

REVIEW OF TRENDS IN ESG REPORTING REQUIREMENTS FOR INVESTORS

THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

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

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

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

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

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

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



PRI'S MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

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INTRODUCTION

This briefing paper presents an overview of the environmental, social and governance (ESG) reporting landscape for investors and the key trends that are driving the reporting. The objective is to help signatories understand the current ESG reporting requirements applying to their investments and investment processes in key markets – notably Europe, North America and Asia-Pacific.

This review was conducted because the PRI is assessing how best to support accountability on responsible investment practices globally. We expect the findings will influence the future development and implementation of the PRI's reporting and assessment (R&A) framework.

An appendix to the paper outlines key ESG reporting requirements in nine jurisdictions, as well as those set out in five global reporting initiatives.

Companies have faced calls for greater transparency on how they manage ESG issues in their business/operations for well over a decade – more recently with the International Sustainability Standards Board announcing draft standards for sustainability disclosures.¹ While there is a range of national reporting requirements, comprehensive ESG reporting initiatives have been primarily voluntary. There is ongoing debate about whether corporate reporting should focus on ESG issues that are financially material to the enterprise value of the business, or whether such reporting should also apply to the impact of its products and operations on people and the environment. ("Corporate" in this paper means "applying to businesses" – whether financial or non-financial – as entities, rather than to any investments they may hold.)

High-quality corporate reporting is a prerequisite for meaningful reporting by investors in those businesses. As corporate reporting has improved, regulators, fund members/beneficiaries and other stakeholders have shown increased interest in investment-related ESG reporting, which asks investors to report on the ESG characteristics of their investments and/or investment processes. Some jurisdictions have used progress on corporate ESG reporting to justify more demanding ESG reporting requirements for investors (e.g., the EU), whereas others (e.g., China) introduced corporate and investor reporting requirements at the same time.

The specific drivers of ESG reporting include:

- **Relevance of issues:** If certain ESG issues are material to companies, then it follows that the same ESG issues are also relevant to their investors.²
- **Regulation:** There is an increasing number of ESG reporting requirements for investors.
- **Voluntary reporting schemes and initiatives:** These contain general reporting requirements (e.g., on stewardship activities), as well as specific reporting requirements on issues such as progress towards net-zero emissions (e.g., the Net-Zero Asset Owners Alliance).
- **Fund members/beneficiary demands:** These have been driven by a proliferation of ESG-labelled investment products and by calls for investors to be more accountable for what they are financing.

¹ These apply to both financial and non-financial enterprises.

² This view has been reinforced by the Task Force on Climate-Related Financial Disclosures, which concluded that climate change will have a material impact on investor returns.

ESG reporting by investors continues to evolve. As with corporate ESG reporting, there is an ongoing discussion about whether reporting by investors should focus on the impact of ESG issues on investment risk and financial returns or whether it should be extended to the real-world impact of investments.

The potential for a patchwork of different ESG reporting requirements, both mandatory and voluntary, is concerning for investors, especially those that operate in multiple jurisdictions or rely on reporting from investment managers in different jurisdictions. Investors may also face substantial costs in meeting ESG reporting requirements as well as practical challenges, such as reconciling data from different sources and complying with divergent requirements in multiple jurisdictions. Nonetheless, demand for investment-related ESG reporting is likely to increase.

RESEARCH APPROACH

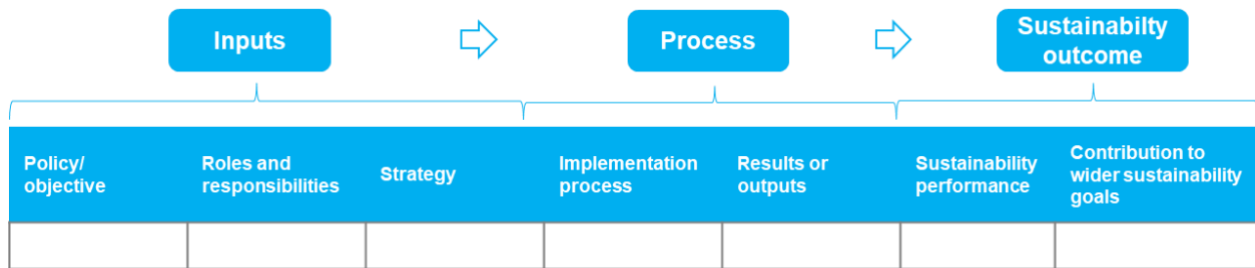
We started our research in October 2021, focusing on the nine jurisdictions where the majority (over 80%) of PRI signatories operate³ and on some key global reporting initiatives. The reporting requirements reviewed were drawn from the PRI's public regulation database with additional desk-based research. While the focus of this briefing is on investment-related ESG reporting requirements, our research also covered key corporate ESG reporting rules that apply to large and/or listed signatories in the nine jurisdictions.

