements of due diligence data around the global supply chains of multinational enterprises (e.g. in the EU) may increase pressure for an alignment of sustainability reporting standards, to reduce fragmentation and burden of reporting. For Brazil, this might be of particular importance in the mining and agricultural sector.
- Remarkable progress has been made the last years on social and governance issues, increasing the pressure for environmental reporting to follow suit with the financial sector expecting the TCFD to shape future developments.
- Co-operation by Brazilian actors in international efforts to accelerate and align practices on sustainability reporting globally, may also support accelerated, and most cost-effective, developments in Brazil.

## 2. Key features of the institutional set-up of the sustainability reporting landscape

### Actors and organisations

- **B3**, the [Brazilian Stock Exchange](#), has been [promoting “Report or Explain” practices](#) for sustainability reporting since 2012 through Item 7.8: “Description of other material long-term information” of the Brazilian Securities and Exchange Commission (CVM), as well as for green bonds for debt issuances. Since 2018, it promotes a report or explain initiative focussing on the SDGs, asking companies to regard their reporting towards them or explain why not.
- **CVM**, the [Brazilian Securities and Exchange Commission](#), requires companies to disclose ESG information such as environmental policy and risk factors related of environmental issues.
- The **Global Reporting Initiative** is relatively prominent in Brazil with about 200 companies reporting their sustainability information based on GRI standards; GRI has been promoting the issue actively over the last 10 years.
- **Integrated Reporting** has been promoting discussions about financial and sustainability integrated reporting in Brazil.

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<sup>1</sup> For this chapter, we would like to thank Gustavo Pimentel and Cristóvão Alves from [SITAWI Finance for Good](#), for their valuable insights into Brazil’s sustainability reporting landscape.

- Further important organizations are the Brazilian Institute of Corporate Governance ([IBGC](#)), the Carbon Disclosure Project (CDP), SASB, the Principles for Responsible Investment (UN PRI), the GHG Protocol, the UN Global Compact and FEBRABAN, the [Brazilian Federation of Banks](#).

### Legislation, market codes and guidelines

- **CVM instruction 552** (amending CVM instruction 480) governs the [CVM Item 7.8](#) which necessitates companies to disclose whether and how they report social and environmental issues (reference form 20F) and allows companies to directly upload their sustainability reports to the CVM.
- **CVM instruction 586** (amending CVM instruction 480) requires companies to report information regarding corporate governance based on the [Code for Corporate Governance Best Practices](#). Listed companies are [required to “report or explain”](#) according to the 2017 [Brazilian Corporate Governance Code for Listed Companies](#).
- **Resolution 4,327/2014**, the Guidelines for Social and Environmental Responsibility Policies of Financial Institutions, issued by the National Monetary Council (CMN) and adopted by the Brazilian Central Bank (BCB), obliges all financial institutions to assess and disclose environmental and social risks under the BCB’s Policy for Socio-Environmental Responsibility (PRSA).
- **B3’s [report or explain](#)** requires all companies listed in the Brazilian stock exchange to either report sustainability data or to justify why they do not do so.
- **B3’s corporate sustainability index** requires companies that aim to be included to fill out an extensive ESG questionnaire that includes information on “double materiality” and the information being disclosed publicly.
- Global Reporting Initiative (GRI) Standards.

## 3. Trends and dynamics

### Drivers for change – push-factors

- A community of environmentally concerned and/or engaged investors argues for the improvement of the current state of national sustainability reporting.
- As an example, in 2019 a Brazilian initiative called “[Investidores pelo Clima](#)” (Investors for Climate) have mobilized Brazilian investors with USD 340 billion of AuM towards a decarbonisation of their portfolios. These investors have been engaging with Brazilian companies to improve their transparency regarding the carbon footprint and decarbonisation.

### Drivers for change – pull-factors

- On climate, actors within the financial sector expect the TCFD to shape future developments on sustainability reporting.
- In a broader sense, actors within the financial sector see the SDG framework as able to shape future reporting practices.
- Remarkable progress has been made the last years on social and governance issues, increasing the pressure for environmental reporting to follow suit.

### Barriers to change

- Regarding climate, particular problems arise for companies with complex supply chains in the calculation of Scope 3 emissions.
- Regarding non-climate environmental information, many companies have reporting structures in place, however, the challenges lie in retrieving reliable, timely and standardized data.

### Outlook

- With five years ago only a minority of companies compiling and disclosing sustainability information, towards a situation today with 309 out of almost 400 listed companies filing a CSR report, of which more than 200 are based on GRI or SASB, it could be expected that the amount of companies engaging in sustainability reporting will further increase. This is also due to increased pressures from the international financial and (national) impact investing communities.

- Also, the amount of mandatory information required by regulators is likely to increase, especially regarding climate change and carbon emissions, environmental issues and diversity. Movements by regulators might be influenced by contemplations on decision-useful data, as well.

#### 4. Technical discussions in national context

##### Financial sector participants' understanding of materiality of sustainability data

- The term “materiality” is not clearly defined in Brazilian legislature or by financial regulators, nor is there consensus among Brazilian companies and the investor community on its exact meaning. Different actors look at either or both sides (“double materiality”) of the ESG-company nexus.
- The CMN’s Resolution 4,327/2014 introduced [two now widespread concepts](#) into the Brazilian financial sector that aim to classify credit operations and investments: relevance and proportionality. The former assesses the degree of exposure to environmental risks, the latter regards the compatibility of the PRSA with the nature, size and complexity of financial instruments.

##### Comprehensiveness and availability of environmental data concerning biodiversity and natural resources, and their climate-relevance

- As discussions around (climate-relevant) non-climate environmental data is currently only led in specialist circles, national approaches could not yet be identified within the means of this research activity.

##### Decision-usefulness of data with regard to investors' risk management

- Although regulators require companies to disclose financial reports timely – the annual report has to be published within two months after a fiscal year – sustainability reports without mandatory information do not become due. Integrated reports comprising financial and sustainability data can be published until April of the following fiscal year.

##### Availability of data to financial sector regulatory and supervisory authorities for idiosyncratic and systemic risk

- The Brazilian Central Bank (BCB) is member of the Network for Greening the Financial System. It considers social and environmental (“S&E”) risks as material for Brazil, as well as dangers of potential high exposures. The BCB is thus working together with the NGFS to elaborate a long-term strategy which supports national authorities in their S&E and climate risk management supervision.
- The [BCB collects data](#) on securities and deposits from trade repositories, data on loans on unit-level through SCR, BCB’s operated credit bureau and data from other governmental departments such as the firms and labour registry records.

#### 5. Relation between national and international practices

##### Convergence and divergence processes between national and international practices

- Although companies that are active in Brazil do provide a certain amount of environmental, sustainability information, the Brazilian financial sector data availability does not reflect international investors' growing sustainability data needs.
- Especially internationally active firms are using sustainability reporting frameworks that are known and popular on global scale.

##### Relation towards TCFD recommendations

- Apart from internationally aligned companies (see 1.1), the use of TCFD has also been promoted by FEBRABAN, the Brazilian Federation of Banks. Over the last three years, many banks have been implementing TCFD recommendations, improving their disclosures of climate risks. At the same time, the banking sector is pushing the productive sector to incorporate the TCFD recommendations, as well.



## 1. Potential benefits for international cooperation on sustainability reporting<sup>2</sup>

- Canada's reporting landscape resembles those of other developed nations, and its particular experience with environmental matters is high due to its geography and industrial setup. Nevertheless, with regard to the integration of ESG factors into corporate governance and companies' sustainability reporting, international best practices show that there are possibilities for enhancement for the Canadian corporate sector.
- Regarding climate, the Canadian government's conditionality on its Coronavirus support program for large employers requires that companies report according to the TCFD principles. This might leverage the comparably high usage of the framework and boost companies' abilities to gather data and integrate climate change issues into their reporting.
- An international or national push for the integration of climate change concerns into regulatory frameworks appears to be within the scope of companies' abilities in the short term.
- Regarding the wider environmental domain, companies do have to report a (wide) variety of data to the relevant authorities and incorporate environmental risk concerns increasingly in corporate governance and decision-making processes. However, these aspects do not necessarily translate into public reporting of (policy-relevant) environmental data, which renders it unclear for observers in how far environmental information is flowing into business decisions.
- Beyond climate, a clearer definition of which ESG-issues are material, and should be reported on and a push for transition from guidance (suggestions) to standards (requirements) would provide end users with more comprehensive and comparable ESG metrics and more decision-useful sustainability reporting data.
- So, in the field of wider-environmental reporting, international developments, international policy cooperation and pressures from international investors or might lead to improvements in the medium term.

## 2. Key Features of the institutional set-up of the sustainability reporting landscape

### Actors and organisations

- Toronto Stock Exchange ([TSX](#))
- Chartered Professional Accountants Canada ([CPA Canada](#))

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<sup>2</sup> For this chapter, we would like to thank Tiffany Flaherty from [Sustainalytics](#) for her valuable insights into Canada's sustainability reporting landscape.

- Canadian Securities Administrators (i.e., all local/territorial Securities Commissions and Superintendencies and the [CSA](#))
- Canadian Department of Environment and Climate Change ([ECCC](#))
- The Responsible Investment Association Canada ([RIA](#))
- Canada's National Contact Point ([NCP](#)) for the OECD Guidelines for Multinational Enterprises, which is formed as interdepartmental committee composed of officials from seven Federal departments
- The Canadian Standards Authority Group ([CSA Group](#))
- The Canadian Department of Innovation, Science and Economic Development ([ISED](#)), which is promoting CSR principles and practices to Canadian businesses
- The Mining Association of Canada ([MAC](#)) and the Canadian Institute of Mining, Metallurgy and Petroleum ([CIM](#))

### Legislation, market codes and guidelines

- The following guidelines refer to reporting obligations related to financial reporting aligned ESG-issues, capturing at most financially material ESG issues
  - The National Instrument 51-102, '[Continuous Disclosure Obligations](#)', requires certain companies to disclose an annual information form (AIF) which features material information of a company's business in the context of its historical and potential future development.
  - The National Instrument 58-101, '[Disclosure on Corporate Governance Practices](#)', which details companies' reporting requirements and puts a particular emphasis on diversity and gender aspects.
  - The National Instrument 58-201, '[Corporate Governance Guidelines](#)', is a guide for companies to enable their corporate governance to deliver effectively on the requirements set out in National Instrument 51-102.
- Further, there are two CSA Staff Notices which provide guidance on wider environmental issues that are continuously being expected by investors to be included in companies' annual reports
  - CSA Staff Notice 51-333 (2010), '[Environmental Reporting Guidance](#)', which provides further guidance on how and which environmental information should be disclosed by companies who are reporting under the continuous disclosure requirements of existing securities legislation; its annex details best-practice reporting examples.
  - CSA Staff Notice 51-358 (2019), '[Reporting of Climate Change-related Risks](#)', which provides (particularly small) issuers guidance on how to prepare and disclose material information on climate-related risks that is required by existing legislation and published in the MD&A<sup>3</sup> section of a company's AIF. Further, it provides examples for different sectors, questions that should be considered by boards with regard to climate change and guidance on issuers who aim to disclose forward-looking climate data.
- Toronto Stock Exchange's requirements
  - The TSX's [Company Manual](#), i.e. the 'Timely Disclosure Policy' (Part IV B.) that requires companies to disclose all information that could be material in the context of the company's activities. This includes ESG matters and encompasses companies' requirements with regard to National Instrument 58-101. Further, it relates to other guidance documents such as the [TSX Primer for Environmental & Social Disclosure](#).
  - Most reporting provisions required by the TSX require companies to report information directly to the competent authorities through a specialist system, which renders the amount of sustainability information disclosed in mainstream annual reports to appear limited; thus,

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<sup>3</sup> Management Discussion and Analysis

sustainability reporting in Canada seems to be concerned primarily with compliance rather than trying to influence investors' decision making.

