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ICI Global

Global ESG Policy Developments

AS OF 9 FEBRUARY 2021

Global ESG Policy Developments

Please note that ICI maintains an ESG Resource Center webpage that contains this tracker document as well as information on US policy developments and memos to members on various ESG-related developments.

Contents

Key

- Yellow = In progress, actively engaging
- Green = Finalized
- No highlight = Following, but not actively engaging

International ESG Policy Developments

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	ICI ENGAGEMENT
CFA Institute—consultation on standard for ESG investment products	CFA Institute launched a consultation in August 2020 on its work to develop a voluntary, global industry standard, the CFA Institute ESG Disclosure Standards for Investment Products, that will establish disclosure requirements for investment products with ESG-related features.	Concerns about value of an additional voluntary standard given the already crowded field of new legal requirements and ongoing policymaking in this area. The proposed standard also would require independent third-party examination.	This is a preliminary consultation seeking feedback on the proposed scope, structure, and design principles of the standard. CFA Institute expects to issue an initial draft of the standard in May 2021.	ICI responded to the consultation on 19 October 2020). Ongoing engagement with CFA and policymakers who have expressed interest in the CFA efforts.

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International Organization of Securities Commissions (IOSCO)—Sustainable Finance Network and Sustainability Task Force (STF)	IOSCO established the Sustainable Finance Network (SFN) in October 2018, chaired by the head of the Swedish securities regulator. SFN is intended to provide a platform for IOSCO's members to share their experiences and discuss sustainability-related issues. In April 2020, SFN published a report, *Sustainable Finance and the Role of Securities Regulators and IOSCO*, highlighting three recurring themes: » Multiple and diverse sustainability frameworks and standards; » Lack of common definitions of sustainable activities; and » Greenwashing and other investor protection challenges. IOSCO has established a Sustainability Task Force (STF) with a mandate to promote the two main objectives identified through the work of the SFN: 1) addressing transparency and 2) promoting investor protection. The IOSCO Board appointed Erik Thedéen, Director General of Finansinspektionen, Sweden, as chair of the STF.	Focused on how to approach listed company disclosure of ESG information. IOSCO and the big five standard-setters (SASB, GRI, etc.) are looking to IFRS to potentially create a global standard. See also below discussion on IFRS consultation. Some focus also on asset manager disclosure and concerns about greenwashing. Ongoing dialogue about the importance of materiality and the role of securities regulators with respect to sustainable finance.	The STF has three main workstreams: 1. Sustainability-related disclosures by issuers (final report expected October 2021). 2. Sustainability-related disclosures for asset managers, greenwashing and other investor protection concerns (final report expected October 2021). 3. CRAs, ESG ratings and ESG data providers (final report expected February 2022).	ICI responded to an IOSCO survey in June 2019 and attended SFN's first stakeholder dialogue event in June 2019. ICI continues to engage with IOSCO staff, as well as the SEC and other IOSCO members on IOSCO's sustainable finance efforts.
IOSCO—other activity	IOSCO issued a "Statement on Disclosure of ESG Matters by Issuers" in January 2018 that encouraged issuers to consider the materiality of ESG matters to their business and reminded issuers to disclose the impact or potential impact of material ESG matters on their financial performance and value creation. Notably, the United States declined to participate. IOSCO's Growth and Emerging Markets Committee released a report in June 2019, "Sustainable Finance in Emerging Markets and the Role of Securities Regulators."			Following but not actively engaging.

International ESG Policy Developments CONTINUED

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International Financial Reporting Standards Foundation (IFRS)—consultation on ESG corporate reporting	The IFRS Foundation consulted on whether it should create a second board—the Sustainability Standards Board (SSB)—that would sit alongside the International Accounting Standards Board. The SSB would initially focus on sustainability reporting standards for climate-related information, given climate risk is a financial risk of growing importance to investors and prudential regulators. After addressing climate-related risks, the SSB could broaden its scope to cover environmental, social, and governance factors. The consultation paper indicates that the SSB's approach to materiality would focus on information that is financially material to the reporting company. This approach would more closely align with the current materiality approach in IFRS. The consultation paper indicates that it would be difficult for the SSB to apply a so-called "double materiality" approach—that also considers the effects on the environment and society—but does not discount the possibility that after its initial work the SSB could consider double materiality. The five big standard-setters (SASB, GRI, etc.) sent an open letter to IOSCO on 30 September 2020 calling for the development of a comprehensive corporate reporting system, endorsing the IFRS initiative, and asking for IOSCO's support and assistance. IOSCO published a response on 28 October, welcoming the IFRS consultation and noting that IOSCO is keen to see the efforts of IFRS and the big five standard-setters come together. The letter also says that IOSCO stands ready to be involved in the design of the governance aspects of the SSB if IFRS decides to move forward.	Potential for IFRS to create a global sustainability reporting standard for corporate issuers. Involvement of big five standard-setters (SASB, GRI, etc.) and IOSCO. EU policymakers are pushing hard for the standard to include reporting on sustainability impact (i.e., double materiality). ICI is cautiously supportive of the IFRS effort as long as it meets the following five requirements: 1. Focus on sustainability information from a financial materiality perspective. 2. Leverage existing global sustainability standards, particularly SASB and TCFD. 3. Develop a governance structure that appropriately represents the interests of investors. 4. Create a balanced funding model. 5. Ensure sufficient coordination among international regulators. We also make the point that mandatory third-party assurance of issuer sustainability reporting is premature, but that the standards should be developed in such a way as to enable third-party assurance once the standards have matured and the cost-benefit dynamic is favorable.	The consultation closed 31 December 2020. The IFRS Foundation Trustees intend to produce a definitive proposal (including a road map with timeline) by the end of September 2021, possibly leading to an announcement on the establishment of a sustainability standards board at the meeting of the United Nations Climate Change Conference COP26 in November 2021.	ICI responded.