Reporting instruments were assessed across a number of aspects, including:

- the entity responsible for the reporting (whether asset owner, investment manager and/or service provider);
- the intended audience of the reporting (including regulators, asset owners, product purchasers, the general public);
- whether the reporting is a regulatory requirement, quasi-mandatory or voluntary ("quasi-mandatory" refers to guidance from regulators or market operators, industry standards and industry association codes);
- whether the reporting requirement is in force or proposed;
- the reporting level, i.e., whether the disclosure requirements apply to the business entity or to its investments and financial products;
- the frequency of reporting (e.g., annual, quarterly);
- the subject area (e.g., stewardship, exposure to ESG risks/opportunities);
- which aspects of the overall investment process must be disclosed – for example, the inputs (e.g., the ESG policy/objective), the implementation process for the ESG policy/objective, the sustainability outcome of the investments, or a combination of these (see Figure 1).

³ The percentage is based on the total number of signatories as it stood in October 2021, when data was originally collected for this research.

Figure 1: Relevant aspects of the overall investment process



Definitions of aspects of the overall investment process:

- *Policy/objective – the reporting entity's target or objective related to ESG issues*
- *Roles and responsibilities – the entity's governance structure and/or responsibilities within the asset owner/investment manager*
- *Strategy – the entity's planned approach to implementing the ESG-related policy/objective*
- *Implementation process – how the strategy has been implemented in practice*
- *Results or outputs – the results of the entity's actions towards its ESG-related policy/objective, e.g., proxy votes or changes to the risk/return profile of a fund or product due to consideration of ESG risks, or other ESG characteristics of the fund or product*
- *Sustainability performance – how the reporting entity's investments affect people and the environment, positively or negatively*
- *Contribution to wider sustainability goals – how the sustainability performance of investments contributes to targets set by the signatory, regulators or a global goal*

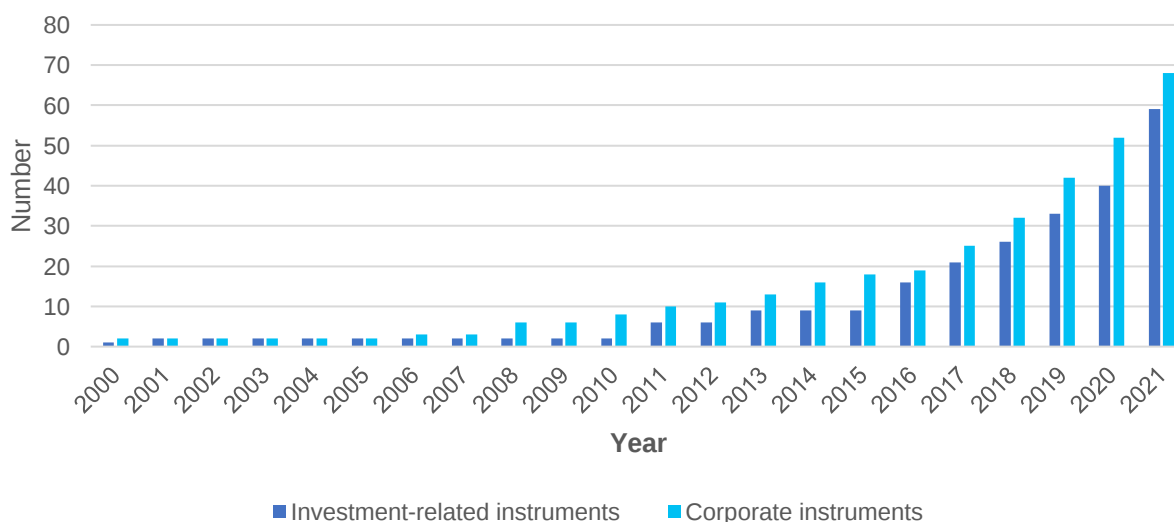
THE REPORTING LANDSCAPE

In total, we reviewed 120 reporting instruments across nine jurisdictions and five global initiatives. Some of the instruments – such as the EU Sustainable Finance Disclosures Regulation (SFDR), for example – have multiple strands relating to different reporting levels, subject areas and/or entities in scope. A breakdown of the number of instruments, and specific reporting requirements within them, is provided below:

Jurisdiction	Australia	Canada	China	EU	France ⁴	Global initiatives	Hong Kong	Japan	UK	US
No. of instruments	15	9	4	22	15	9	5	8	20	13
No. of specific reporting requirements	25	11	10	44	25	18	23	20	52	18

Figure 2 shows the cumulative trend in the total number of ESG reporting instruments, distinguishing between corporate instruments and those relating to investments. There has been a clear acceleration in the growth of both types of ESG reporting instruments over the last 20 years, with investment-related rules proliferating particularly fast since 2011.

Figure 2: Growth in ESG reporting instruments over time (to October 2021⁵)