- TCFD, GRI, OECD Guidelines for Multinational Enterprises are further prominent and followed reporting guidelines and frameworks.
- The US SEC's ['Guidance Regarding Disclosure Related to Climate Change'](#) (2010) had some impact on Canadian public companies.

#### Sectoral/specific reporting issues

- MAC's "Towards Sustainable Mining" ([TSM](#)) program, a set of guiding principles and performance elements for companies in all sectors of the mining and mineral-processing industry who wish to maintain their social licenses to operate. Members of MAC must measure and report annually on their performance
- The CIM's "[Standards, best Practices & Guidance for Mineral Resources & Mineral Reserves](#)", which provides guidance and standards for application at the TSX
- [Greenhouse Gas Emissions Reporting Program](#) and the [National Pollutant Release Inventory](#), which require companies who meet certain thresholds to report to the databases with their emissions, methods and verifications. Companies are also required to report on the import and production and the incidents of release of any toxic substances.
- [Arctic Waters Pollution Prevention](#) Act, which requires companies who carry out activities on the mainland or on islands in the Arctic waters to disclose any operations in danger of causing any deposit of waste.

### 3. Trends and dynamics

#### Drivers for change – push-factors

- The "[Final Report of the Canadian Expert Panel on Sustainable Finance](#)" urges the government to adopt 15 recommendations, grouped into the three pillars "The Opportunity", "Foundations for Market Scale" and "Financial Products and Markets for Sustainable Growth". The report also includes the recommendation to introduce the TCFD recommendations on a "comply or explain" basis into regulatory filings. Further, it is [reported](#) that the Canadian government aims to follow a recommendation on coordinating the creation of an ESG data platform.
- In comparison to a study from [2016](#), the [CPA found that in 2019](#) there was an increase in TSX-listed companies' disclosures with regard to climate-related risks and opportunities in regulatory filings, although the quality of disclosures still varies and 98% of companies assessed report climate issues in at least one of the four TCFD categories.
- The CPA and TSX convened sector specific roundtables on sustainability reporting in the [energy](#) and [mining](#) sectors, bringing together companies and investors to help aligning sectoral sustainability reporting with investors' needs.
- Although the level of sustainability information provided by companies is comparatively high, data provided to regulatory bodies does not necessarily flow into companies' sustainability, annual or integrated reports even if it is of interest to the investor communities and other stakeholders.
- Since late August 2020, the Canada Pension Plan Investment Board (CPPIB), Canada's biggest pension fund, [asks companies to disclose according to SASB and TCFD](#), which is in line with recommendations of the "[Capital Markets Modernization Taskforce](#)" that has been mandated by the Government of Ontario to propose updates regarding the regulatory requirements of the Ontario Securities Commission.
- There is increased pressure on banks and their financing activities, particularly lending and investments in companies who are building or expanding pipelines in Canada. Mining and energy are major industries in Canada and their business development and projects require capital from banks, including Canadian banks, who are still willing to fund such industries. How the Canadian

government manages to support the economy through the energy and mining sectors while simultaneously managing transition and physical climate risks, both at the energy/mining companies and the banks that provide financing, will be an important change and discussion point as more stakeholders focus on the environmental impact.

- Canadian investors recommend the TCFD to continue to develop consistent and science-based climate-change scenarios for use by asset owners, asset managers and companies, and continue to maintain a global database on best practices in climate-related financial disclosures and associated tools. There are general recommendations on what should be included in sustainability reporting:
  1. Disclose future goals and strategy and link current year's performance with previously disclosed goals and strategy;
  2. Integrate key CSR issues into the annual report and other media;
  3. Disclose more about key stakeholders including why these stakeholders were important, what their concerns were and how the company engaged with stakeholders, including frequency;
  4. Provide balanced reporting, including a discussion about challenges not just successes, and how issuers are addressing them.

### **Drivers for change – pull-factors**

- In support of companies hit by the Corona crisis, the Canadian government created the "[Large Employer Emergency Financing Facility](#)" (LEEFF) which, however, requires participating companies to start reporting according to the TCFD recommendations.
- An initiative of banks, asset managers, pension funds, NGOs, auditors and industry groups has recently formed a task force with the Canadian Standards Authority (CSA; via the Standards Council of Canada, the Canadian member of the ISO) to develop a made-in-Canada taxonomy for "[Green and Transition Finance](#)". The Taxonomy, which is aimed at considering Canada's particular carbon-intensive industries, will now be developed by a CSA Technical Committee of around 40 members that has its first meeting on October 3rd. Canada's financial community, including Canada's six largest banks, some pension funds, insurance companies and investors, will finance the standardisation procedure.
- Newer guidance notices by the CSA (i.a. 51-358 on climate change related disclosure) show an increased interest of the securities commissions on corporate governance issues.

### **Barriers to change**

- Availability of data and investment in systems to track ESG-related data. It is often a big investment for firms to update their IT infrastructure, especially for data points that are not part of the business decision-making process, i.e. tracking immaterial data for immediate business operations, which is, however, still considered a relevant and expected disclosure of ESG risks.
- Regarding physical climate risks, some companies/industries might not have extensive data on the location of projects/investments within their systems that keeps track of the financial valuation of these projects/investments. As a result, the systems cannot quickly filter the projects/investments in locations at higher risk. Companies will need to invest in resources (both, technology and time) to better map where and how their business is exposed to climate risks.
- Additionally, it might be the case that employee and privacy protections regulated by the government reduce the amount of available information at company level to report on diversity and inclusion metrics. This regards e.g. to which percentage of the overall workforce/different levels of management belongs to a certain race, data which could show progress on diversity. Companies in the U.S. can already provide much more granular data on diversity than Canadian companies.

## Outlook

- A focus on defining materiality for sustainability aspects of business activities that could have a financial/business risk on a company if not taken into consideration
- A shift from guidance to standards so that sustainability reporting is comprehensive and comparable
- Sector-specific reporting requirements
- Considering how existing accounting and assurance standards apply to climate-related financial information, including those on fair value measurements, impairment assessments, asset retirement obligations, contingent liabilities, use of specialists, and materiality assessments.
- Emphasis on climate-related scenario analysis

## 4. Technical discussions in national context

### Financial sector participants' understanding of materiality of sustainability data

- In the TSX Company Manual, material information is understood as “any information relating to the business and affairs of a company that results in or would reasonably be expected to result in a significant change in the market price or value of any of the company's listed securities” (Sec. 407).
- However, materiality assessments made by Canadian companies are not always meaningful, and there is a tendency to default to reporting on topics and issues for which information is easily available.

### Comprehensiveness and availability of environmental data concerning biodiversity and natural resources, and their climate-relevance

- Resource efficiency and biodiversity are more often disclosed in CSRs than is circularity, particularly in the energy and mining sectors. Companies in this sector report on their water and carbon intensity as well as GHG reduction programmes and their biodiversity programmes.
- Industries not directly impacting climate-change, e.g. banking, may still report on resource use such as kW of energy consumed in a year, water consumption, paper usage, etc.,
- Further, regarding banking, there is very little reporting on the banks' impacts on biodiversity through their lending and investments. Nevertheless, their financing decisions do have an impact on the environment but this level of information is not there (yet).

### Decision-usefulness of data with regard to investors' risk management

- Asset owners and managers in Canada emphasize identifying and monitoring a series of leading indicators that provide early signs of key industry trends that could indicate the pace and direction of the transition to a low-carbon, climate-resilient economy. These include:
  - investee's strategy regarding climate change and the impacts of risks / opportunities on the business model of the company
  - opportunities and investments in energy efficiency, clean technology and renewable energy
  - internal carbon prices, if any, of investee companies
  - financial impact of carbon taxes (current and projected)
  - GHG emissions Scopes 1 and 2 (absolute and intensity-based emissions); some are beginning to assess Scope 3 emissions
  - methane emissions, a particularly potent GHG emissions
  - targets and achievements in reducing GHG emissions.
- Investors have used sustainability reporting, and specifically climate-related financial information for engagement with investee companies, proxy voting, and investment decision-making
- Investors also had the following recommendations for companies when it comes to sustainability reporting:

- Work with industry associations to establish a set of comparable, industry-specific, climate-related disclosures, including assumptions underpinning scenario analysis
- Provide more entity-specific (i.e., avoid boilerplate), comparable climate-related financial information together with impacts to ensure the company is telling its own value-creation narrative
- Improve reliability of climate-related disclosures by having them independently verified as feasible

#### **Availability of data to financial sector regulatory and supervisory authorities for idiosyncratic and systemic risk**

- The Bank of Canada (BoC) is an active member of the NGFS and recently appointed Tiff Macklem as Governor, who is one of the four authors of Canada's Expert Panel on Sustainable Finance.
- The BoC is actively working on [scenario analysis of economic and financial risks stemming from climate change](#) and [aims to conduct climate stress tests](#) for the Canadian financial sector and to inform monetary and prudential policy making, as the country is a net exporter of energy products.

### **5. Relation between national and international practices**

#### **Convergence and divergence processes between national and international practices**

- The Canadian finance community is aware of international trends on ESG, in particular with regard to the European markets and aims to follow suit.
- However, in contrast to the development of the European Sustainable Finance Taxonomy, the country's own approach seeks to position itself as "transition taxonomy", aiming for higher engagement of resource intensive industries and granting the overall economy and all its agents more time to adjust their business models and planning an even steeper GHG reduction later on.

#### **Relation towards TCFD recommendations**

- As the recent trend in the CPA studies regarding TCFD reporting indicates, companies are starting to be aware of climate-related reporting. Requiring companies taking relief from the LEEFF program will likely increase businesses' literacy for climate risk integration which might ease further moves of policy integration.



## 1. Potential benefits for international cooperation on sustainability reporting<sup>4</sup>

- Chile is currently at a pivotal situation which will define its path regarding sustainability reporting for the coming years, as regulators as well as the Ministry of Finance are updating the guiding regulations in the field, planned by the end of 2020.
- Either, Chile will take a route that updates regulations to include international reporting trends such as the TCFD, or internal pressures lead to slightly increased outcomes that fall short the policies of other countries, which might come costly due to Chile's exposure to climate and environmental risks.
- As international investors do not play a significant role on national capital markets, it could not be expected that policy makers will face pressures from this side. This role could be taken up by policy makers in other jurisdictions that aim to achieve an alignment of national reporting requirements.
- In any case, further regulations have to be introduced with care and over a certain period of time that allows companies, service providers, regulators and supervisors to learn and adapt to the new conditions and requirements.