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Statement of Intent to Work Together Towards Comprehensive (Corporate Reporting (September 2020) (ICI summary)	Five global ESG standard-setting organizations—the Sustainable Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), the CDP (formerly the Carbon Disclosure Project), and the Climate Disclosure Standards Board (CDSB) Comprehensive Corporate Reporting published this joint statement. It describes a shared desire to resolve confusion among users of sustainability-related corporate information and describes a plan to progress towards a comprehensive corporate reporting system based on the considerations as described below. » The conditions are ripe for the development of a market-based and globally coherent solution for sustainability disclosure standards. » Sustainability disclosure that is material for enterprise value creation ideally should be disclosed along with information that is already reflected in the annual financial accounts. » It is important to establish a model for financial reporting, in which a private and independent standard-setting body develops standards, with public authority oversight, together with appropriate regulation and enforcement established by regional authorities. » Formal collaboration is essential to ensure that disclosure requirements for a given topic are the same unless there are legitimate reasons for differences. » Europe is in a prime position to mandate all building blocks of a comprehensive global corporate reporting system, which would achieve the model of global standards supplemented by specific jurisdictional regulatory requirements. » All stakeholders must be engaged to achieve the globally accepted comprehensive corporate reporting system that is urgently needed.	See also discussion on IOSCO and IFRS work on ESG corporate reporting.		Monitoring and meeting with authors as appropriate.
Organisation for Economic Co-operation and Development (OECD)	The 2011 OECD Guidelines for Multinational Enterprises provide nonbinding principles and standards for responsible business conduct. These guidelines recommend that enterprises conduct "due diligence" in order to identify, prevent, or mitigate and account for how actual and potential adverse environmental and human rights impacts are addressed. The OECD has released several sector-specific implementation papers, including the 2017 paper, "Responsible Business Conduct for Institutional Investors," which provides guidance on how institutional investors (including asset managers) should identify and respond to an investment's "adverse impacts"—defined as an investee company's real and potential negative impacts on society and the environment. The OECD also released a broader 2018 paper on "Due Diligence Guidance for Responsible Business Conduct." Separately, the OECD established its Centre on Green Finance and Investment in 2016 to support achieving the UN Sustainable Development Goals and the ambition of the Paris Agreement.	EU legislation incorporates the concept of requiring institutional investors and asset managers to do "due diligence" to consider "adverse impacts" of investee companies on environmental and social sustainability. *See* descriptions of EU Sustainable Finance Disclosure Regulation (SFDR) on disclosure of "due diligence" on "adverse impacts" and also the European Commission's legislative initiative on sustainable corporate governance and supply chain due diligence, both under EU-level policy developments.		Engaging to keep apprised of further developments. Participating on OECD Corporate Governance Committee.

International ESG Policy Developments CONTINUED

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Financial Stability Board (FSB) Task Force on Climate-Related Financial Disclosures (TCFD)	FSB established the TCFD in December 2015 with Michael Bloomberg as chair to develop voluntary, consistent, climate-related financial disclosures for companies to use in providing information to lenders, insurers, investors, and other stakeholders. Published the 2020 Status Report in October 2020, which includes the finding that asset manager reporting to clients is likely insufficient. Also launched a consultation and survey on whether the TCFD should require financial institutions (including asset managers) to disclose forward-looking climate metrics.	The consultation paper explores carbon and emissions metrics such as Implied Temperature Rise and other forward-looking metrics such as climate Value-at-Risk (climate VaR). Significant interest from policymakers in incorporating TCFD recommendations into legislation/regulation (e.g., EU, HK, Singapore).	Responses to the consultation are due by 27 January 2021.	ICI submitted a letter to the TCFD in response to the consultation paper.
Financial Stability Board (FSB)	The Financial Stability Board (FSB) is undertaking work on the financial stability implications of climate risks. In July 2020, the FSB published a 'stocktake' report that outlines financial authorities' experience in including physical and transition climate risks in financial stability monitoring. Around three-quarters of survey respondents consider, or are planning to consider, climate-related risks as part of their financial stability monitoring. In November 2020, the FSB published a report, *The Implications of Climate Change for Financial Stability*. The focus is on banks and insurers and the need for better data to be able to measure climate risk.	Indicative of increasing policymaker interest in climate risk as a financial stability risk.	The FSB's 2021 work programme includes continued work on sustainable finance issues, with plans to assess the availability of data on climate-related risks, and potential recommendations on addressing climate risks for financial institutions. A report on availability of data on climate-related financial stability risks and data gaps is expected in July 2021.	Following but not actively engaging. Attended FSB workshop on 15 December on its recent publication on the implications of climate change for financial stability.
The Network of Central Banks and Supervisors Network for Greening the Financial System (NGFS)	NGFS is a group of central banks and supervisors willing, on a voluntary basis, to exchange experiences, share best practices, contribute to the development of environment and climate risk management in the financial sector, and to mobilize mainstream finance to support the transition toward a sustainable economy. Its purpose is to define and promote best practices to be implemented within and outside of the membership of the NGFS and to conduct or commission analytical work on green finance. The NGFS has released a series of publications on climate change risk and its potential impact on the financial system, including guides for central banks and supervisors on climate scenario analysis and how to integrate environmental risks into prudential supervision. In September 2020, the NGFS published a report, *Overview of Environmental Risk Analysis (ERA) by Financial Institutions*, that provides an extensive list of examples of how environmental risks can create financial risks, and a comprehensive review of the tools and methodologies for ERA (including stress testing and scenario analysis) used by financial institutions, including banks, asset managers and insurance companies. The publication concludes that collective efforts are needed from regulators, financial institutions, international organizations, third party vendors, and academic institutions to promote the wider adoptions of ERA.	Indicative of increased central bank interest in climate change risk. Recommendations for central banks, supervisors, policymakers, and financial institutions to enhance their role in the greening of the financial system and the management of environment—and climate-related risks—for example, integrating climate-related risks into financial stability monitoring and supervision. Significant focus on climate scenario analysis and stress testing. The US Federal Reserve officially joined the NGFS in December 2020.	Five workstreams: 1) supervision, 2) financial stability (includes developing climate scenario analysis), 3) scaling up green finance, 4) addressing data gaps, and 5) research. The NGFS published its 2020–2022 work programme and announced that the ECB is joining its Steering Committee.	Following but not actively engaging. Attended virtual roundtable discussion with Irene Heemskerk, advisor to the chair of the NGFS, on 27 October 2020.