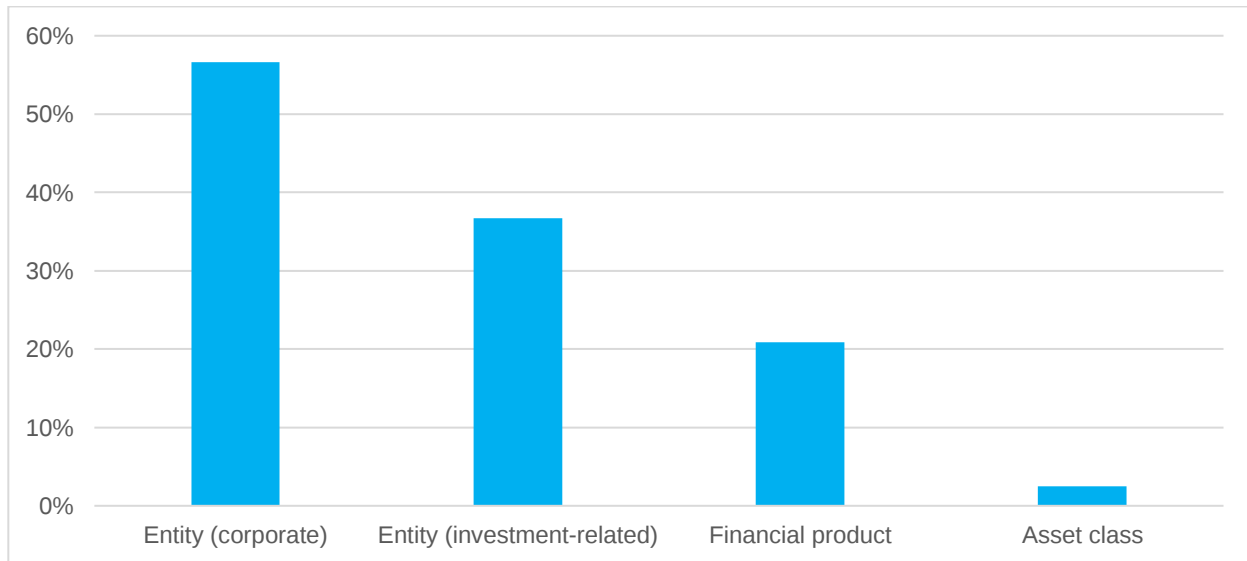


⁴ France is included as a separate jurisdiction from the EU as the country's national reporting requirements go beyond those in the EU and other member states. See the appendix for more information on investment-related reporting instruments in France.

⁵ October 2021 is the date information on the reporting requirements was collated.

As seen in Figure 3, over half of the instruments reviewed contain requirements for corporate ESG reporting, providing investors with ESG information on investee companies. On a less positive note, as these requirements typically apply only to large and/or listed entities, large/listed investment firms have themselves faced a significant increase in ESG reporting requirements – particularly those operating in multiple jurisdictions. This is relevant for the subset of our signatory base that comprises large and/or listed entities. However, these corporate reporting requirements⁶ are generally less onerous than investment-related ESG reporting obligations as they do not require reporting on investments and/or investment processes.

Figure 3: Reporting level (based on October 2021 data, % of total number of instruments)



Note: The percentages do not add up to 100% as a reporting instrument can contain requirements relating to more than one reporting level.

The rest of this paper focuses on investment-related ESG reporting, whether at entity level (e.g., for the entire pension fund, superannuation fund or investment management division), product level, asset class level⁷ and/or some combination of these. We discuss key findings on these reporting requirements in the next section of the paper.

⁶ An example would be regulation requiring reporting on diversity, equality and inclusion within an investment organisation.

⁷ An example of asset class-level ESG reporting is a component of the PRI's R&A framework under which signatories report on ESG issues in relation to their holdings of specific asset classes.

KEY FINDINGS

INVESTMENT-RELATED ESG REPORTING REQUIREMENTS ARE GROWING BUT NOT IN ALL JURISDICTIONS

- The number of investment-related ESG reporting requirements on asset owners and investment managers is rising, as can be seen from Figure 2 higher up. The majority (over 90%) require reporting that is either publicly accessible or directly reported to investors in a financial product. This reflects increased concerns over “greenwashing”.
- The increase in investment-related ESG reporting requirements mirrors an increase in corporate ESG reporting rules. For large or listed investors with operations in multiple jurisdictions, this may lead to significant additional reporting.
- The number of regulations on investment-related ESG reporting varies significantly between jurisdictions. The nine jurisdictions reviewed can be grouped as follows:⁸
 - High-regulation jurisdictions: the EU, France, Hong Kong and the UK
 - Medium-regulation jurisdictions: Australia, China and Japan
 - Low-regulation jurisdictions: Canada and the US
- Jurisdictions that have mostly accepted that considering ESG issues as part of investment decision-making is consistent with fiduciary duty have introduced mandatory ESG reporting and have the most extensive reporting requirements. In contrast, those jurisdictions where there is still significant pushback against the view that ESG incorporation is consistent with fiduciary duty typically rely on voluntary or industry association standards, which tend to be less onerous.

A MOVE FROM “TELL ME” TO “SHOW ME” REPORTING

- Initial reporting requirements focused on the reporting of stewardship policies and activities, with an emphasis on proxy voting. Requirements to disclose stewardship policies, including the proxy voting policy, and voting records are comparable across most of the nine jurisdictions reviewed.
- Medium-regulation jurisdictions typically adopt a “tell me” approach, where investors are required to report only on their policies on ESG issues, their overarching ESG objectives and strategy and how the strategy has been implemented, but not on the results of these actions or the sustainability outcomes of investments.
- There are moves to reduce “greenwashing”, especially for investment products marketed as ESG, as retail investors, fund members/beneficiaries and potential members push for greater clarity on what their money is invested in and how investment decisions are made. Product providers are increasingly expected to explain how ESG considerations or objectives are reflected in the fund’s holdings or its sustainability performance. For example, under the EU’s SFDR, a fund aimed at reducing carbon emissions must track an EU climate benchmark or, where no suitable benchmark