## 2. Key Features of the institutional set-up of the sustainability reporting landscape

### Actors and organisations

- The **Green Finance Roundtable** ([Mesa de Finanzas Verdes](#)) is an initiative grouping many stakeholders organized by the Ministry of Finance. It includes the public sector regulators (including the Central Bank, the Financial Markets Commission and the Pensions Superintendency) and the relevant financial business associations, supported by the IDB, the British Embassy and the UNEP Finance Initiative.
- The **Financial Markets Commission** ([CMF](#)), Chile's financial market integrated supervisor, is the main entity defining the mandatory sustainability reporting rules for financial institutions (most insurance companies and banks) and listed companies in the country.
- There are many private sector actors that have been embracing ESG issues (particularly **gender**, but not only) and promoting them as voluntarily commitments in the local market, including prominent listed companies (some of them part of multinational groups but not only), some of the reporting frameworks and their promoters, universities, consultants (audit firms, ratings firms, governance and sustainability firms), international organizations, industry associations, chambers of commerce, the stock exchanges, some domestic pension funds and investment banks.

<sup>4</sup> For this chapter, we would like to thank Héctor Lehuédé, corporate governance consultant and Partner at [Razor Consulting](#), for his valuable insights into Chile's sustainability reporting landscape.

- Unfortunately, in Chile **stock exchanges do not exercise** any influence on reporting practices via their listing requirements.

#### Legislation, market codes and guidelines

- The main mandatory rules are those issued by CMF's [Regulation 30 of 1989](#), which governs listed companies' disclosure requirements, among other issues. CMF rules (*Normas de Caracter General*) [386](#) and [385](#) of 2015 updated Regulation 30 to address minimum requirements for the reporting of corporate practices for listed companies.
- A [recent survey of financial institutions](#) found that 43% of them do not follow any voluntary reporting framework, index or international standards. The rest followed the Dow Jones Sustainability Index (26%), GRI (19%), PRI (18%) UN Global Compact (15%), TCFD (9%), Ecuador Principles (8%) the IIRC (6%), and others (14%). This may not be representative of the entire market, as the financial sector may be ahead of the rest due to close scrutiny from the regulators, but is a recent measurement that could help to assess the most influential references.

### 3. Trends and dynamics

#### Drivers for change – push-factors

- Environmental sustainability reporting standards in Chile are currently under average, no matter what international standard or best practices they are compared against.
- Some stakeholders are demanding an upgrade of the mandatory sustainability reporting rules that the CMF is working on, and a few are asking the regulator to go even further, as to include mandatory TCFD disclosure.
- Investors are not a strong force among those stakeholders. The Chilean capital market has one of the largest ownership concentrations in the world. Many companies have controllers that hold 60 or 70 percent of the shares and only 24 percent of the total market capitalization is owned by foreigners. Of that already small share, compared to most jurisdictions, two thirds are owned by foreign controlling multinationals. The result is that the share of foreign institutional investors in the Chilean capital market is only 7%, often too small to bother engaging with firms directly (they use proxy advisors instead) or for demanding better reporting standards (see <https://www.oecd.org/corporate/Owners-of-the-Worlds-Listed-Companies.htm>).
- Some listed companies see the evolution of the sustainability reporting rules as inevitable and are ready to embrace change when needed. They hope that the rules will end up being sensible and adopt materiality and a proportional approach.
- These companies would also like to see a delayed entry into force as many of them are not yet collecting nor measuring the information they will be required to report. Unfortunately, others would be happy to continue not having to report at all, and do not have plans or ambition to measure or monitor their performance under any ESG scale.

#### Drivers for change – pull-factors

- As already mentioned, the CMF is currently reviewing its sustainability reporting regulations, seeking to include ESG criteria and risks.
- There are no legislative initiatives or bills of law currently in Congress addressing these issues and it is unlikely there will be as it is regarded to be located mostly in the regulation domain.

#### Barriers to change

- For most companies it would not be currently possible to provide data on GHG emissions or other environmental impacts as the data is not being measured or recorded even by the companies themselves, let alone their value chains. This would require a strong push (like the adoption of mandatory rules) and a significant investment in training and development of skills related to measurement frameworks to generate incremental gains over a learning curve of a number of years. This is one of the arguments that have been used in favour of adopting an ambitious, aspirational, sustainability reporting standard now and coupling it with a gradual entry into force.

- Some leading companies are already reporting voluntarily under IIRC or GRI frameworks, but many limit themselves to what is mandatory and even then, adopt a check-the-box approach rather than trying to offer meaningful disclosure. Plain vanilla risk disclosures have not been a subject of attention by investors or regulators, despite a few prominent cases where unreported risks materialized with large consequences. Boards feel little liability exposure for these issues.

## Outlook

- The CMF is working to upgrade its sustainability reporting requirements (Rules 386 and 385) and has publicly announced that the updated rules will place more emphasis on the environmental and social aspects of ESG. Until today, they have only suggested that disclosure will cover the firm's footprint in the environment and not yet the risks and opportunities that climate change imposes on the firm (still under discussion). The regulation is expected to be completed within 2020 and to enter into force between 2021 and 2022.
- International developments and market trends have played an important role in incentivizing the CMF to update these rules, which are expected to substantially increase the amount of data publicly available regarding ESG factors, risk management and governance among listed companies, insurance companies and banks, but fall short from adopting mandatory TCFD reporting (until now).

## 4. Technical discussions in national context

### Financial sector participants' understanding of materiality of sustainability data

- At the end of 2019 the CMF unveiled a draft revision to one of its sustainability reporting disclosure standards (Rule 386), adopting a GRI-inspired list of issues to report on the impact the company has on society and the environment. The regulator then opened a [public consultation](#) where one of the most recurrent comments received was the absence of a materiality rule would make the GRI-inspired approach meaningless. The CMF authorities have said they will remedy this but have not yet offered a definition or guidance as how they intend to introduce materiality into their proposed sustainability reporting rules.
- Current practices of environmental sustainability reporting neither adequately address policy nor the financial sector's needs, as they are currently insufficient for both.

### Comprehensiveness and availability of environmental data concerning biodiversity and natural resources, and their climate-relevance

- As discussions around (climate-relevant) non-climate environmental data is currently only led in specialist circles, national approaches could not yet be identified within the means of this research activity.

### Decision-usefulness of data with regard to investors' risk management

- Beyond expert groups, the concept of decision-useful data is likely not well understood, which is reinforced and shows in a lack of drive of the concept regarding its implementation into policy.

### Availability of data to financial sector regulatory and supervisory authorities for idiosyncratic and systemic risk

- The CMF is a member of the NGFS.

## 5. Relation between national and international practices

### Convergence and divergence processes between national and international practices

- Forward-looking disclosure requirements, the use of scenarios, materiality definition and a longer outlook for the analysis of climate related risks and opportunities are points in case that are started to be considered in national context.
- Chile is at an inflection point in the development of its sustainability reporting standards and can choose to either adopt pre-TCFD rules and remain 5-10 years behind the curve, or embrace a TCFD standard

and join the leading jurisdictions in adopting the reporting that investors and policymakers will require worldwide going forward. Considering the climate related risks that Chile could face considering its economy and geography, choosing the first path may prove costly in a not so distant future.

- Chilean regulators do not have significant pressure from international investors as their share of the local capital market is small. While the MSCI Emerging Market Index includes 1.410 firms in 26 emerging economies, only 17 Chilean companies are included in the index because of the low free float they have, and all of them weight only 0.72% in the index.
- Chile like the rest of the world is currently struggling with the pandemic, but also with a social crisis that started in October 2019 (similar to the *gilets jaunes* in France). Both are driving a pronounced economic downturn. Regulators may consider these circumstances not fit for adding new reporting costs to companies, nor to introduce more barriers of entry to IPOs, thus preserving Chile's second-rate status quo.

#### **Relation towards TCFD recommendations**

- Although the CFM is working on an update of the rules 385 and 386 it is not clear yet if the TCFD's recommendations will be taken up and shaped into national policies.
- Uptake of "state-of-the-art" policies like the TCFD will heavily rely on how regulators decide facing abovementioned paths.



## 1. Potential benefits for international cooperation on sustainability reporting<sup>5</sup>

- China's governance on sustainability reporting has gained enormous momentum and top-level government support in the recent years.
- The country's major regulators and financial market institutions are setting the scene for a higher coherence, quality and availability of sustainability data, particularly through top-down policies. The overarching goals are to foster the development of financial markets, enhance oversight on environmental impacts of companies and improve on companies' risk management of those impacts.
- Due to the diverging environmental legislations in different Chinese provinces, differences in listing requirements of stock exchanges, i.e. between frontrunner and other trading centres, and different regulatory competences regarding privately, publicly or foreign owned companies, there is need for consolidation of reporting requirements.
- Through international cooperation, including the promotion of internationally recognized concepts such as TCFD, Chinese sustainability reporting requirements could be strengthened in a way that allows the further integration of Chinese financial markets into global capital markets while accounting for Chinese domestic peculiarities and the fostering of China's sustainable development agenda.

## 2. Key features of the institutional set-up of the sustainability reporting landscape

### Actors and organisations

Overall, there is no leading ministry or state department determining future developments of China's regulatory approach towards sustainability reporting. The approach taken rather leans on the joint efforts and cooperation of various departments on several levels. The most important actors are listed below:

- **China Securities Regulatory Commission (CSRC)**: The CSRC is the main securities and futures regulatory body in China, issuing regulations, providing guidance documents and developing strategies for financial market developments; it also acts as financial supervisory authority.
- **Green Finance Committee (GFC)**: The GFC is a not-for-profit professional organisation, chaired by Dr Ma Jun and established in 2015. It aims to strengthen the coordination and cooperation between financial policies and industrial policies, guide financial institutions to innovate green financial products and services, and increase support for green industries, energy conservation and environmental protection; currently, it consists of six working groups.

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<sup>5</sup> For this chapter, we would like to thank the [International Institute of Green Finance \(IIGF\)](#) for their valuable insights into China's sustainability reporting landscape.

- [People's Bank of China \(PBoC\)](#): The PBoC is the PRC's central bank, conducting monetary policy and regulating financial institutions on the Chinese mainland. The PBoC acts largely independent, however, remains under formal control of the State Council of the PRC, rendering it an executive department of the cabinet.
- [National Development and Reform Commission \(NDRC\)](#): The NDRC is an agency under the control of the State Council and responsible for the (macro-)economic development of mainland China. It is strongly involved in the administration and planning of the economy.
- [Ministry of Ecology and Environment \(MEE, formerly Ministry of Environmental Protection \(MEP\)\)](#)
- [China Banking and Insurance Regulatory Commission \(CBIRC, formerly separate banking \(CBRC\) and insurance \(CIRC\) regulatory authorities\)](#): The CBIRC regulates and supervises the Chinese mainland banking and insurance institutions and acts as antitrust agency.
- [Ministry of Finance \(MOF\)](#)
- [China Institute of Finance and Capital Markets \(CIFCM\)](#): The CIFCM, established in 2012 and formerly known as the Beijing Institute of Securities and Futures, is a policy research institute under the direct administration of the CSRC, tasked with conducting research and policy support for the development of Chinese capital markets.
- [International Institute of Green Finance \(IIGF\)](#): The IIGF of the Central University of Finance and Economics (CUFE) is a university-based research institute and an independent and non-profit think tank established in China. It researches a wide range of green finance topics such as credit, bonds, insurance, carbon-trading, information disclosure, international financial institutions, and risk assessments. In cooperation with international organizations, the domestic government and other institutions, the IIGF has carried out in-depth research on promoting localized ESG information disclosure in China, established localized green evaluation system, ESG evaluation system, etc. It contributed extensively to piloting environmental information disclosure of financial institutions.
- [Asset Management Association of China \(AMAC\)](#): AMAC is an organization of asset management professionals. Primary responsibilities of the association include the education and organization of members, the safeguarding of legitimate interests of investors and the formulation and implementation of industry self-disciplinary rules.
- [Shanghai Stock Exchange Science and Technology Innovation Board \(SSE STAR Market\)](#), an equity market established in 2019 as technology focussed exchange; [China Beijing Environmental Exchange \(CBEEEX\)](#), [Shanghai Environment and Energy Exchange \(SEEE\)](#) and [China Emissions Exchange Guangzhou \(CEEX\)](#) are exchanges that offer services related to (sub-)national emissions trading systems and investments into particular "green" products, assets and securities. (*There are eight Carbon Emission Trading Exchange markets: Shenzhen, Shanghai, Beijing, Guangdong, Tianjin, Hubei, Chongqing, Fujian*).