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Coalition of Finance Ministers for Climate Action	Since the launch of the Coalition of Finance Ministers for Climate Action in April 2019, finance ministers from 52 countries have signed on to the "Helsinki Principles," a set of six aspirational principles promoting national climate action, especially through fiscal policy and the use of public finance. In July 2020, the coalition published a report, analyzing implications of COVID-19 on recovery and long-term growth strategies from the finance ministers angle.			Following but not actively engaging.
International Platform for Sustainable Finance (IPSF)	In October 2019, the IMF and European Commission launched the International Platform for Sustainable Finance. The IPSF is focused on developing international standards for sustainability-related taxonomies, disclosures, standards, and labels. IPSF members include the EU, China, India, Hong Kong, Japan, Singapore, UK, Norway, Switzerland, and Canada. The IPSF workplan notes that the US is welcome to coordinate approaches and frameworks on sustainable finance, notably within the IPSF. IOSCO, NGFS, and the OECD are observers. The IPSF published its first public report in October 2020. The IPSF has two workstreams, focused on (1) taxonomies and (2) disclosure. The working group on taxonomies is cochaired by the EU and China and aims to publish a final Common Ground Taxonomy Report in July 2021 setting out a detailed comparison of the EU and China frameworks including the associated technical criteria for green economic activities. The report notes that this can be seen as a preliminary step for the development of a common classification tool for the global green and sustainable finance market. The working group on corporate sustainability-related disclosures will publish a report in October 2021 with a detailed comparison of the different existing sustainability disclosure regimes, including how the challenges of data gathering and comparability are addressed. On standards and labels, although the October report looks at what types of approaches have been taken, it notes a divide between those that have or are developing regulation or guidelines and a second group, which is taking a market-driven approach to labels such as Canada, Singapore, and Switzerland. The IPSF could envisage the creation of a dedicated working group on standards and labels in the future and for now has only set itself the goal to keep monitoring its market development.	The IPSF (specifically the EU and China) aims to produce a "common ground taxonomy" by mid-2021.	January/February 2021—IPSF outreach to private sector on common ground taxonomy 3 February 2021 (and approx. every 2 months)—Virtual technical meetings of IPSF July 2021—Report on "common ground taxonomy" October 2021—Report on disclosure practices in IPSF jurisdictions October 2021—2nd annual progress report by IPSF Post Q3 2021—Pilot use of "common ground taxonomy," possible scope of further steps of developing alignment of existing taxonomies	Following but not actively engaging.

EU-Level ESG Policy Developments

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For reference, the European Commission maintains a webpage on EU sustainable finance. Further background resources on the EU's "Lamfalussy Process" for adopting financial services legislation (e.g., the difference between Level 1 and Level 2 legislation and between a Regulation and a Directive) are available here. ICI held a member call in January 2021 providing an overview of "EU ESG: What's Coming in 2021" (see recording/slides here).					
March 2018 Sustainable Finance Action Plan	The EU's Sustainable Finance Action Plan outlines 10 reforms in 3 areas, with the aim of channeling investment in sustainable finance.	Initiatives have not proceeded sequentially and links between policy efforts have been added late in the legislative process, making it challenging to assess implications.	The three main pieces of level 1 legislation (Disclosure, Taxonomy, Low Carbon Benchmarks) have been finalized, but technical level 2 work is ongoing and will be significant.	See details for each file below.	
December 2019 Green Deal	European Green Deal aims to make the EU bloc climate neutral by 2050. Focus is on public sector financing and policies. The Sustainable Europe Investment Plan describes how the Green Deal will be funded and includes a sustainable finance component focused on implementing the EU Taxonomy and continued work on labeling green products.				
EU's Renewed Sustainable Finance Strategy (delayed to end Q2 2021)	Commission published a consultation (summary) in April 2020 to collect views on its renewed sustainable finance strategy. This strategy builds on the Commission's 2018 Action Plan on sustainable finance and is expected to focus on corporate disclosure, sustainability research and ratings, digital sustainable finance, further use of the Taxonomy and EU GBS, CRAs, and financial stability risks.	Consultation questions on expanding asset managers' fiduciary duty to incorporate sustainability impact; need for more ESG product standards and labels; continuing focus on stewardship.	Commission is expected to issue its final renewed sustainable finance strategy (phase two of the sustainable finance action plan) in Q2 2021.		ICI submitted a consultation response.

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Sustainable Finance Disclosure Regulation (SFDR) (Level 1)—final legislative text (published 9 Dec 2019); ICI summary (Including a chart of the Level 1 requirements); EU summary webpage [EU Sustainable Finance Action Plan, Action 7]	Requires financial market participants (e.g., fund managers) to provide: » **Website and prospectus disclosure on ESG integration policies (Art. 3, 6)**—Website disclosure of policies in place to integrate ESG risks into the investment process. Comply-or-explain prospectus disclosure on ESG integration and likely impact of ESG risks on fund returns. » **Website disclosure around consideration of sustainability impact (Art. 4)**—Must disclose a statement of due diligence policies for considering "principal adverse impacts of investment decisions on sustainability factors" (mandatory for entities with more than 500 employees; comply or explain for less than 500 employees). The statement of due diligence policies must include information on policies on identification/ prioritization of principal adverse sustainability impacts/indicators; description of these impacts and actions taken (and planned, if relevant), etc. The ESAs are doing extensive work on detailed disclosure requirements (i.e., level 2 RTS). » **Prospectus disclosure around consideration of sustainability impact (Art. 7)**—Comply-or-explain disclosure of whether and how a fund considers 'principal adverse impacts on sustainability factors.' (Compliance date of 30 December 2022) » **Website disclosure on how remuneration policies are consistent with the integration of sustainability risk (Art. 5)**. Product-specific disclosure for certain ESG-related financial products (e.g., funds): » **Article 8 products that "promote environmental or social characteristics" (Art. 8, 10, 11)**—Intended to capture the larger universe of ESG products. The ESAs are doing extensive work on detailed disclosure requirements (i.e., level 2 RTS). » **Article 9 products that "have an objective of sustainable investment" (Art. 9, 10, 11)**—Intended to capture a much smaller subset of impact products. Intended to capture a much smaller subset of impact products. The ESAs are doing extensive work on detailed disclosure requirements (i.e., level 2 RTS).	Although technically a disclosure requirement, Art. 4's website disclosure provision effectively requires asset managers to have due diligence policies around consideration of 'principal adverse impacts' on environmental and social sustainability in the investment process (mandatory for entities with more than 500 employees; comply or explain for less than 500 employees). The Commission also is working on level 2 legislation to amend the UCITS Directive and AIFMD to require managers who disclose consideration of adverse impact to consider 'adverse impact' in investment decisions and stewardship. See description of UCITS Directive/ AIFMD (Level 2) work below. 'Adverse impacts' is defined (Recital 20) as 'those impacts of investment decisions and advice that result in negative effects on sustainability factors.'	The legislation was officially published on 9 December 2019. European Supervisory Authorities (ESAs) are developing Regulatory Technical Standards (RTS) on disclosure content, methodologies, and presentation for certain provisions. See SFDR Level 2 discussion below.	Generally applies from 10 March 2021. The mandatory manager-level adverse impact disclosure that will apply to managers with over 500 employees will apply from 30 June 2021. The product-level periodic report disclosure requirements apply as of 1 January 2022. This ICI summary includes an attachment that outlines compliance dates for each legislative provision.	ICI advocated strongly for maintaining the more tailored scope of the Commission's original proposal and also for maintaining focus of the definition of 'sustainability risk' on risk to returns rather than sustainability impact.