⁸ Further details of the reporting requirements in each of these jurisdictions are provided in the appendix.

exists, provide a detailed explanation of efforts to attain the objective. This is effectively a move to “show me” reporting.⁹

ESG ISSUE-SPECIFIC REPORTING IS GROWING

- Regulators are starting to require climate change reporting aligned with recommendations by the Task Force on Climate-Related Financial Disclosures (TCFD). This is generally framed within a narrow view of fiduciary duty (i.e., where fiduciary duty is only about achieving beneficiaries’ target risk/return profile), with reporting expected to focus on the assessment and management of climate-related risks and opportunities.
- The Net Zero Asset Managers initiative and the Net-Zero Asset Owner Alliance are voluntary initiatives that require the following reporting by signatories: asset managers commit to publish TCFD disclosures and a climate action plan, while asset owners disclose their emission reduction targets and their progress towards achieving them.
- There are a number of emerging reporting frameworks on specific ESG issues that are likely to gain traction in coming years. Like the TCFD, the Taskforce on Nature-related Financial Disclosures has proposed that market participants report on their nature-related risks and opportunities, which is similar to existing requirements in France.¹⁰ There is also an emerging trend of reporting the risk of modern slavery (and other human rights abuses) in investments and the response to the risk.

WE ARE A LONG WAY FROM GLOBAL CONSENSUS

- A global consensus on investment-related ESG reporting appears a long way off. Even in the EU, there are differences in how EU directives are implemented at the national level, reflecting a range of legal, market and political factors.
- While there are some near-universal reporting requirements, e.g., on proxy voting, the gap between low-regulation and high-regulation jurisdictions appears to be growing.
- Outside of the PRI’s R&A framework, the CFA Institute’s Global ESG Disclosure Standards for Investment Products apply to the broadest range of investors, with all investment managers operating globally expected to follow the standards. However, the guidelines require only product-level reporting.

⁹ There are further examples of such “show me” requirements in the SFDR and the EU’s taxonomy of sustainable economic activities, such as an obligation for large financial market participants to disclose how they consider the main adverse impacts of their investments on the environment and society.

¹⁰ For example, France’s energy and climate law already requires asset owners and investment managers to report on biodiversity risks and how they are managing them.

CONCLUSIONS AND NEXT STEPS

The PRI works with its global network of signatories to implement our six Principles in order to drive the adoption of responsible investment practices throughout their investment chain. To deliver on its mission, the PRI established its reporting function in 2006, at a time when there were few ESG reporting requirements on companies or investors.

The PRI's R&A framework is the largest reporting project on responsible investment measured by assets under management covered and is currently the only global ESG reporting framework for asset owners and investment managers at entity level and asset class level. The R&A framework is designed to hold its signatory base to account on implementing our six Principles, but it also serves to educate and engage signatories on their journey towards implementing these Principles.

As set out in this briefing, the reporting landscape for investors has changed dramatically since the inception of the PRI's R&A framework. In particular, the growth in ESG reporting requirements for investors has increased the reporting effort required from asset owners and investment managers, especially in high-regulation jurisdictions.

The R&A framework has evolved over time, in tune with some of these key trends, and underwent an extensive review between 2018 and 2021. For example, in 2021 the PRI piloted new reporting requirements on stewardship, expanding from “tell me” to “show me” reporting. In addition, issue-specific reporting requirements were introduced on climate targets.¹¹

The PRI continues to assess its reporting function for 2023 and beyond to ensure it remains useful for responsible investors and helps drive change in the market. While conscious of the growing effort required from our signatories, the PRI also needs to maintain the baseline of a global ESG reporting framework in jurisdictions where there are no alternatives.

Our intention is to deliver a universally applicable reporting framework that is better-aligned with jurisdictional reporting requirements and can evolve to meet the future needs of our signatories. We will also continue to monitor the reporting landscape for investors to inform the future development and implementation of our reporting framework.

The PRI will share further details on our 2023 R&A framework on [our R&A updates page](#). Please also feel free to contact us at reporting@unpri.org for more information.

¹¹ This includes facilitating net-zero reporting through the (voluntary) Sustainability Outcomes module.

APPENDIX

The appendix summarises investment-related ESG reporting requirements for nine key jurisdictions and five global initiatives. This includes a list of all the reporting instruments, links to the instruments (see the tables) and a summary of the requirements.

This section does not provide a comprehensive overview of reporting requirements for signatories and, as such, should not be treated as a compliance resource.

HIGH-REGULATION JURISDICTIONS (EU, FRANCE, HONG KONG, UK)

High-regulation jurisdictions are characterised by a broad set of reporting requirements and guidelines across the investment process and for multiple subject areas. Most are mandatory for both asset owners and investment managers.