### Legislation, market codes and guidelines

The issuance of legislations and guidelines on sustainability reporting by state or market actors concentrated on voluntary improvements and promotion of more coherent sustainability disclosures of market actors.

- The [Guidelines for Establishing the Green Financial System](#), issued jointly by the PBoC, NDRC, MEE, MOF, CSRC, CBRC and CIRC in 2016, are a foundational framework for the greening of the Chinese financial system, along specifications set by the Central Party Committee and the State Council. Among many policies that foster green market infrastructures, it put forward a "three-step" promotion path for environmental information disclosure by corporates.
- The revised version of the [Code of Corporate Governance for Listed Companies](#), issued by the CSRC in 2018, increases the alignment of the corporate governance of securities companies with international standards, including an increased level of ESG disclosure and further aspects such as green development and poverty alleviation activities, that aim towards the integration of social responsibilities.
- The CSRC's [Standard No. 26 for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public](#) encourages companies to actively disclose their activities towards social responsibilities according to an industry's characteristics. Further, it requires companies that contribute heavily to environmental pollution to disclose major environmental information. In May 2021, the CSRC issued a [public consultation](#) on this article to concentrate and update ESG-related reporting in a newly created "Environmental and Social Responsibility" section, necessitating

companies to disclose environmental penalties and encouraging companies to report on their performance regarding the protection of the environment, pollution prevention and the fulfilment of environmental responsibilities.

- The [SSE Guidelines on Listed Companies' Environmental Information Disclosure](#), issued in 2008, encourage particular listed companies to disclose environmental information as part of their CSR report or as separate report.
- The SSE STAR Market, created in 2019 with some features especially of interest for tech companies, [stipulates in its listing requirements](#) that listed companies shall disclose their social responsibility performance in their annual reports and prepare and disclose social responsibility reports, sustainable development reports, environmental responsibility reports, and other files as appropriate.
- The [Shenzhen Special Economic Zone Green Finance Regulations](#) of November 2020 are the first laws regarding the disclosure of environmental information. They require mandatory disclosure of environmental impact information generated by companies, projects, or assets that receive green financial funds. Furthermore, Shenzhen is considered to be at the forefront of China's developments regarding economic reforms and has historically implemented international trends on Chinese mainland first. As a pilot for green finance and environmental legislation, the Green Finance Regulations should position the Greater Bay Area as an important global financial technology and sustainable finance centre.

### 3. Trends and dynamics

#### Drivers for change – push-factors

##### Status quo

- There are **no mandatory and/or uniform sustainability reporting disclosure requirements for listed companies**, revealing a gap between international developments around ESG reporting and China.
- **At central government level**, the 'Guidance on the Construction of the Green Financial System' promotes a top-down green transformation and sustainable development path. In the document the government laid out its views on the establishment of an ESG disclosure system for listed companies.
- **At the company and investor level**, ESG has not yet been integrated into companies' strategic operations. The limited ESG integration into corporate governance translates into little confidence of investors in corporates' ESG practices.
- Currently, most **sustainability data are dispersed** in national departments, local governments, and third-party certification agencies for legal proceedings, administrative penalties, environmental management, etc. An integrated data information platform has not yet been formed, rendering access to all existent data difficult for domestic and foreign stakeholders.
- However, there are **mature and localized third-party ESG data integration platforms** in China, like IIGF's ESG database, that derives its data from relevant public channels such as social responsibility reports, annual reports, and the company's official website. It also features information on negative public opinions and penalties.

##### Concerns with status quo

- **Domestic investors** are increasing their awareness for environmental/climate opportunities and risks, and **international investors** are moving into the (domestic) market with increasing pace. [UN PRI and UK PACT](#) pointed out that ESG data quality is a concern of all investors and that asset managers are bound to find workarounds such as active engagement and qualitative research when trying to understand Chinese companies' performance on sustainability issues.
- AMAC's "[2019 ESG Trends and Prospects](#)" report and the "[Facilitating Cross-Border Capital Flows to Grow the China Green Bond Market](#)" report, jointly issued by the Climate Bonds Initiative and IIGF, point out the internationalization of Chinese stock and bond markets and predict that along the further opening of the Chinese capital markets, sustainability reporting will increasingly align with global standards.
- The revised version of the "Code of Corporate Governance for Listed Companies" issued by the CSRC in September 2018, promotes ESG information disclosures to be in line with the global developments. It stipulates that listed companies should disclose environmental information, poverty alleviation and other social responsibilities related information and corporate governance related information.

### Drivers for change – pull-factors

- Some countries and regions have **introduced strategic frameworks and action plans to promote sustainable development from the top-level** in recent years (e.g. the EU's Sustainable Finance Action Plan, UK's Green Finance Strategy or developments around the TCFD). In the future, more detailed mechanisms or standards will be developed around these frameworks to promote sustainability reporting practice further. Stakeholders within China **follow such international developments closely**.
- Hong Kong revised its 'Environmental, Social and Governance Reporting Guidelines' in 2019, adding mandatory disclosure requirements and upgrading some voluntary disclosures to 'Comply or Explain,' further improving the quality of sustainability reports.
- On **domestic level, there is great attention of the central government and regulatory authorities** on sustainability reporting. Top-level initiatives are meant to speed up sustainability disclosure of listed companies, which still relies mostly on the companies' willingness to report.
- The recently manifested goal of the Chinese government for carbon neutrality by 2060 is a further top-level design stimulus for China's sustainability reporting-related systems.
- Policies to address the aim of carbon neutrality by 2060 include the [Guidance on Promoting Investment and Financing to Address Climate Change](#), jointly issued by the MEE, NDRC, PBoC, CBIRC and CSRC in October 2020 and addressed predominantly to state-owned banks and governments on provincial and municipal levels. It aims to establish climate performance evaluation standards, information disclosures, incentivise the development of green finance instruments, foster green finance cross-border flows and improve the Chinese emissions trading system. Further, the 14<sup>th</sup> Five-Year Plan, developed under the influence of the Covid-19 pandemic and financial and climate change risks, focuses on prevention and restoration in several environmental domains, and multi-party coordination and synergies in environmental governance, marine protection and the response to climate change.

### Barriers to change

The main obstacles are as follows:

- Lack of frameworks and requirements at the policy level to guide companies in preparing and releasing sustainability reporting.
- Lack of uniform standards for information disclosure by regulators, and uneven quality of information disclosure.
- Lack of systematic ESG databases or information platforms for collecting, processing and analysing ESG data, and low transparency of ESG information.
- The concept of sustainable development has not yet been established at the corporate level, and ESG has not been incorporated into corporate governance such as business strategies and operations, risk management and other aspects.
- Regulators lack high quality ESG and sustainable development professionals.

Way forward regarding ESG data:

- Generally, Chinese **companies are able to provide sustainability data on their own operations**, with the disclosure being mainly on air pollution, conventional pollutants in wastewater, waste gas, soil, solid and hazardous waste and other environmental information. Although China has not yet made mandatory disclosure requirements on greenhouse gas emissions, many leading listed companies voluntarily disclose information on greenhouse gases and emission reductions in their sustainability reporting.
- Stakeholders collecting ESG data face **severe problems in the assembly, exchange and management of sustainability data**, as the issuance of sustainability information in China is still at a voluntary stage, the accessibility to sustainability data is limited and the lack of a unified information disclosure platform leads to an information asymmetry problem.
- There is large demand for the development of coherent ESG databases in China. As the topic currently receives attention from policy makers, progress is being made
  - As of October 2020, the [IIGF ESG database](#) includes 2019 and 2020 annual ESG data of all A shares; environmental data of the CSI 300 in the past 9 years; ESG data of the CSI 800 in the past five years, and ESG data of all sample companies in the Shanghai-Shenzhen-Hong Kong Stock Connect in the past two years and 188 companies from the sci-tech innovation boards.

Overall, the number of samples has reached more than 8,000 companies. At the same time, the database also includes the ESG ratings of 2,279 bond issuers, including 737 listed entities.

- Future development of ESG databases tends to be driven by top-level design, and multi-party ESG databases are already explored, improved, and integrated in different ways. For example, the IIGF has pioneered in setting a [evaluation system](#) for Chinese markets; WeBank works with AI technology to capture alternative data to improve their database contents.
- **Industrial and Commercial Bank of China (ICBC):** Based on the experience of international rating agencies, domestic green credit and risk identification practices, ICBC fully considers the characteristics of China's national conditions and the characteristics of domestic enterprises, combines ICBC's internal customer data with third-party authoritative data, and is the first domestic commercial bank to build an ESG green rating system (however, for internal use only). Further, it formed a green development index and green investment index.

## Outlook

- China has made **remarkable progress regarding sustainability reporting in the last decade**. Although sustainability reporting is not entirely mandatory and uniform, companies built up their reporting capabilities and are better positioned to fulfil policy aims as described in above sections. Similarly, new regulations in frontrunner regions require financial institutions to disclose the environmental impacts of their investee companies. Given the momentum in the community and on government level, a further tightening of regulation is expected for the next five years.
- The most active players encompass policy and regulatory authorities, academic research organizations on green finance and sustainable development, as well as particular actors from the financial community; companies, however, are lagging behind.
- International discussion on sustainability reporting and ESG do play a role in China's development
  - Since 2016, AMAC held many international seminars and thematic forums on the themes of ESG and responsible investment. It promotes ESG reporting to listed companies to improve the quality of sustainability data disclosure and corporate governance.
  - In 2017, the People's Bank of China and eight other central banks around the world jointly launched The Network of Central Banks and Supervisors for Greening the Financial System (NGFS). They actively cooperate on climate risk regulation and green financial development around the world. The Industrial and Commercial Bank of China (ICBC), the Industrial Bank, and other financial institutions have reacted positively to conducting environmental risk analyses and stress tests in some primary industries.
  - Most recently, China and the US have been [driving forces in the reestablishment of the G20 Sustainable Finance Study Group](#) which held its first of a new series of meetings at the end of March 2021.