EU-Level ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	IMPLEMENTATION TIMELINE	ICI ENGAGEMENT
SFDR (Level 2)—European Supervisory Authorities (ESAs) drafting Regulatory Technical Standards (RTS) for SFDR [EU Sustainable Finance Action Plan, Action 7]	The SFDR (Level 1 legislation) directs the ESAs to develop six RTS (Level 2) that will outline the details of the required disclosure. The ESAs submitted the draft RTS (summary) to the Commission on 3 February. The RTS include extensive disclosure requirements as follows: » Entity-level (e.g., manager-level) website disclosure of adverse impacts of investments on environmental and social sustainability (SFDR Art. 4). Adverse impact disclosure would require an asset manager to disclose aggregate information on the adverse sustainability impact of all its investments, including a set of 14 mandatory indicators (e.g., carbon footprint) and 2 indicators from a list of optional indicators. Applies on a comply-or-explain basis, but is mandatory for managers with more than 500 employees. » Product-level (i.e., prospectus, website, and annual report) disclosure for (1) Art. 8 products that "promote environmental or social characteristics" and (2) Art. 9 products that have an objective of "sustainable investment" (SFDR Arts. 8, 9, 10, 11). We were pleased to see that the draft RTS addressed many of the comments we provided in response to the ESAs' consultation (summary) in summer 2020. The ESAs had also launched a short follow-on consultation (summary) on mandatory templates for the product-level disclosure to which we responded as well.	Extremely short compliance timeline. Lack of sequencing/ coherence with other measures such as the NFRD review of corporate disclosure and the ongoing Taxonomy work. Proposed entity-level disclosure requirements of adverse sustainability impact indicators will create an enormous operational challenge. RTS requirements will have implications for Commission's Level 2 work to amend the UCITS Directive and AIFMD to require managers who disclose consideration of adverse impacts to consider those adverse impacts in investment decisions and stewardship. See description of UCITS Directive/ AIFMD (Level 2) work below.	The ESAs submitted the draft RTS to the Commission on 3 February. The European Commission confirmed in a letter (summary) that the application of the SFDR level 2 requirements will be delayed. We understand the Commission is still determining the revised compliance date (likely to be January 2022). This delay applies only to the level 2 RTS. The delay does not apply to the level 1 legislative requirements. The CSSF and CBI have instituted 'fast track' procedures for approval of SFDR-related prospectus changes. The ESAs were initially expected to submit final RTS to the Commission by the end of January 2021, but this has been delayed, possibly until March 2021. ESMA has published a 7 January letter (summary) to the Commission asking for clarification on several areas of uncertainty in the interpretation of the SFDR level 1 text, including application to Art. 8 and 9 products (i.e., ESG funds).	Now that the ESAs have prepared the final draft and submitted it to the Commission, the Commission can either oppose or amend the RTS (and return to the ESAs for redrafting) or adopt the RTS as submitted within three months of receiving it. The current expectation is that the Commission will look to adopt the RTS towards the end of March or early April, when the RTS are expected to be published as a part of a package of level 2 measures—including the Taxonomy Delegated Acts (DAs) on climate change mitigation and adaptation and the amendments to DAs under UCITS/ AIFMD/MiFID II. Member States and the Parliament will then have a scrutiny period of up to three months to accept or reject the entirety of the RTS text. The SFDR level 1 disclosure requirements generally apply as of 10 March 2021, and we anticipate the SFDR level 2 requirements will apply as of January 2022.	ICI submitted a lengthy, detailed response to the ESAs' initial consultation via the EU ESG Disclosure Regulation Working Group. ICI responded to the ESAs' product-level templates consultation on 16 October 2020. Significant engagement with ESAs and NCAs. Also coordinating with other trades. Several member workshops held.
ESMA consultation on marketing communications—includes a question related to marketing of ESG funds	ESMA's consultation (summary) on marketing communications includes one question related to marketing of ESG funds (see p. 15–16). The consultation also notes that ESMA will assess in the future whether there is a need to update the marketing guidelines using ESMA's authority under SFDR Article 13(2), which gives ESMA the authority to develop level 2 implementing technical standards (ITS) for marketing of ESG funds (i.e., SFDR Article 8 and 9 products).	Indicative of further ESMA interest in ESG fund marketing. The French AMF recently imposed new requirements on ESG fund marketing communications, which effectively create a minimum standard for ESG funds that goes beyond SFDR Art. 8 and 9. This may give a sense of the direction of travel of future EU-level requirements.	ESMA intends to issue final guidelines by 2 August 2021.		ICI's response to the consultation broadly agrees with ESMA's high-level approach to marketing communications for ESG funds, although the draft guidelines included one example that we recommended deleting to avoid inconsistency with SFDR.