EU

Entities in scope	Reporting instruments
Asset owners	■ Solvency II review ■ Amendment to delegated regulation 2015/351 of Directive 2009/138/EC (Solvency II) ■ Regulation (EU) 2019/1238 on a pan-European Personal Pension Product (PEPP) ■ Revision of the directive on institutions for occupational retirement provision Directive (IORP II) ■ Shareholder Rights Directive (2007/36/EC) as amended by 2017/828/EC ■ Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (Sustainable Finance Disclosure Regulation or SFDR) ■ Regulation supplementing Regulation (EU) 2020/852 on the EU taxonomy ■ Regulation (EU) 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs) amended by Regulation (EU) 2016/2340
Investment managers	■ Amendment to delegated directive 2017/593 of Directive 2014/65/EU (MiFID II) ■ EFAMA Stewardship Code – Principles for asset managers' monitoring of, voting in, engagement with investee companies ■ Regulation (EU) 346/2013 on European social entrepreneurship funds (EuSEFs) ■ Shareholder Rights Directive (2007/36/EC) as amended by 2017/828/EC

Entities in scope	Reporting instruments
	■ Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (Sustainable Finance Disclosure Regulation or SFDR) ■ Regulation supplementing Regulation (EU) 2020/852 on the EU taxonomy ■ Regulation (EU) 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs) amended by Regulation (EU) 2016/2340
Service providers	■ Amendment to Regulation (EU) 2016/1011 as regards EU climate transition benchmarks and EU Paris-aligned benchmarks ■ European Securities and Markets Authority (ESMA) guidelines on disclosures by credit rating agencies linked to Regulation (EC) 1060/2009

A common feature of the EU's investment-related ESG reporting requirements is that the reporting is annual and aimed at the individual investor, pension fund member or other end-beneficiary of the investment.

The **Sustainable Finance Disclosure Regulation (SFDR)**, which forms the core of EU ESG reporting regulations, requires investment-related reporting by asset owners and investment managers at both entity and product levels. Among other obligations, the SFDR requires investors to report on how they integrate sustainability risks in investment decisions and whether/how they consider a product's principal adverse sustainability impacts.¹²

The SFDR's reporting requirements align with the ESG reporting requirements for relevant asset owners in the **Regulation on a pan-European Personal Pension Product (PEPP)**, the **revised directive on institutions for occupational retirement provision (IORP II)** and the **regulation on packaged retail and Insurance-based Investment products (PRIIPs)**.

The **amended Shareholder Rights Directive (SRD II)** requires asset owners and asset managers to develop and publicly disclose a policy describing how they integrate stewardship in their investment strategy, or explain why they have chosen not to develop such a policy.

The directive also requires asset owners and managers to disclose proxy voting and, unusually, to publicly report on aspects of the commercial arrangements between the asset owner and the investment managers it employs. This places an extra level of accountability on asset owners that is not found in other jurisdictions.

The EU's **Taxonomy Regulation**, which established the bloc's taxonomy of environmentally sustainable economic activities, applies to asset owners, investment managers and a range of other financial (and non-financial) entities. The regulation requires disclosing what share of an entity's total activities is "taxonomy-eligible" and, eventually, what share is "taxonomy-aligned". The regulation also interacts with the SFDR: for products that promote environmental characteristics (covered by the SFDR's Article 8) and

¹² For more information on the SFDR, please see the PRI's [briefing on the regulation](#).

those that have environmentally sustainable investment as their objective (covered by the SFDR's Article 9), providers must report information on taxonomy alignment.¹³

There are four additional ESG reporting requirements placed specifically on investment managers:

- **SRD II** places a reciprocal obligation on investment managers to report to asset owners on “whether and, if so, how” the investment manager makes investment decisions on the basis of an evaluation of the medium- to long-term performance of the investee company, including its non-financial performance.
- **MiFID II** requires investment managers to disclose the “sustainability factors” of each financial instrument targeted at clients seeking sustainability-related financial instruments. “Sustainability factors” are defined as environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.
- The **regulation on European social entrepreneurship funds (EuSEFs)** requires investment managers to measure and disclose the social outcomes of their funds. This reporting is to regulators but is available to clients (asset owners or end-beneficiaries) upon request.
- The **EFAMA Stewardship Code** for investment managers, produced by the European Fund and Asset Management Association, focuses primarily on the reporting of the process of engagement with investee companies, on the outcomes of that process (in particular, proxy voting) and on how investment managers integrate engagement into their investment strategies.

Finally, the EU has two other ESG reporting requirements, which apply to service providers. The first is an **Amendment to Regulation (EU) 2016/1011**, which requires administrators of climate transition benchmarks and benchmarks aligned with the Paris Agreement to explain how their methodology reflects the target of carbon emission reductions or contributes to the objectives of the Paris Agreement. The second is a set of **ESMA guidelines for credit rating agencies** requiring the reporting of how, if at all, ESG factors are material to the credit rating or rating outlook.

The EU currently has the most comprehensive investor ESG reporting requirements and, in total, covers most aspects of ESG incorporation, including the fund's ESG objectives, strategies, implementation processes, the investment risk/return implications and the positive or negative sustainability impacts of investments. It also covers the reporting of stewardship activities.

Perhaps surprisingly, there is currently no EU-wide obligation for investment organisations to report in line with the TCFD recommendations, although France, for example, has already introduced such requirements. TCFD-aligned obligations are also in force in the neighbouring UK.

¹³ For further details, please see the PRI's briefings on the [SFDR](#) and the [EU taxonomy](#).