## 4. Technical discussions in national context

### Purpose of sustainability data

- The current disclosed contents of sustainability reporting are in line with the sustainable development goals. However, the current level of disclosure is far from promoting responsible investing effectively. According to the ESG data from IIGF, as of September 2020, a total of 1010 listed companies have disclosed social responsibility reports (24.99%).
- At the investment level, the securities regulatory authorities have not yet issued ESG guiding documents on responsible investment. Institutional investors have a vague understanding of the boundaries of ESG investing and are constrained by the asymmetry of ESG information.

### Financial sector participants' understanding of materiality of sustainability data

- At present, China has not implemented mandatory ESG disclosure and lacks quality criteria for relevant indicators, hence showing that the Chinese view on the materiality of ESG data is not yet consolidated, neither legally nor in different institutions' understanding. Some enterprises state outstanding performances unilaterally when disclosing relevant ESG information, which lacks practical reference

values. Policy regulators are constantly issuing guiding documents to standardize ESG standards and promote the marketization of ESG gradually, increasing scope and quality of companies' and the finance sector's ESG disclosures; an example for the progress are the 2020 "[Self-Regulation Rules for Listed Companies on the SSE STAR Market](#)".

- China demonstrates frequently the practice of setting macro goals first, and gradually following up with specific policies and guidance. CSRC's "Standard No. 26 for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public" (see above) proposed the introduction of mandatory environmental information disclosure by all listed companies, including specific information disclosure requirements and frameworks, reference measurements, etc., providing companies with a clear development direction and follow-up to promote their realization processes.

### **Comprehensiveness and availability of environmental data concerning biodiversity and natural resources, and their climate-relevance**

- Currently, environmental information disclosure is mainly based on air pollution, water environment, soil, solid waste, and other environmental information. However, further environmental information about biodiversity, recycling, resource efficiency, etc. is less available, and seriously insufficient in some fields.
- China's system of environmental disclosure has progressed in the construction of environmental supervision, environmental law enforcement and information disclosure platforms. Overall, there are still gaps in environmental information disclosure practices in China, and the overall information transparency needs to be improved.
- Availability of ESG data is of significance for China's overall ecological development strategy. Particular challenges are, however,
  - the significant differences in emission standards in different industries, and some difficulties in the horizontal comparison within industries;
  - the differences in the environmental information disclosure systems of provinces and cities and the process of regional information integration. Although raw data is available, there is a lack of effective and efficient integration, development and sharing of environmental information.

### **Availability of data to financial sector regulatory and supervisory authorities for idiosyncratic and systemic risk**

- The availability of consolidated data for ESG related financial risks is limited, however, several relevant authorities are contributing in the national discussions on sustainability reporting and ESG data, particularly the CSRC, PBoC and CBIRC.
- The People's Bank of China, founding member of the NGFS, has conducted pilot work on environmental information disclosure among banks, requiring the institutions to disclose their environmental governance, policy and impact. Further, increasing attention is paid to climate and environmental risks and work regarding environmental stress testing.
- The CBIRC introduced relevant policies to encourage banking financial institutions to incorporate environmental and social factors into their bank lending activities.

## **5. Relation between national and international practices**

### **Convergence and divergence processes between national and international practices**

- China is part of the NGFS and collaborates on climate stress testing exercises.
- Along with the US, China supported the reconvening of the G20 Sustainable Finance Study Group, which was recently upgraded to working group status within the G20 Finance Track, and is acting as co-chair next to the Italian presidency.

### **Relation towards TCFD recommendations**

- [Research by CDP](#) suggests that the implementation of TCFD recommendations within financial institutions is still in its early phase, although progress is being made. Particular gaps were identified in the provision of quantitative data, Scope 3 emissions and target setting.



## 1. Potential benefits for international cooperation on sustainability reporting<sup>6</sup>

- As major industrialised economy, Japan's institutions making up the regulatory environment of sustainability reporting are well-established and capable of shaping it according to the shifting priorities of policies (e.g. Japan's pledge to emit [net-zero GHG emissions by 2050](#)), businesses and finance.
- Information flows of companies towards authorities are well-established and ample especially in the environmental sphere. Further, the competent governmental authorities are vocal on the importance of ESG integration into businesses' corporate governance and sustainability reporting and have issued several guidance documents. These calls for further integration of sustainability concerns are being echoed by the industries.
- Nevertheless, especially international and internationally-oriented investors raise concerns regarding the decision-usefulness of companies' sustainability disclosures, and there is doubt that all material ESG information find their way into annual reports.
- International cooperation and the sharing of expertise might be conducive to foster companies' understanding and adequate reporting of material and decision-useful information, and help investors understand what information to look for when managing long-term risks of their portfolios. Japan's success story regarding the support for the TCFD recommendations could be complemented by further exchange and contextualisation on wider ESG issues.
- In this process, it is key to consider the right stakeholders for discussions and exchanges, taking into account the institutional setup of governmental authorities, business interests and needs of the financial sector.

## 2. Key Features of the institutional set-up of the sustainability reporting landscape

### Actors and organisations

- The **Ministry of Economy, Trade and Industry (METI)** is by far the most powerful and leading actor for any matter that requires Japanese companies to behave in a particular way. This encompasses legislation on companies' corporate governance and sustainability reporting practices.
- The **Financial Services Agency (FSA)** is the principal financial regulator of Japan and is leading a number of activities in the space of sustainable finance and sustainability reporting. However, to impact companies' practices it requires support of METI.

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<sup>6</sup> For this chapter, we would like to thank [Dr. Kim Schumacher](#), Lecturer in Sustainable Finance and ESG at Tokyo Institute of Technology and Honorary Research Associate at the University of Oxford for his valuable insights into Japan's sustainability reporting landscape.

- The **Ministry of the Environment (MOE)** receives a lot of information on companies' impacts on the environment through particular specialist systems and is active in the field of sustainability reporting, as well. However, similar to the FSA, it likely needs support by METI to introduce legislation that directly affects companies as the latter has a remit for most business-related ESG matters.
- The **Government Pension Investment Fund (GPIF)** is the largest pension fund that is active in Japan and recently gained major attention due to embracing ESG investing as a “first-mover” among Japanese asset managers.
- The **Bank of Japan (BoJ)**, member of the TCFD since late 2019, is exploring its potentials as central bank in the field of sustainable finance and green monetary policy, also in cooperation with the FSA. However, it is not yet that active.
- The **Japan Exchange Group (JPX)** is part of the Sustainable Stock Exchanges (SSE) Initiative. It requires listed companies to report on financial and corporate governance issues and provides guidance to companies such as Japan's Corporate Governance Code. Requirements set by the JPX are within legal requirements of METI; in the field of sustainability they are at most voluntary or based on the principle of “comply or explain”.
- The **Japanese Business Federation KEIDANREN** is a very powerful lobby organisation of Japanese (multinational) companies, representing particularly the interests of carbon intense and heavy industries. It is known to lobby for lax environmental and social legislation in jurisdictions around the world (in Europe i.e. jointly with the [Japan Business Council in Europe](#)) and has well-established links into METI.
- The **ESG Finance High level Panel**, based at the MOE, brings together players from the financial markets and the government to discuss and bolster the development around ESG finance. It first met in January 2018 and so far, released recommendations and founded two task forces on impact and regional finance.
- End March 2021, the Japanese Government installed the “**Expert Panel on Climate Change**”, to support cross-sectoral policy making in the wake of international conferences such as COP26 in Glasgow in November 2021.

#### Legislation, market codes and guidelines

- The **Companies Act** (Parts [I-IV](#), [V-VIII](#), Act No. 86 of 2005, amended 2019 & to enter into force by mid-2021) is foundational for the corporate governance of large companies ([definition](#) i.e. through size of capital or debt or setup of internal control system, independent of a listing of the company). It clarifies the relationship, rights and obligations of and between companies and shareholders, regulates companies' annual reporting and, as [set forth in the latest revision](#), requires outside directors to be present on boards.
- The FSA **Financial Instruments and Exchange Act** (“FIEA”, Act No. 25 of 1948) and related guidelines ([Fair Disclosure Rule Guidelines](#), 2018; [Guideline for the Disclosure of Corporate Affairs](#), 2018; [Guideline for the English-language Disclosure System](#), 2012) contain the so-called “J-SOX” provisions for the internal control of publicly listed companies, amongst other provisions regarding the regulation of securities companies and trading. The J-SOX provisions are detailing the information eligible companies have to disclose publicly on a regular basis, i.e. on corporate governance and material information.
- The JPX/FSA **Japan's Corporate Governance Code** (2015, revised 2018) is a “comply or explain”- and principle-based code of conduct for companies listed in tier 1 and 2 of the Tokyo Stock Exchange (TSE, part of JPX). It requires companies' disclosures on several corporate governance issues such as shareholders' rights, remuneration policies, leadership and accountability. Although ESG issues are mentioned, the WBCSD suggests that “there is no regulatory mandate for companies to disclose thorough, consistent and comparable information on social and environmental sustainability issues through their mainstream reporting channels” ([WBCSD & CDSB 2019](#), p. 5) – meaning that reporting requirements by JPX are unlikely to surpass regulations set by METI. An update of the Corporate Governance Code is expected for June 2021.
- The FSA **Japan's Stewardship Code** (“Principles for Responsible Institutional Investors”, updated 2020) is a guidance document for institutional investors that now places a new emphasis on ESG issues, aiming to increase mid- and long-term value creation for asset owners and beneficiaries.
- The MOE **Green Bond Guidelines** (2017, updated 2020) and **Green Loan and Sustainability Linked Loan Guidelines** (2020, same link) are providing bond issuers/lenders with guidance on green debt

instruments. [According to the Climate Bond Initiative](#), green bond issuance in Japan grew by 70% from 2018 to 2019, with the buildings, energy and transport sectors dominating issuance (92%). 90% of issuance is reviewed externally, with 60% of projects by volume receiving a Second Party Opinion. Yet the growth of green bonds issuance, also [tracked by the Japanese government](#), lacks behind the developments in Europe and North America.

- Another [Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation](#) (the link includes a presentation on the topic by METI in 2018) was released by METI in 2017 as outcome of the Study Group on Long-term Investment towards Sustainable Growth, being itself a part of the Japan Revitalization Strategy. The guidance aims to increase the mutual understanding of companies and investors and how the former maintains a business model apt to create value added in the long run.

### 3. Trends and dynamics

#### Drivers for change – push-factors

- A number of agents articulate concerns with the current sustainability reporting landscape in Japan. In the investor community, **international investors**, as well as **activist investors**, are significant stakeholder groups urging for change. The former group starts considering ESG concerns as material and integrates them into their risk managements; the latter group actively tries to alter companies' corporate governance regarding ESG factors, including large asset management companies organized in the Institutional Investors Group on Climate Change ([IIGCC](#)).
- **Domestic and international multinational companies** (e.g. Sony, Apple) that aim to reduce the GHG emissions of their supply chains to net-zero are reflecting publicly about moving their production lines away from Japan as the countries' energy mix is strongly reliant on carbon-intense sources and progress is currently not satisfactory to the companies' needs.
- The bulk of the Japanese domestic finance community is still acting rather conservative on ESG issues – including ESG risk management – and cannot be considered a push factor for sustainable finance, even though mentioning of the SDGs and ESG is continuously rising.