EU-Level ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	IMPLEMENTATION TIMELINE	ICI ENGAGEMENT
UCITS Directive/ AIFMD (Level 2)—European Commission adding "sustainability risk" and 'adverse impact' to reflect SFDR [EU Sustainable Finance Action Plan, Action 7]	In June 2020, the Commission issued consultations (summary) on draft amendments to Delegated Acts integrating 'sustainability risk' into the UCITS Directive and AIFMD. The proposed amendments are intended to go hand-in-hand with the new SFDR requirements and effectively integrate those disclosure requirements into the substantive provisions of the UCITS Directive and AIFMD. These amendments will require asset managers to review their due diligence policies, resources, governance structures, conflicts of interest, and risk management practices. Note: The Commission also consulted on similar amendments under MiFID II, Solvency II, and the IDD.	The Commission proposed to amend the UCITS and AIFMD due diligence provisions to cross-reference SFDR Art. 4 so that any manager that discloses consideration of adverse impact must also take adverse impact into account when complying with the UCITS/AIFMD due diligence provisions.	The Commission was expected to adopt the draft amendments by the end of 2020 and we understand they have been further delayed, likely until end of March/early April.	Once adopted by the Commission, Parliament/ Council will have a three-month review period, then the Delegated Acts will enter into force after their publication in the Official Journal.	ICI responded to the consultations on amendments under the UCITS Directive and MiFID II frameworks. ICI initially responded to ESMA's consultation on its draft technical advice in February 2019.
European Banking Authority (EBA) consultation on consultation on management and supervision of ESG risks for credit institutions and investment firms	The Discussion Paper provides a comprehensive proposal on how ESG factors and ESG risks could be included in the regulatory and supervisory framework for credit institutions and investment firms. The proposal is focused on investment firms from a prudential perspective rather than asset management/investment advice perspective. The EBA suggests that the EU taxonomy should be used as a reference for setting and disclosing specific ESG risk-related strategic objectives. This is particularly relevant in light of the possible development of a brown taxonomy, which the EBA (in addition to the NGFS and the ECB) has called for such a framework to help supervisors identify and manage climate and environmental risks.	EBA work is likely to interact with the sustainable corporate governance legislation the Commission is planning to propose in Q2 2021 (which could include ESG requirements for company boards), as well as the review of the NFRD scheduled for March 2021, which could lead to a more extensive ESG disclosure landscape for banks, companies, and other financial market participants more broadly.	The paper and its corresponding consultation seek to collect feedback from stakeholders in order to produce a report on ESG risk management and supervision to be published in June 2021.	The report is expected to guide changes to the Supervisory Review and Evaluation Process (SREP) and could encourage the EBA to update its guidelines to include ESG into risk management and supervision. According to the EBA sustainable finance action plan published in December 2019 these changes would occur between 2022–2024.	Following, but not responding to the consultation.
AIFMD Review (Level 1)— European Commission's consultation	In October 2020, the Commission launched a consultation (summary) on potential changes to the AIFMD, including a series of ESG-related questions (# 62.1, 71, 90-95) that go further than the Commission's draft amendments to Delegated Acts integrating "sustainability risk" into the AIFMD.	We expect the Commission's approach to the AIFMD to carry over to the UCITS Directive, and the consultation questions indicate a focus on quantifying ESG integration (i.e., consideration of sustainability risk) and requiring asset managers to consider sustainability impact in the investment process.	The consultation deadline is 29 January 2021.	The Commission is expected to publish its formal legislative proposal for the AIFMD review in early 2021	ICI responded to the consultation.

EU-Level ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	IMPLEMENTATION TIMELINE	ICI ENGAGEMENT
MiFID II (Level 2)—European Commission adding "ESG preferences" to suitability assessment; also adding "sustainability risk" to organizational requirements and product governance [EU Sustainable Finance Action Plan, Action 4]	In June 2020, the Commission issued consultations (summary) on Delegated Acts under MiFID II that will require investment firms to take clients' "sustainability preferences" into account in suitability assessment. Also requires manufacturers and distributors to consider "sustainability preferences" when assessing a product's target market before it is marketed or distributed to clients. Defines sustainability preferences through link to SFDR Art. 8 and 9 product categories. Amendments also will require investment firms to take "sustainability risks and factors" into account in internal processes and procedures—for example, in organizational requirements, risk management, and conflicts of interest, as well as product governance. FinDatEx consulted on updating the European MiFID Template (EMT) to reflect SFDR Art. 8 and 9 categorizations, but this would not account for any additional changes in the forthcoming MiFID II DA that will impact when a fund can be distributed as meeting an investor's "sustainability preferences."	The draft amendments include a definition of "sustainability preferences" that would significantly narrow the universe of ESG funds that would be eligible for meeting clients' "sustainability preferences." Will impact distribution. Asking clients about sustainability preferences is expected to drive demand for funds that meet those preferences. Implications of link to SFDR Art. 8 and Art. 9 product categories will not be clear until the ESAs' RTS work is complete. European MiFID Template will need to be updated.	The Commission was expected to adopt the draft amendments by the end of 2020, and we understand they have been further delayed, likely until end of March/early April. Once the Commission has published the delegated acts with the definition of "sustainability preferences," ESMA is expected to launch consultations to update both the MiFID II product governance guidelines and the suitability guidelines.	Once adopted by the Commission, Parliament/ Council will have a three-month review period, then the Delegated Acts will enter into force after their publication in the Official Journal, followed by a 12-month delay for their entry into application. After the updated MiFID II Delegated Acts have been approved, ESMA intends to finalize updates to its guidelines on MiFID II product governance and on certain aspects of the MiFID II suitability guidelines.	ICI's response to the consultation on Delegated Acts under MiFID II argued that narrowing the universe of available ESG products would conflict with the EU's objectives.
Taxonomy Regulation (Level 1)—final legislative text; ICI summary; EU summary webpage [EU Sustainable Finance Action Plan, Action 1]	Defines economic activities that qualify as "environmentally sustainable" for purposes of establishing the degree of environmental sustainability of an investment. To qualify as environmentally sustainable under the Taxonomy, an economic activity first must "substantially contribute" to one of six environmental objectives: climate change adaptation or mitigation, sustainable water use, circular economy, pollution prevention, or healthy ecosystems/biodiversity. Second, the economic activity must "do no significant harm" (DNSH) to any of those objectives. Third, the economic activity must meet certain minimum "social safeguards," such as compliance with international labor conventions. Sustainable financial products (as defined in SFDR Arts. 8 and 9) must disclose the degree to which the portfolio is invested in environmentally sustainable economic activities under the Taxonomy, including percentages of transition and enabling activities. All other financial products must include a disclaimer noting that the underlying investments do not take the Taxonomy into account. Large listed companies also must disclose how their activities align with the Taxonomy.	Concerns about how asset managers will obtain Taxonomy alignment data for portfolio investments in order to meet disclosure requirements. Lack of coherence with SFDR definitions of "sustainable," "principal adverse impact," and DNSH. Also, the universe of investments with a high percentage of Taxonomy-aligned revenue is expected to be very small. Looking forward, EU legislators expect the Taxonomy to serve as the definitional basis for future action in the domain of sustainable finance and sustainability more broadly. The Taxonomy could have broad and far-reaching implications by being incorporated in both voluntary standards and mandatory requirements.	European Commission will adopt secondary legislation detailing metrics and screening criteria for determining whether an economic activity meets the three elements to qualify as environmentally sustainable.	The requirements (including financial products disclosure) related to the Taxonomy's first two environmental objectives (climate change mitigation and adaptation) will apply from 31 December 2021, with requirements related to the other four objectives applying on 31 December 2022. Further development of the EU Taxonomy will take place via a new Platform on Sustainable Finance.	ICI advocated strongly for maintaining the voluntary nature of the original proposal, and the more tailored scope of the proposed financial product disclosure.