France

Entities in scope	Reporting instruments
Asset owners	■ Law covering public pension reserves (Loi 2001-624) ■ Law on employee saving plans (Loi Fabius) ■ Loi n° 2019-486 du 22 mai 2019 relative à la croissance et la transformation des entreprises ■ Law on energy and climate (8 November 2019)
Investment managers	■ Décret n° 2015-1615 du 10 décembre 2015 relatif au label « Transition énergétique et écologique pour le climat » ■ Décret n° 2016-10 du 8 janvier 2016 relatif au label « investissement socialement responsable » ■ Loi n° 2019-486 du 22 mai 2019 relative à la croissance et la transformation des entreprises ■ Autorité des Marchés Financiers (AMF) guidelines for sustainable funds ■ Law on energy and climate (8 November 2019)
Service providers	■ None identified

French ESG reporting requirements reflect the implementation of EU reporting requirements but are more prescriptive on some aspects.

The **law covering public pension reserves (Loi 2001-624)**, the **law on employee saving plans (Loi Fabius)** and the law “**relative à la croissance et la transformation des entreprises**” focus on disclosure by asset owners, including life insurers, of their ESG policies and principles relating to investment decisions and how they are applied. Part of the law “relative à la croissance et la transformation des entreprises” also applies to investment managers and requires disclosure of a shareholder engagement policy, describing how the investment manager integrates its shareholder role into its overall investment process.

Article 29 of France’s 2019 law on energy and climate, updated in 2021, applies to asset owners and investment managers and implements the SFDR’s reporting requirements at entity and product levels. However, the law goes further in certain areas and requires disclosure of biodiversity risks.

There are additional voluntary reporting guidelines for investment managers:

- **Décret n° 2015-1615** applies to funds that apply for the Greenfin product label.
- **Décret n° 2016-10** focuses on providing assurance to investors that a product meets the espoused ESG promises.
- The **AMF guidelines for sustainable funds** focus on minimum reporting standards for funds marketing themselves as ESG funds.

Hong Kong

Entities in scope	Reporting instruments
Asset owners	■ Principles of Responsible Ownership
Investment managers	■ Principles of Responsible Ownership ■ Circular to management companies of SFC-authorised unit trusts and mutual funds – ESG funds (from the Securities and Futures Commission) ■ Consultation Conclusions on the Management and Disclosure of Climate-related Risks by Fund Managers (from the SFC)
Service providers	■ None identified

Hong Kong's regulatory regime is not as extensive as those in some of the other high-regulation regions (especially the EU), neither in terms of its coverage of funds nor in terms of aspects of the investment process. Nor is enforcement as strict, with greater use of voluntary principles and comply-or-explain mechanisms.

However, Hong Kong does have a number of significant investment-related ESG reporting requirements:

- The **Principles of Responsible Ownership** is a voluntary reporting initiative that applies to asset owners and investment managers and is overseen by Hong Kong's main financial regulator, the Securities and Futures Commission (SFC). The principles focus on stewardship activities, including proxy voting and engagement, and primarily cover the reporting of investors' stewardship policy and its implementation.
- The **circular to management companies**, which came into effect on 1 January 2022, applies only to investment managers offering ESG-branded products that are authorised by the SFC. The obligations are similar to the SFDR's product-level reporting requirements: for example, they stipulate disclosure of how ESG criteria are considered in the ESG investment strategy and how the fund has attained its ESG focus.
- Based on **Consultation Conclusions on the Management and Disclosure of Climate-related Risks by Fund Managers**, the SFC has decided to implement TCFD-aligned reporting requirements for investment managers, which are currently pending.

Entities in scope	Reporting instruments
Asset owners	■ The Occupational Pension Schemes (Investment) Regulations ■ Mandatory climate-related financial disclosures by pension schemes ■ The UK Stewardship Code ■ Amendment to 1995 Pensions Act: No. 3259 ■ Code of practice for defined contribution schemes ■ PS19/13: Improving shareholder engagement and increasing transparency around stewardship ■ Consultation paper (CP21/17) on enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers (from the Financial Conduct Authority) ■ Consultation on climate and investment reporting (from the Department for Work & Pensions) ■ FCA discussion paper on sustainability disclosure requirements (SDR) ■ The UK Stewardship Code ■ The UK Green Taxonomy
Investment managers	■ PS19/13: Improving shareholder engagement and increasing transparency around stewardship ■ FCA consultation paper (CP21/17) on enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers ■ FCA discussion paper on sustainability disclosure requirements (SDR) ■ The UK Stewardship Code ■ The UK Green Taxonomy
Service providers	■ The UK Stewardship Code

Investment-related ESG reporting requirements in the UK have focused on entity-level disclosures. For asset owners, the **Occupational Pension Schemes (Investment) Regulations** and the quasi-mandatory **code of practice for defined contribution schemes** focus on the disclosure of policies and principles on proxy voting and engagement with investee companies and the disclosure of how non-financial matters are taken into account in investment decision-making. The Occupational Pension Schemes (Investment) Regulations also require disclosure of how the asset owner incentivises investment managers “to make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium-to-long-term”.

The quasi-mandatory **UK Stewardship Code** takes this reporting further by requiring asset owners and investment managers to report on how the code's principles are implemented, including the resources and incentives used and how issues are communicated to beneficiaries.