#### Drivers for change – pull-factors

- A key pull-factor for the integration of ESG issues in finance – and hence, companies' sustainability reporting – is the worlds' largest **Government Pension Investment Fund** ([GPIF](#)). The preceding CIO, Hiro Mizuno, is largely seen as first-mover among Japanese asset managers for considering ESG factors in the investment process, facilitating ESG integration for peers and enabling demand for further developments on the side of reporting constituents.
- **International regulation** on sustainable finance further puts Japanese reporting requirements on the spot as international business and investor communities rely on principles and standards of benchmark markets and stock exchanges (e.g. Green Bonds of the Development Bank of Japan (DBJ) listed on the Luxembourg Green Exchange (LGX)). This is in part driven by leadership of particular jurisdictions or initiatives, as well as by a lack of confidence in domestic legislation, supervision and scrutiny of Japanese authorities regarding the quality of sustainable instruments.
- The FSA is currently [updating legislation and guidance on different issues](#), increasing its engagement with Japan based corporates and financial institutions. The actions were announced in the wake of the establishment of the Japanese government's new "[Expert Panel on Climate Change](#)".
  - Jointly with the Tokyo Stock Exchange (part of the JPX), the FSA creates a framework for green and transition bonds;
  - Jointly with METI and the MOE, the FSA develops guidelines for the low-carbon transition of key technologies and industries, to increase investments in those industries;
  - In an update to the Japanese Corporate Governance Code, due in June 2021, the FSA aims to align the recommendations with the TCFD or equivalent frameworks;
  - For financial institutions, it will provide guidelines on scenario analysis, as well as "client engagement on climate-related risks and opportunities".

### **Barriers to change**

- So far, new legislative approaches towards companies' reporting requirements have not emerged. Otherwise, section three (see above) suggests that for the moment, regulatory and legislative authorities are focussing on publishing (voluntary) guidance documents that might set the right course, but might lack clout to penetrate corporate behaviour.
- A root cause for this might lie in the structural setup of Japan's C-suites, where little diversity, cross-shareholding of conglomerates and limited access of outsiders and independent directors to boards create homogeneity of corporate attitudes that disincentivises disruptive developments, innovation and altering of corporate governance altogether.
- Further, in many companies the capacities to deliver high-quality and -quantity of material ESG data is restricted due to bottlenecks in human and technical resources.

### **Outlook**

- Corporate governance is a frequently discussed topic in Japanese specialist and government circles, as the country is steering through a continuously challenging macroeconomic situation (including demographic change, low productivity of the manufacturing sector, transition from a bank- to a market-based financial system and more). As leading industrial state, Japan is well suited to implement reforms in the field of sustainable finance and sustainability reporting. Pressure for advancements from globally active investors (domestic and international) will increase further, leaving it expectedly to METI to satisfy the financial sectors' needs in the mid-term.

## **4. Technical discussions in national context**

### **Purpose of sustainability data**

- Environmental information fed by companies to (mostly) specialist systems commissioned by regulatory authorities (e.g. MOE) might not flow into annual or sustainability reports of companies. This reveals that environmental information is considered a compliance issue by companies, rather than a service to financial market participants to inform investment decisions.

### **Financial sector participants' understanding of materiality of sustainability data**

- As the GPIF case illustrates, the consideration of ESG issues in Japan is still a novelty and requires actors to breach with the common practice of "only" regarding financial indicators in the investment process.
- However, the understanding and recognition of ESG risks – particularly climate-related financial risks – is rising in the financial industry and market authorities, including the FSA and the BoJ.
- Especially long-term oriented investors who scrutinise the risk-return-ratios of their investments are learning to integrate ESG issues into their risk management to increase the resilience of their portfolios. Further, disclosure of risks with financial implications due to companies' impact on ESG issues (reputational losses, litigation) is still low due to limited consideration in companies' corporate governance and annual reports.

### **Comprehensiveness and availability of environmental data concerning biodiversity and natural resources, and their climate-relevance**

- According to research of the [WBCSD and CDSB \(2019\)](#), more than 70% of reporting provisions are focused on environmental matters, including 11 reporting requirements encompassing issues around land protection, water and air pollution, energy and resource efficiency and climate change.

### **Availability of data to financial sector regulatory and supervisory authorities for idiosyncratic and systemic risk**

- Climate change is regarded as potential risk to financial stability, which prompted both the Bank of Japan and the FSA to join the NGFS.

- The lack of adequate sustainability data is hiding risks (including on stranded values) on the portfolio level which might add up and cause financial turbulences. However, there is no information on data collecting activities of regulatory authorities ([apart from an initiative of the MOE on XBRL sustainability reporting data](#)).

## 5. Relation between national and international practices

### Convergence and divergence processes between national and international practices

- In contrast to the EU and recent movements by the US, Japan's approach to sustainability reporting and investing – i.e. the corporate governance/stewardship codes – remain voluntary, despite their use is being strongly encouraged. Through fast developments in other economic and financial centres, Japan risks isolation in its approach to sustainability reporting.

### Relation towards TCFD recommendations

- Japan's non-financial companies are the [global number one](#) quantity-wise showing support for the TCFD recommendations in 2020, underlining businesses' endeavours and claims to fight climate change.
- The process around TCFD is actively promoted by [METI](#), as well as the [MOE](#), which both assist companies to communicate their climate-related concerns, and the latter providing guidance for companies to conduct scenario analyses in line with the TCFD recommendations.



## 1. Potential benefits for international cooperation on sustainability reporting<sup>7</sup>

- Singapore is a leading financial centre that is on par with other advanced markets in terms of market infrastructure, regulatory environment and size of its capital markets. Comparable to international markets, guidance for sustainability reporting is well progressed and is based on the *comply-or-explain* principle.
- With the introduction of sustainability-related initiatives such as the FIRST-strategy, the Climate Impact X (CIX) exchange or comprehensive datasets on sustainable bonds, the Singapore Stock Exchange (SGX) aims to establish Singapore as leading regional hub of sustainable finance.
- Singapore's leading role on ESG markets enables its policy makers to contribute internally (e.g. taxonomy) as well as internationally (e.g. in an IOSCO Sustainable Finance Taskforce) to the further development of the sustainability/ESG agenda.

## 2. Key features of the institutional set-up of the sustainability reporting landscape

### Actors and organisations

- **Singapore Exchange (SGX)** is the Singaporean Stock Exchange and is an active institution regarding the promotion of sustainability reporting in Singapore, connecting authorities, financial institutions and corporations.
- **Monetary Authority of Singapore (MAS)**: The MAS is the Singaporean Central Bank and integrated financial regulator for financial sector institutions, promoting and developing the development of Singapore as a financial centre
- **Industry bodies:**
  - Global Compact Network Singapore (**GCNS**): organised workshops to build capacity
  - Singapore Institute of Directors (**SID**): awareness raising & training among Directors, awards for sustainability reporting and corporate governance (**SCA**)
- The **National Environment Agency**, regarding mandatory reporting on emissions by large carbon emitters and on waste management
- **Green Finance Industry Taskforce (GFIT)**, a MAS-convened group of financial sector participants and associations, academia, civil society organisations and corporates that promotes the sustainable finance agenda.

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<sup>7</sup> For this chapter, we would like to thank [Michael Tang](#), Head of Listing Policy & Product Admission at Singapore Exchange Regulation and Management Committee Member of the Global Compact Network Singapore, for his valuable insights into Singapore's sustainability reporting landscape.

- The **Association of Banks in Singapore (ABS)** represents the interests of the commercial and investment banking communities and counts 154 domestic and international banks or financial institutions as members, as of 31 January 2021.

### Legislation, market codes and guidelines

- Since the SGX introduced its listing rules in 2016, as specified in the SGX [Sustainability Reporting Guide](#), sustainability reporting has increased 8-fold
  - [SGX Listing rule 711A](#) requires companies to prepare an annual sustainability report including elements specified in [listing rule 711B](#) on a 'comply or explain' basis;
  - [SGX listing rule 703](#) requires companies to disclose any information that might be material regarding the valuation of a corporation or its securities in monetary value.
- Through multi-stakeholder-processes and cooperation with civil society organizations, [several sectors explored and identified material ESG factors](#) and developed sector-specific guidelines. They exist, for example, in the real estate and building sector, tourism and maritime sector. In own research, the World Business Council for Sustainable Development adds energy supply, water and waste utilities, manufacturing, water transport, chemicals and the retail sector to the list ([WBCSD 2018](#)).
- MAS
  - [Code of Corporate Governance](#), applicable to publicly listed companies in Singapore on a 'comply or explain' basis. The 'code' is a principle-based document that, since its last update in 2018 includes the active engagement of companies with stakeholders, promotes ethical and sustainable long-term orientation of the company and linking managements' remuneration with the company's long-term success regarding the interest of shareholders and other stakeholders.
  - [Guidelines on Risk Management Practices/on Environmental Risk Management](#), published in December 2020, for banks, asset managers and insurers. They set out the MAS' expectations regarding environmental risks management and cover aspects such as governance and strategy, risk management and disclosure of environmental risk information. Asset managers are [granted an 18 month transition period](#) to implement the guidelines, with the MAS engaging with larger companies from Q2 2021, to monitor their progress in the implementation.
  - MAS' Green Finance Action Plan, compiling and bundling activities in different areas to make Singapore a "[leading centre for green finance in Asia and globally](#)" (see below).
- As neither the MAS or SGX prescribe reporting standards, international private frameworks are used frequently, e.g. GRI and SASB.
- The ABS issued, as part of the GFIT, a [Handbook on Implementing Environmental Risk Management for Asset Managers, Banks and Insurers](#), that aims to complement the guidelines outlined by MAS (as described above).

## 3. Trends and dynamics

### Drivers for change – push-factors

- **Companies' sentiments evolved from reluctance to adoption** since the SGX introduced higher reporting requirements.
- Two **long-term oriented sovereign wealth funds** ([TEMASEK](#), [GIC](#)) encourage companies to provide enhanced sustainability reporting, leveraging their influence into further Asian countries such as Thailand, Japan, Malaysia, etc.
- Apart from large funds, UN PRI currently counts 48 signatories from Singapore that aim to better integrate ESG factors into their investment decisions. The increased momentum also comes from changing consumer sentiment that places more emphasis on the sustainability of financial portfolios and mandates asset managers to divest from unsustainable activities.

### Drivers for change – pull-factors

- The MAS GF Action Plan encompasses several activities in the area of sustainable finance:
  - Issuance of management guidelines for environmental risks;
  - 2 billion USD Green Investment Programme, in cooperation with committed asset managers;

- Support of external reviewers and rating agencies in Singapore to grow the green market ecosystem;
- Incentives and grant schemes for the mainstreaming of green/sustainability linked loans;
- Connect with research institutes for Asia-focussed climate research and training programmes;
- Launch of the “Future in Reshaping Sustainability Together” ([FIRST](#)) platform that collects and showcases SGX’s progress on promoting ESG on its markets.
- Further, the [MAS co-chairs an IOSCO Technical Expert Group](#) that aims to assess whether it acknowledges the IFRS Foundation’s Sustainability Standard Board as global standard setting authority. [In a report](#) that came out of this IOSCO “Sustainable Finance Taskforce” (STF) in June 2021, IOSCO declared to consider backing the IFRS Foundation’s plans on the establishment of an International Sustainability Standards Board (ISSB).
- The Green Finance Industry Taskforce (GFIT) proposed a [green and transition taxonomy](#) in end January, that conceptually aligns with the EU Sustainable Taxonomy and has been open for consultation until March 2021. Its aim is to identify economic activities that could be considered green by Singaporean financial institutions, and features a section for “transition activities” that aims to take into account companies’ starting positions. Currently, quantifiable thresholds are being elaborated.