EU-Level ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	IMPLEMENTATION TIMELINE	ICI ENGAGEMENT
Platform on Sustainable Finance	The Platform is a permanent expert group that will assist the Commission in developing its sustainable finance policies, notably the further development of the EU taxonomy. The Platform is chaired by Nathan Fabian, PRI.		The social Taxonomy workstream will provide a report in Q2 2021.		Following
Taxonomy Regulation (Level 2)—European Commission to adopt technical screening criteria for economic activities [EU Sustainable Finance Action Plan, Action 1]	Commission asked the Technical Expert Group (TEG) to develop recommendations for technical screening criteria on how to determine that an economic activity is "substantially contributing" or "doing no significant harm" to environmental objectives under the Taxonomy. The TEG released a final report (summary) in March 2020 that makes recommendations to the European Commission on qualitative and quantitative thresholds for determining whether an economic activity qualifies as environmentally sustainable under the Taxonomy (i.e., the activity is Taxonomy-aligned). The Report also provides 14 pages of guidance on how financial market participants (e.g., asset managers) would use this information to provide the required Taxonomy disclosure for relevant products (e.g., ESG funds and separate accounts). The Commission consulted on a draft Delegated Act (DA) in December 2020 to finalize the technical screening criteria. The draft DA made some controversial changes to the TEG recommendations, and the Commission received more than 45,000 responses to the consultation and is negotiating with Member States on the final DA.	One of the key implementation challenges will be obtaining Taxonomy-alignment data from companies in which funds are invested and then determining the degree to which the fund's investments are Taxonomy-aligned.	The Commission expected to adopt the Delegated Act (Level 2 legislation) with technical screening criteria for climate change objectives by the end of 2020, entering into force by end of 2021. The adoption of the Delegated Act has been delayed due to further negotiations among Member States. The Delegated Act with technical screening criteria for the other four environmental objectives (sustainable water use, circular economy, pollution prevention, or healthy ecosystems/biodiversity) is planned to be adopted by the end of 2021, entering into force by end of 2022.	The requirements for the Taxonomy's first two environmental objectives (climate change mitigation and adaptation) will apply from 31 December 2021, with requirements related to the other four objectives applying on 31 December 2022.	Following but not actively engaging.
Taxonomy Regulation (Level 2)—European Supervisory Authorities' (ESAs) work on regulatory technical standards (RTS) for financial product disclosure	The Taxonomy Regulation (Art. 25) directs ESMA and the other ESAs to develop draft RTS (Level 2) on the details of the content and presentation for the Taxonomy Regulation's required financial product disclosure for ESG funds (i.e., SFDR Art. 8 and 9 products).	Ongoing issues with lack of coherence between Taxonomy and SFDR concepts and disclosure around concepts of "sustainable investments" and "do no significant harm" (DNSH).	We expect the ESAs to release a consultation in spring 2021. The Taxonomy Regulation (Level 1 legislation) directs the ESAs to develop RTS (Level 2) by 1 June 2021 for financial product disclosure on the Taxonomy's environmental objectives of climate change mitigation and adaptation and by 1 June 2022 for the Taxonomy's other four environmental objectives.	The disclosure requirements related to the Taxonomy's first two environmental objectives (climate change mitigation and adaptation) will apply from 31 December 2021, with requirements related to the other four objectives applying on 31 December 2022.	We intend to engage closely with ESMA and the other ESAs on this work.

EU-Level ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	IMPLEMENTATION TIMELINE	ICI ENGAGEMENT
Taxonomy Regulation (Level 2)—Commission work on Delegated Regulation on Taxonomy-related disclosures for corporate issuers (subject to NFRD)	Taxonomy Regulation requires corporate issuers (that are subject to disclosure under the Non-Financial Reporting Directive (NFRD) to disclose the degree to which their economic activities are aligned with the Taxonomy as follows: » The proportion of their turnover derived from products or services associated with environmentally sustainable economic activities. » The proportion of their total investments (CapEx) and expenditures (OpEx) related to assets or processes associated with environmentally sustainable economic activities. The Commission has asked ESMA to set out the information that asset managers under the scope of NFRD should disclose on how their activities are aimed at funding Taxonomy aligned activities, as well as to reflect on how the KPIs required from corporates could be made more detailed. The Commission also asked the ESAs to ensure consistency with the SFDR RTS on Art. 8 and 9 product disclosure. ESMA released a consultation in early November 2020 with draft technical advice to the Commission. ESMA proposes requiring asset managers within scope of the NFRD to disclose the share of investments in Taxonomy-aligned activities for all their collective portfolio management activities.	It is important to ensure that the Taxonomy's disclosure requirements for companies match up with the Taxonomy's financial product disclosure requirements.	ESMA will deliver its advice to the Commission by 28 February 2021. The Commission then will adopt the delegated act on NFRD entity reporting against the Taxonomy by 1 June 2021.	The disclosure requirements related to the Taxonomy's first two environmental objectives (climate change mitigation and adaptation) will apply from 31 December 2021, with requirements related to the other four objectives applying on 31 December 2022.	ICI responded to the consultation.