The UK has, or is considering, the following regulations that are similar to the EU's ESG reporting legislation:

- The reporting requirements of the EU's SRD II, discussed above, are being implemented in the UK through **PS19/13: Improving shareholder engagement and increasing transparency around stewardship**.
- The UK is developing a **UK Green Taxonomy**.
- The UK's **proposed sustainability disclosure requirements (SDR)** require asset owners and investment managers to disclose the impact of ESG issues on investment risks and returns, as well as their investments' impacts on society and the environment (consistent with the concept of double materiality).

There are also a number of climate change-related reporting requirements in the UK:

- **Mandatory climate-related financial disclosures by pension schemes** require reporting by relevant asset owners in line with TCFD recommendations.
- **CP21/17** proposed by the Financial Conduct Authority (FCA) extends TCFD reporting requirements to asset managers, life insurers and FCA-regulated pension providers and includes disclosure of how climate change is considered in the selection of external managers. The proposal contains product-level, as well as entity-level, reporting requirements.
- A proposal by the **Department for Work & Pensions** takes climate change reporting requirements a step further by requiring pension funds to report the extent to which their activities (portfolios) are aligned with a well below 2°C scenario.

MEDIUM-REGULATION JURISDICTIONS (AUSTRALIA, CHINA, JAPAN)

A characteristic of these jurisdictions is the use of quasi-mandatory rules, e.g., regulatory guidance or industry association standards, and voluntary mechanisms for ESG reporting. As a result, reporting requirements tend to be less prescriptive than those in high-regulation jurisdictions.

Australia

Entities in scope	Reporting instruments
Asset owners	■ Prudential Practice Guide: Draft CPG 229 Climate Change Financial Risks (from the Australian Prudential Regulation Authority or APRA) ■ The Australian Asset Owners Stewardship Code ■ APRA Prudential Practice Guide: SPG 530 – Investment Governance ■ Corporations Act 2001 ■ Section 1013DA disclosure guidelines (from the Australian Securities & Investments Commission or ASIC) ■ Modern Slavery Act 2018
Investment managers	■ FSC Standard No. 23: Principles of Internal Governance and Asset Stewardship (from the Financial Services Council or FSC) ■ FSC Standard No. 13: Voting Policy, Voting Record and Disclosure ■ FSC Standard No. 20: Superannuation Governance Policy ■ APRA Prudential Practice Guide: Draft CPG 229 Climate Change Financial Risks ■ Corporations Act 2001 ■ ASIC Section 1013DA disclosure guidelines ■ Modern Slavery Act 2018
Service providers	■ Modern Slavery Act 2018

Australia's investment-related ESG reporting requirements are a mixture of mandatory and quasi-mandatory rules. The main requirements are:

- Australia's **Corporations Act 2001** requires investment managers and asset owners to disclose at product level how labour standards or environmental, social or ethical considerations are taken into account in selecting, retaining or realising an investment, on a comply-or-explain basis.
- Australia's **Modern Slavery Act 2018** requires asset owners and investment managers above a specified size to report on their processes (including due diligence and remediation processes) to assess and address modern slavery risks within their investments and their investments' supply chains. The act does not specifically require consideration of the impact of modern slavery on investment risk/return.
- The quasi-mandatory **Australian Asset Owners Stewardship Code** requires asset owners that are members of the Australian Council of Superannuation Investors to report on their stewardship policies (including those on proxy voting and engagement), their strategies for implementing these policies and the specific stewardship activities undertaken during the year, including proxy voting.

- The Australian Financial Services Council's **Standards No. 23 and 13** apply to its members (primarily investment managers). The standards require reporting of investment managers' strategy for the identification, monitoring and management of ESG risks from an investment risk/return perspective and disclosure of the proxy voting policy and proxy voting record.
- **FSC Standard No. 20** requires superannuation entities to develop and disclose to their beneficiaries a diversity policy for the entity's board, including measurable objectives for achieving gender diversity.
- The Australian Prudential Regulatory Authority (APRA), which regulates Australian financial institutions, including asset owners and investment managers, has recently finalised a guidance note with respect to climate change-related financial risks (**CPG 229**). Although the note doesn't introduce any additional disclosure requirements, it clarifies APRA's expectations for how asset owners and investment managers should address climate change risks within their portfolios.

China

Entities in scope	Reporting instruments
Asset owners	■ Guidelines on Environmental Information Disclosure for Financial Institutions
Investment managers	■ Green Investment Guidelines (from the Asset Management Association of China) ■ Guidelines on Environmental Information Disclosure for Financial Institutions
Service providers	■ None identified

Investment-related ESG reporting in China has a strong focus on environmental issues and green investments. There is no focus on the reporting of the management of ESG risks from an investment risk/return perspective.

Key reporting requirements include:

- The **Guidelines on Environmental Information Disclosure for Financial Institutions** largely focus on reporting at entity level for asset owners and investment managers. In particular, disclosures apply to the strategy and process of directing capital flows towards green investments, the environmental impacts of investments and the proportion of green investments in total investments.
- The **Green Investment Guidelines**, produced by the Asset Management Association of China, apply to investment managers. They recommend annual disclosures related to facilitating green and circular economy activities – specifically, on the relevant policy, strategy, investments and stewardship.