### Barriers to change

- Although SGX is promoting and acting on the availability of material environmental and climate data – i.e. [partnering with Nasdaq](#) for better data access to Green, Social and Sustainability (GSS) related bonds – the literacy of market participants regarding the materiality of ESG issues still has space to develop. This is particularly true for (smaller) issuers and investors with national or regional focus.

### Outlook

- Singapore has developed significantly over the last years and is now [on par](#) with other developed nations.
- According to the GF Action Plan, the MAS aims to develop Singapore further as leading centre for sustainable finance.

## 4. Technical discussions in national context

### Comprehensiveness and availability of environmental data concerning biodiversity and natural resources, and their climate-relevance

- Climate reporting is so far the most apparent sustainability metric developed in the market. Nevertheless, other areas are also being worked and reported on: further established reporting practice exists regarding resource efficiency and waste. Regarding biodiversity, many SGX companies are frontrunners their reporting (e.g. [Wilmar International](#) or [Olam International](#)).
- Companies are also starting to look at their supply chains. However, they do not necessarily include scope 3 greenhouse gas emissions in their reporting, but rather focus on social aspects such as child labour and corruption.

## 5. Relation between national and international practices

### Convergence and divergence processes between national and international practices

- As in Singapore, the EU Taxonomy is considered to be EU-centric (e.g. regarding the use of the NACE industry classification system), the GFIT [calls for a taxonomy](#) that is shaped to local / ASEAN circumstances, e.g. mapping of key industries to be included in the taxonomy (fossil fuels, agriculture). The inclusion of “transition activities” suggests, that for this category some benchmarks will be less strict than for activities that are labelled green in the EU or Singapore.

### Relation towards TCFD recommendations

- The guidelines issued by the MAS in late 2020 on environmental risk management (see above) [do incorporate the TCFD recommendations](#). The guidelines add reputational risk as further material risk factor for corporates next to physical and transition risks.



## 1. Potential benefits for international cooperation on sustainability reporting<sup>8</sup>

- Corporate sustainability reporting in South Africa is comparatively advanced, particularly in social and governance issues, with integrated reporting framework facilitating South Africa's finance community's materiality assessments.
- This comes from strong policy objectives around South Africa's socio-economic transformation, however, reporting practices vary considerably depending on the type of company that is looked at.
- Internationally aligned key sustainability metrics could further enhance national and international financial institutions' abilities to identify climate and environmental risks and increase international comparability of national companies' sustainability capabilities.
- Larger listed companies - particularly multinational enterprises or their subsidiaries - appear to be well positioned for further international cooperation in the field of sustainability reporting: international reporting standards such as IIRC and GRI are already utilized.
- This does not hold for the maturity of state-owned enterprises' and small and medium sized companies' reporting practices (with some notable exceptions for SOEs such as ACSA, Transnet and Eskom).

## 2. Key features of the institutional set-up of the sustainability reporting landscape

### Actors and organisations

- Governmental departments with different data needs, such as
  - The Department of Environmental Affairs (inter alia: National Water Act (Notice No. 1353); Air Quality Act; Waste Acts; Dust control regulations (Notice No. 827); Environmental Management Act)
  - The Department of Mineral Resources (i.a. Social and Labour Plan)
  - The Department of Energy
  - The Department of Trade, Industry and Competition
- [Johannesburg Stock Exchange](#) (JSE), the most important stock exchange in South Africa
- The [National Treasury](#), South Africa's Finance Ministry
- The [Financial Sector Conduct Authority](#) (FSCA) and the Prudential Authority (PA), which emerged 2018 after the dissolving of the Financial Services Board (FSB)

<sup>8</sup> For this chapter, we would like to thank Corli le Roux, Independent Specialist on Sustainability and Associate at [Six Capitals ESG Advisory](#), and Adrian Bertrand, Co-Founder, [Six Capitals ESG Advisory](#), for their valuable insights into South Africa's sustainability reporting landscape.

## Legislation, market codes and guidelines

- The [King IV Report on Corporate Governance for South Africa](#), 2016, elaborated by the Institute of Directors in South Africa, is a voluntary and principle- and outcomes-based corporate governance reporting guideline that is widely used by SMEs, NPOs, SOEs and further organizations. Certain principles from the King IV Code have been incorporated into the JSE Listing Requirements as mandatory continuing obligations (Section 3.84). It is further a requirement for all JSE-listed companies to report on the implementation of King IV in their annual report (Section 8.63).
- [International Integrated Reporting Framework](#) is particularly strong in South Africa, claiming to be the dominant reporting framework in the country.
- SDGs, CDP, GRI and TCFD are further frameworks of common use and/or high profile.
- National legislation and sector-specific codes, including
  - The [National Environmental Management Act](#), requiring companies to disclose potential impacts on the environment; however, public reporting and dissemination of this information is voluntary.
  - Sector specific legislation, particularly in the mining sector
  - The [Broad-Based Black Economic Empowerment Act](#) (No. 53 of 2003), its Amendment Act (no. 46 of 2013) and related Codes of Good Practice require companies to report on their integration of the B-BBEE, which is aimed at enhancing economic participation of black people in the economy of South Africa.
  - The [amendment of Regulation 28](#) (2011) under Section 36 of the Pension Funds Act of 1956 now requires pension fund trustees to consider ESG criteria in their materiality assessment and to include a description in how far their funds' investment strategies apply ESG criteria. Further, the [FSCA's Guidance Notice 1 of 2019](#) supplements aforementioned legislation by specifying the authority's expectations regarding ESG considerations and provide guidance to managers and boards of retirement funds.
- Sector-specific codes, including
  - The [South African Mineral Reporting Codes](#) (SAMCODES), which comprise the minimum standards, recommendations and guidelines for the public reporting of mineral related issues in South Africa (currently comprising three Codes, two Guideline documents and an affiliated National Standard, including the SAMESG Guideline for the Reporting of Environmental, Social and Governance parameters within the mining, oil and gas industries).
  - Related to the B-BBEE, there are [sector-specific codes](#) targeting transformation and black economic empowerment, such as the Financial Sector Charter and Mining Charter.
  - The **Code for Responsible Investing in South Africa (CRISA)** is a voluntary guideline, that supports institutional investors in "[execut\[ing\] investment analysis and investment activities and exercise rights so as to promote sound governance](#)". It is based on the UN PRI and endorsed by the Financial Sector Conduct Authority and the JSE.
  - Participation in international initiatives such as the UN Principles for Responsible Investment (UN PRI), UN Principles for Responsible Insurance and the Principles for Responsible Banking

## 3. Trends and dynamics

### Drivers for change – push-factors

- A strong push factor is the growth of the responsible and impact investment scene, notably through the continuing emergence of a wider range of sustainability-focused financial instruments, such as responsible investment / ESG indices (e.g. the FTSE/JSE Responsible Investment Index Series), green and sustainability bonds, etc. In this vein, the JSE has recently opened its [Sustainability Segment](#) to enable organisations to raise debt for green, social and sustainable initiatives.
- Key players in the investment industry, including the asset management industry body [ASISA](#), the pension fund industry body [BATSETA](#), CRISA (Council of Retirement Funds of South Africa) and UN PRI, as well as large institutional investors are pushing towards additional and reliable ESG disclosures.
- Civil society, most notably [Just Share](#), a relatively new activist investor organisation, and the [Centre for Environmental Rights](#), who annually [assesses](#) the climate-related disclosures of ten of the top emitters of greenhouse gases and five banks in South Africa.

- The [South African Institute of Chartered Accountants](#) (SAICA) has showed itself to be supportive of the integrated reporting framework; the CFA Society South Africa recently published a [consultation paper on ESG Disclosure Standards](#).

#### Drivers for change – pull-factors

- The [South African National Treasury](#) is an active participant in the discussions around sustainable finance, **having convened around 50 stakeholders on round table discussions and a financial sector regulatory agencies working group that recently produced a [draft technical paper](#) on “[Financing a Sustainable Economy](#)”**, taking up international developments and national specificities for sustainable finance. Task groups are currently assessing areas of focus such as **capacity building**, implementing the **TCFD** recommendations and developing **sustainable finance products** to support the development of a national strategic framework on sustainable finance and investment.
- The [Carbon Tax Act 15 of 2019](#), effective since June 1<sup>st</sup> 2019, introduced a tax on greenhouse gas emissions, requiring emitters to report harmonized climate impact data (reporting methodology [must be approved by the Department of Environmental Affairs](#)).
- The CRISA Code is [currently under review](#), with the aim to revise its operational strategy for an improved accountability and trust among institutional investors.
- The [FSCA’s Guidance Notice \(1 of 2019\) on Sustainability of Investments and Assets in the Context of a Retirement Fund’s Investment Policy Statement](#) clarifies how retirement funds’ boards should consider sustainability aspects in their decision making and reporting.

#### Barriers to change

- Generally, companies are capable to report sustainability information, although the quality and coherence of information is better for larger enterprises with well-established supply chain management processes and internal resources to support the production of reports; also, climate reporting remains focussed on Scope 1 and 2.
- Further challenges include:
  - Availability of resources among medium and smaller sized companies
  - In the environmental domain, a higher demand for relevant data could be conducive for companies to increase their efforts in supplying them.
  - Lack of systems for collection and management of data from supply chain.
  - Decrease in momentum as seen through CDP reporting – although South African companies using CDP reporting have been leading with regard to their peers internationally for many metrics, there are signs that this momentum is slowing. South African companies (along with the private sector broadly) [“may need to consider how to both maintain and intensify efforts to reduce emissions and address the impacts of climate change.”](#)

#### Outlook

- As one of the most visible actors, companies will continue to advance in embedding integrated reporting.
- South Africa’s focus on economic transformation and social aspects such as the “triple ills” of poverty, inequality and unemployment (exacerbated in the wake of the COVID-19 pandemic) will likely continue to dominate. However, key players within the investment community will prioritise their focus on environmental reporting with an emphasis on climate change.
- Regarding climate change, progress is likely to be mostly driven by companies’ responses to regulatory initiatives such as the Carbon Tax Act (see above) and other disclosure requirements from relevant legislation. An increased focus on the TCFD is emerging.

## 4. Technical discussions in national context

#### Financial sector participants’ understanding of materiality of sustainability data

- Listed corporates that pursue integrated reporting primarily **define the materiality of ESG issues according to the international <IR> Framework, across the six capitals**. Companies that pursue separate sustainability reporting, primarily use the **GRI definition of materiality**.

- Financial reporting is driven by IFRS and the materiality definition for financial reporting dominates in this regard, which may cause some divergence in the reporting of material sustainability aspects.
- Despite South Africa's advanced reporting tradition, the focus on **financial materiality of environmental factors is still lacking** (particularly outside high-impact industries), partly due to a lack of demand from the financial and investor community, and partly because of the strong prevalence of a broader stakeholder focus on reporting (as advocated by the King Code). Following, information flows and materiality assessments of social and governance issues are well established.
- The term "double materiality" has not yet taken root in South Africa.
- Given South Africa's strong focus on socioeconomic development, the current national reporting setup rather caters policy needs (such as the B-BBEE) than those expressed by the financial industry.