EU-Level ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	IMPLEMENTATION TIMELINE	ICI ENGAGEMENT
Non-Financial Reporting Directive (NFRD)—European Commission review of corporate disclosure of climate-related information [EU Sustainable Finance Action Plan, Action 9]	In March 2020, the European Commission launched a consultation on ESG-related disclosure for corporate issuers as part of its review of the Non-Financial Reporting Directive (NFRD). This review is particularly important in light of the new ESG-related disclosure requirements that the SFDR and Taxonomy Regulation impose on asset managers and funds. The NFRD currently requires large companies (more than 500 employees) to disclose information on environmental, social, and employee matters, respect for human rights, and bribery and corruption, to the extent that information is necessary for an understanding of the company's development, performance, position, and impact of its activities. The amendments to the NFRD are likely to reflect the nonbinding guidelines on climate-related reporting that the Commission published in June 2019, the European Commission published under the NFRD. The guidelines aim to align with the TCFD recommendations, but differ from TCFD in taking a "double materiality" perspective, meant to capture both the impact of the climate on the company (financial materiality) and the impact of the company on the climate and other sustainability indicators (environmental and social materiality). This view was also reflected in Parliament discussions around the need for sustainability considerations to move beyond financial value, and to incorporate direct environmental and social impact as well	Sequencing issues with asset manager disclosure requirements. Company disclosure theoretically should come first, but managers will be required to begin disclosing data from investee companies before the NFRD review and reporting requirements begin to apply. Redefining assessment of the materiality of nonfinancial information to capture "double materiality"—both "financial materiality" *and* "environmental and social materiality" (environmental and social impacts of the company's activities). It is unclear whether or how the EU will coordinate the timing of this initiative with the IFRS Foundation's work on a global standard for ESG corporate disclosure.	We expect the Commission to publish proposed amendments to the NFRD in March 2021.		ICI's response to the consultation focused on the need to align NFRD requirements with the new disclosures that asset managers will be required to provide about investee companies, issues with sequencing of the various disclosure requirements, and the importance of keeping the concept of materiality separate and distinct from the concept of sustainability impact.
'Short-termism' in financial markets—ESMA report to inform Commission work [EU Sustainable Finance Action Plan, Action 10]	ESMA published a report in December 2019 in response to Commission request to assess extent to which short-termism in financial markets is present and can be considered problematic. Recommends convergence of international standards on company disclosure of ESG information. Does not recommend legislative action on fund manager remuneration and does not make any recommendations on fund use of CDS.	Focus on corporate governance could shape early thinking on strengthening requirements for institutional investors (e.g., around engagement with portfolio companies, proxy voting, use of proxy advisors). See below discussion of "Sustainable corporate governance."	Commission will take ESMA advice into account during upcoming 2020 review of company disclosure requirements in the NFRD. Report also recommends monitoring application of SRD II to assess whether it effectively encourages long-term engagement.		We did not respond to ESMA's survey but have engaged with ESMA on issues that the survey raises.

EU-Level ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	IMPLEMENTATION TIMELINE	ICI ENGAGEMENT
Sustainable corporate governance (Level 1)—European Commission drafting legislation to address 'short-termism' in corporate governance	European Commission launched a consultation (summary) in October 2020 on its upcoming legislative proposal on sustainable corporate governance. In the Commission's view, this sustainable corporate governance legislative initiative (likely a directive) is needed to shift companies away from focusing on short-term gains for shareholders and instead toward a stakeholder-centric approach that considers a company's environmental, social, human, and economic impact. The legislation is likely to focus on two main areas: 1) expanding directors' duty of care to take into account all stakeholders' interests; and 2) mandating that companies adopt due diligence processes to address adverse sustainability impacts in their supply chains. The legislation is expected to scope in corporates broadly, including the financial sector, and could be applied to non-EU companies that operate in the EU market, to address "level playing field" concerns.	Although this consultation does not directly scope in funds, we are concerned that the Commission could draw these requirements broadly and inadvertently impact fund management activities that are not the target of this legislation and that are already covered by other existing requirements. In particular, we have significant concerns about the potential requirements around companies' supply chain due diligence processes and inadvertent conflation with investment due diligence. The Commission intends to build this initiative on the OECD Guidelines for Multinational Enterprises and its Due Diligence Guidance for Responsible Business Conduct—which were also the basis for the Sustainable Finance Disclosure Regulation (SFDR) due diligence provisions on "adverse impact" on sustainability.	Consultation deadline is 8 February 2021.	Legislative initiative planned for Q2 2021.	ICI responded to the consultation and will continue to engage. Our response focused on two questions (related to supply chain due diligence and remuneration), from the perspective of how any new legislative requirements would apply to fund managers.