Japan

Entities in scope	Reporting instruments
Asset owners	■ Principles for Responsible Institutional Investors (Japan's Stewardship Code)
Investment managers	■ Principles for Financial Action Towards a Sustainable Society (Principles for Financial Action for the 21st Century) ■ Principles for Responsible Institutional Investors (Japan's Stewardship Code)
Service providers	■ None identified

Japan's key investment-related ESG reporting requirements are:

- **Principles for Responsible Institutional Investors** require asset owners and investment managers to report on their stewardship policy, their governance of engagement and voting, implementation of their stewardship policy and their proxy voting record.
- **Principles for Financial Action Towards a Sustainable Society** suggest reporting based on the PRI's six Principles, as well as disclosure of investors' ESG considerations in their proxy voting.

LOW-REGULATION JURISDICTIONS (CANADA, US)

Low-regulation jurisdictions rely on voluntary or quasi-mandatory reporting and generally limit the scope of reporting in terms of the asset owner or investment manager coverage, the ESG issues covered and the detail of any reporting.

Canada

Entities in scope	Reporting instruments
Asset owners	■ Ontario's Pension Benefits Act, Reg. 909 ■ CCGG Stewardship Principles
Investment managers	■ Budget 2021 ■ CCGG Stewardship Principles
Service providers	■ None identified

The **Stewardship Principles** from the Canadian Coalition for Good Governance (**CCGG**) are aimed at helping asset owners and investment managers investing in Canadian public equities be active and effective stewards of their investments. The principles require reporting on the organisation's proxy voting guidelines and on how it exercises voting rights.

The other Canadian reporting requirements are very narrow in scope:

- **Ontario's Pension Benefits Act** requires reporting of how, if at all, ESG considerations are integrated into the investment policy and strategy and, to the extent relevant, reporting on the organisation's implementation of the policy and strategy.
- Canada's **2021 Budget** stipulates that Canada's Crown corporations – which include Canada Pension Plan Investment Board and Canada Development Investment Corporation – should report annually on their climate-related financial risks or justify why climate risks are not material to their operations.

US

Entities in scope	Reporting instruments
Asset owners	■ NAIC Climate Risk Disclosure Survey ■ Stewardship framework for institutional investors ■ Senate bill – Public Employees' Retirement Fund and Teachers' Retirement Fund: investments: climate-related financial risk
Investment managers	■ Commonsense Principles of Corporate Governance
Service providers	■ None identified

In the US, investment-related ESG reporting requirements are limited, with significant pushback against any new obligations. California is an exception: it passed a bill relating to the **Public Employees' Retirement Fund** (CalPERS) and the **Teachers' Retirement Fund** (CalSTRS), which requires the state's two public sector pension funds to report on material climate-related financial risks, on alignment with the Paris Agreement and California's climate policy goals, and on engagement activities linked to climate-related financial risks.

The **US stewardship framework for institutional investors** applies to asset owners. Its reporting requirements are similar to those in Canada's CCGG Stewardship Principles.

In addition, state insurance regulators have recently adopted a TCFD-aligned standard of reporting on climate-related risks for insurance companies, the **NAIC Climate Risk Disclosure Survey**.

GLOBAL INITIATIVES

There are a number of global voluntary reporting initiatives that apply to investors. They vary in scope and are difficult to characterise as a group. They include reporting instruments from multilateral organisations as well as investor initiatives.

Entities in scope	Reporting instruments
Asset owners	■ Net-Zero Asset Owner Alliance ■ Guidelines on responsible business conduct for institutional investors (from the Organisation for Economic Co-operation and Development or OECD) ■ UN Guiding Principles for Business and Human Rights ■ Recommendations from the Task Force on Climate-related Financial Disclosures (TCFD)
Investment managers	■ CFA Institute's Global ESG Disclosure Standards for Investment Products ■ The Net Zero Asset Managers initiative ■ GRESB ESG benchmarks for real estate and infrastructure investments ■ OECD guidelines on responsible business conduct for institutional investors ■ UN Guiding Principles for Business and Human Rights ■ TCFD recommendations
Service providers	■ None identified

The **TCFD recommendations** form the basis for climate change-related disclosures in a number of countries, including some of the countries discussed above. They are primarily focused on the processes used by asset owners and investment managers to identify, assess and manage the investment risk posed by climate change. The guidelines require disclosure of the reporting entity's governance and strategy in relation to climate-related risks and opportunities, as well as the management of climate-related risks and the metrics and targets used for climate-related risks and opportunities. The TCFD recommendations include a requirement for organisations to describe the resilience of their strategy, taking into consideration different climate-related scenarios.

The Net Zero Asset Managers initiative requires signatories to publish TCFD-recommended disclosures, including an annual climate action plan, consistent with the UN Race to Zero criteria and with the other commitments signatories make.

Signatories to the **Net-Zero Asset Owners Alliance** commit to disclose their intermediate emission reduction targets and to report annually on their progress towards them, including on investment portfolios' emission profile and emission reductions.

GRESB benchmarks for the ESG performance of real estate and infrastructure funds, assets and companies are based on annual voluntary reporting by funds, property companies, real estate investment trusts and developers.

The CFA Institute's **Global ESG Disclosure Standards for Investment Products** are primarily aimed at investment managers. The voluntary standards provide a framework for ESG reporting at product level. The reporting requirements include (but are not limited to) the processes to identify financially material ESG information, specific ESG objectives and targets, and the ESG characteristics of the investment product.

CREDITS

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The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org



The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org



United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org