#### **Decision-usefulness of data with regard to investors' risk management**

- Decision-usefulness is understood as data that enables an investor or other stakeholders to be sufficiently informed in making decisions about investment or engagement with the investee.
- The integrated reporting movement is contributing to the concept's implementation in company reports, as well as to those providing solutions to the investment community, including the Johannesburg Stock Exchange, being a driver of demand for decision-useful data simultaneously.
- However, the decision-usefulness of sustainability data – or its financial materiality – needs yet to be understood by stakeholders.

#### **Availability of data to financial sector regulatory and supervisory authorities for idiosyncratic and systemic risk**

- The [South African Reserve Bank](#) is member of the NGFS.
- Regulatory authorities such as the Reserve Bank and the FSCA are part of the National Treasury's working groups on sustainability issues, with climate-related financial risks being one of the main drivers.

### **5. Relation between national and international practices**

#### **Convergence and divergence processes between national and international practices**

- The key divergence in South Africa is the national focus on socio-economic transformation and public governance, although the focus on the importance of environmental imperatives (particularly energy and climate change) is increasing.
- Further, international companies are likely under more pressure to disclose environmental data than currently demanded in South Africa.

#### **Relation towards TCFD recommendations**

- The TCFD recommendations are being discussed in national discussions of the finance ministry and are expected to play a major role in the financial sector's approach to climate change



## 1. Potential benefits for international cooperation on sustainability reporting<sup>9</sup>

- Sustainability reporting and ESG investing are known, yet sparsely integrated concepts in the South Korean corporate and financial landscapes.
- Apart from well-established corporate reporting of carbon emissions among large companies, there is a lack of material disclosures of further environmental issues among businesses, including from smaller listed companies and SMEs.
- The political momentum for policy action is high and many regulatory and legislative enhancements for the sustainable finance agenda are expected for 2021. This encompasses higher ambitions for sustainability reporting and the management of environmental data.
- The Green Finance Task Force – regulatory authorities working together on the theme – announced to be willing to increase international cooperation around sustainable finance, mentioning particularly the NGFS and the TCFD. Hence, the conditions for further international cooperation, i.e. on environmental reporting or the management of ESG data, appear to be favourable.

## 2. Institutional set-up of the sustainability reporting landscape

### Actors and organisations

- **[Financial Services Commission \(FSC\)](#)**: Government agency and regulatory authority in charge for the issuance of relevant policies on financial policy and regulatory supervision.
- **[Financial Supervisory Service \(FSS\)](#)**: Execution body to the FSC, acting as South Korea's integrated supervisory authority, assessing financial sector participants' compliance and risks; also in charge for the Financial Statistics Information System (FISIS). The FSS is in charge of the DART system, which is used for the transfer of regulatory filings from companies to supervisory authorities, including for companies' annual reports.
- **[National Pension Service \(NPS\)](#)**: The National Pension Service Investment Management for the **National Pension Fund (NPF)** is the world's third largest pension fund. As institutional investor, it represents a benchmark and model for domestic funds and asset management community in terms of governance and strategy. It manages around €640 billion (\$765 billion, KRW 855.3 trillion).
- **[Ministry of Health and Welfare \(MoHW\)](#)**: The rules applying to the management of the NPS are administered by the MoHW, rendering the ministry an important stakeholder regarding the uptake of sustainable finance strategies in the market.

<sup>9</sup> For this chapter, we would like to thank Taehan Kim and Seongeun Lee from the [Korea Sustainability Investing Forum \(KoSIF\)](#) and CDP Korea for their valuable insights into South Korean's sustainability reporting landscape.

- **[Korea Exchange \(KRX\)](#)**: The KRX is member of the Sustainable Stock Exchanges (SSE), and increasingly acknowledges and promotes sustainability issues, addressing shareholders and listed companies alike. Comprehensive reporting of ESG information is, however, not mandatory according to the listing requirements.
- **[Ministry of Environment \(MoE\)](#)**: The MoE requires companies to disclose certain information to specialist systems, i.e. regarding waste and recycling, water and further environmental impacts. Further, it formed a Green Finance Task Force jointly with the FSC, engaging in the establishment of further measures, particularly in the fight against climate change.

#### Legislation, market codes and guidelines

- **[Financial Investment Services and Capital Market Act](#)**: The FSCMA is the most important law regulating financial markets and disclosures of listed companies. Chapter III on Listed Corporations' Business Reports requires companies to file annual and materiality reports.
- The **[Commercial Act](#)** details companies' duties to conduct business in South Korea. Section 7, Accounting of Companies, sets out the requirements for companies' business and financial reports.
- The KRX listing rules do not require companies to disclose comprehensive ESG information. Yet, KRX has been active in some regards:
  - Companies listed on the KRX main board KOSPI with assets worth more than KRW 2 trillion, need to submit reports on their **[corporate governance](#)** since 2019, with the aim to make it mandatory for all KOSPI-listed companies by 2026.
  - The **[Korea Stewardship Code: Principles on the Stewardship Responsibilities of Institutional Investors](#)** urges shareholders to engage with companies to ensure the mid- and long-term value of the investee company.
  - In 2020, the KRX published an **[ESG Disclosure Guidance](#)**, encouraging companies to disclose sustainability information coherently. Environmental and social information will be required mandatorily from 2025 on for the largest companies, with a perspective of becoming mandatory for all KOSPI-listed companies by 2030. Alignment with the schedule for governance criteria is **[being discussed](#)**.
- Under the **[Framework Act on Low Carbon, Green Growth](#)**, a law creating the legislative foundation for further environmental policies such as GHG emissions reduction goals, emissions trading system, etc., within the Target Management Scheme of 2012, companies are required to disclose their GHG emissions and energy use and, if listed, disclose the information in their annual reports.
- **[National Pension Act](#)**: Article 102, Section 4 of the National Pension Act provides the basis for the introduction of the Stewardship Code by stating that the Fund "may take into account environmental, social, and governance factors related to investment targets, to achieve a long-term and stable revenue."

### 3. Trends and dynamics

#### Drivers for change – push-factors

- A particularly strong push factor is the **engagement of overseas investors**: As international standards of ESG reporting are progressing, domestic companies experience more pressure for increased sustainability reporting, e.g. regarding TCFD.
- Similarly, **domestic investors** are starting to orientate themselves regarding ESG issues by starting to subscribe to climate-related initiatives (such as TCFD or CDP). However, Korean financial institutions are perceived as conservative and hesitant to introduce new policies or investment strategies as first-movers, a role, that historically lies with the NPF.

#### Drivers for change – pull-factors

- The **current South Korean administration** is perceived to be very active on issues related to green finance and more broadly, the green transition.
  - As economic stimulus measure against the COVID-19 pandemic, the Korean Ministry of Economy and Finance introduced the **[Korean New Deal](#)** in July 2020. It comprises of around €

- 120 billion of investments in three different pillars, the Digital New Deal, the Green New Deal and a strengthening of the social welfare system.
- As part of the Green New Deal, the FSC and MoE formed a [Green Finance Task Force](#) in August 2020 with the aim of enhancing the management of climate- and environment-related financial risks, foster investments in green industries and increase international cooperation on green finance, i.e. regarding the TCFD and the NGFS.
  - Further, as part of the [FSC's work plan for 2021](#), the authority seeks to improve the regulatory foundations of green finance in the first half of 2021, and increase the consideration of ESG factors by market participants. For the latter, the FSC plans to [improve corporate disclosure rules](#), including the promotion of ESG disclosures and mandatory disclosure for particular KOSPI-listed companies from 2025 on, the improvement of the Data Analysis, Retrieval and Transfer (DART) System (managed by the FSS), and the establishment of an open data platform for improved data sharing.
  - On other ends of the green agenda, there are plans for introducing a green taxonomy and green bond guidelines by the MoE, plans that should allow Korea reaching its [pledge for carbon neutrality by 2050](#).
  - At the [2021 P4G Seoul Summit](#) in the end of May, Korea explores further possible policy developments regarding the green recovery and the 2050 carbon neutrality, as well as thematic policy priorities in the areas of food and agriculture, water, energy, cities and circular economy.

### Barriers to change

- Although the importance and the international rise of ESG are acknowledged in financial institutions, the profound uptake of the concept within the financial community is still rather limited. Increasing momentum of international approaches on sustainable finance, as well as domestic policy attention to the topic might slowly change financial institutions' perceptions and reduce resistance to the topic over time.
- South Korean companies are used to file sustainability data required by regulatory authorities, i.e. environmental issues to specialist systems of the MoE. Apart from this, companies lack experience in disclosing decision useful sustainability data for investors.
- Within financial institutions, human capital needs to be improved, i.e. for the conduct of scenario analyses and for materiality assessment of ESG information.
- Due to the work of CDP, larger companies are used to provide scope 3 greenhouse gas emissions; however, this applies rather to the large corporations than to SMEs, who are lacking skills and resources.
- Due to the current economic circumstances, it is not expected that policy makers significantly increase the burdens for companies – especially SMEs, although political pledges are increasing.

### Outlook

- Considering the ambitions of policy makers in South Korea, large changes in the regulatory setting of sustainable finance can be expected entering force in the next years. Partly, this accounts for sustainability reporting as well – however, rather for large corporations than non-listed companies or SMEs.
- Further internationalization of South Korean capital markets might prove as further lever for increased reporting of material sustainability information of domestic companies.
- International outreach of domestic actors – i.e. through the P4G Seoul Summit, or potential alignment with the TCFD or NGFS, are increasing the likelihood of a harmonized development of the Korean sustainable finance and sustainability reporting agendas.

## 4. Technical discussions in national context

### Purpose of sustainability data

- Climate reporting of large corporations is progressed and serves policy needs, as well as it meets investors' desires for quantitative data.
- Regarding broader sustainability data, the information is mostly filed to regulatory authorities' data systems and is not shaped in a way that allows materiality assessments.

### **Availability of data to financial sector regulatory and supervisory authorities for idiosyncratic and systemic risk**

- Korea's central bank, the Bank of Korea, is part of the NGFS. However, it is only responsible for conducting monetary policy and is not in charge to maintain financial stability or supervise financial institutions. This role is being assumed by the FSC and the FSS.
- The FSC and FSS, both part of the NGFS since May 2021, announced to include climate change risks and annual climate stress tests for banks and insurance companies in their supervisory capacity, following the international trend of regulatory and supervisory authorities of other countries organized in the NGFS.

## **5. Relation between national and international practices**

### **Convergence and divergence processes between national and international practices**

- South Korea actively promotes regulatory advancements of sustainable finance and is receptive for policy cooperation, as recent announcements of regulatory authorities suggest.

### **Relation towards TCFD recommendations**

- Uptake of TCFD recommendations is still rather low within Korean companies, although climate reporting is required for large companies since 2012. That year, Korea started the GHG and Energy Target Management System (TMS) and required companies to disclose relevant information through a web-portal (env-info.kr). However, the type of information required by this specialist system is not in sync with climate reporting as envisioned by initiatives such as CDP or TCFD.
- Uptake of TCFD could be approximated through the amount of companies disclosing their climate impact through CDP. Yet, the amount of companies signalling support to the TCFD approach is increasing rapidly.