EU-Level ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	IMPLEMENTATION TIMELINE	ICI ENGAGEMENT
Shareholder Rights Directive (SRD) II—final legislative text	EU adopted SRD II to address concerns about short-termism and lack of shareholder engagement, including by improving the transparency of asset managers' engagement policies and the implementation of those policies. SRD II requirements apply with respect to regulated investors (MiFID firms, AIFMs, UCITS management companies, self-managed UCITS) in relation to any investments they hold in EU-listed companies. In addition, in the UK the FCA is extending the requirements to investee companies whose shares are listed on a comparable market outside Europe. Asset managers will need to establish and publicly disclose an engagement and voting policy that includes information on (among other things) how the manager monitors an investee company's financial and nonfinancial performance, its governance and its social and environmental impact, how (or whether) the manager has a dialogue with investee companies, and the manner in which the manager exercises its voting rights. Managers in scope must also publicly disclose each year how they have implemented the engagement policy, and describe their voting behavior, highlighting the most significant votes. SRD II requirements are generally based on a "comply or explain" approach.	EU likely to continue its focus on stewardship, particularly around reporting on sustainability outcomes. Some aspects of SRD II are not being directly implemented and therefore require implementation in each EU member state, such as those concerning asset managers' and institutional investors' shareholder engagement policies. For example, UK final rules may require significant changes for firms on how managers disclose and discuss engagement policies, and direct reporting obligation from asset managers to asset owners regarding how managers engage (including on ESG issues) with companies to further the investment objectives of the asset owner.		The Directive is effective as of 20 June 2019, but Member States have transposed it into national law on slower timelines. Three articles require implementing by 4 September 2020. They deal with shareholder identification (Article 3a), transmission of information (Article 3b) and facilitating the exercise of shareholder rights (Article 3c).	Following but not actively engaging.
Low-Carbon Benchmarks Regulation (Level 1)—final legislative text [EU Sustainable Finance Action Plan, Action 5]	Amends existing EU Benchmark Regulation (BMR). Creates two new categories of low-carbon benchmarks for voluntary use: a climate-transition benchmark and a specialized benchmark that brings investment portfolios in line with the Paris Agreement goal to limit the global temperature increase to 1.5 degrees above preindustrial levels. Also amends BMR's benchmarks statement disclosure provision to add disclosure on whether a benchmark (excluding interest rate and currency benchmarks) pursues ESG objectives. Similarly, significant equity and bond benchmarks must disclose degree of alignment with Paris Agreement (requirement will extent to all benchmark statements by 31 December 2021).	Impact of benchmark statement disclosure is uncertain. Legislative text amends EU Benchmark Regulation Art. 27, which requires benchmark administrators to publish a benchmark statement for each benchmark (or family of benchmarks) that may be used in the EU in accordance with Art. 29. Per Art. 29, a supervised entity may only use a benchmark in the EU if the benchmark is included in ESMA's register.	Officially published on 9 December with entry into force and application on 10 December 2019.	Benchmark administrators will need to include the required ESG benchmark statement disclosure by 30 April 2020.	Actively engaged as needed.

EU-Level ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	IMPLEMENTATION TIMELINE	ICI ENGAGEMENT
Low-Carbon Benchmarks Regulation (Level 2)—Commission adopted Delegated Acts [EU Sustainable Finance Action Plan, Action 5]	European Commission published three final Delegated Acts (DAs) in December 2020 that establish minimum technical requirements for both types of new low-carbon benchmarks and technical advice on benchmarks' ESG disclosures, including associated disclosure templates. Notably, the DA on minimum standards introduces exclusion requirements for climate transition benchmarks, including those companies that are found to "significantly harm" one of the environmental objectives under the Taxonomy Regulation. This follows significant work done by the Technical Expert Group (TEG), including a handbook with FAQs.	The DAs require disclosure of a set of ESG indicators/metrics for each asset class (see 'ESG factors' listed in Annex II). This list is not consistent with the list of adverse impact indicators in the draft Level 2 disclosure requirements for the SFDR.	The Delegated Acts were published in the Official Journal of the European Union on 3 December 2020 and entered into application on 23 December 2020.	31 December 2021: Statement for all benchmarks (except currency and interest benchmarks) on how their methodology aligns with the target of carbon emission reductions or attains the goals of the Paris Climate Agreement. 1 January 2022: "Best-efforts/endeavour" clause for significant benchmark providers kicks in. 31 December 2022: End of grandfathering for the selection of underlying assets for decarbonisation trajectory. 31 December 2022: Deadline for Commission report on impact of legislation and feasibility of ESG benchmarks.	Following but not actively engaging.
Ecolabel [EU Sustainable Finance Action Plan, Action 2]	EU is working on extending the ecolabel to financial products. This would be a voluntary label that would be available to funds whose investments meet certain "green" criteria. The ecolabel would be available to UCITS and AIFs that are sold to retail investors. Commission's Joint Research Centre published a third technical report on the ecolabel for financial products in October 2020. Report proposes requiring 40 percent of total portfolio value to be invested in environmentally sustainable economic activities (as defined by the EU Taxonomy), which may include a contribution from companies investing in transition or green growth activities. For UCITS bond funds, at least 50 percent of the portfolio must be invested in green bonds. For UCITS with both equities and bonds, at least 50 percent of the portfolio must be invested in environmentally sustainable activities. Any ecolabelled financial product also must exclude investments in companies that derive more than 5 percent of their revenue from a list of excluded activities.	Will link to Taxonomy. Commission published a June 2020 study testing the draft EU Ecolabel criteria for financial products on existing UCITS equity funds – finding that only 3 out of 101 sampled green UCITS funds would meet the Taxonomy-related investment criterion for climate change mitigation. Concerns raised around insufficient Taxonomy-related data availability and limited scope of the Taxonomy. Uncertain whether or how this will interact with the MiFID II revisions to suitability.	Comments on the third technical report due on 11 December 2020. This will be submitted to the and the Commission. In consultation with the EU Ecolabelling Board (EUEB), the Commission will finalize and adopt the criteria.	Commission is expected to finalize and adopt the EU Ecolabel criteria for financial products by Q3/Q4 2021.	Following but not actively engaging.

EU-Level ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	IMPLEMENTATION TIMELINE	ICI ENGAGEMENT
Green Bond Standards (GBS)—Commission work on creating an EU GBS [EU Sustainable Finance Action Plan, Action 2]	European Commission launched a consultation in June 2020 on the creation of an EU GBS and standards/guidance for issuance of social bonds. The consultation seeks feedback on recommendations from the Commission's Technical Expert Group (TEG) June 2019 report, including on the content of the standard and Taxonomy compliance and whether use-of-proceeds should be fully Taxonomy-aligned.		The consultation closed on 2 October 2020. Commission is expected to publish a legislative proposal in Q2 2021.		Following but not actively engaging.
Potential Commission work on regulation of ESG ratings and data providers	ESMA published a letter to the Commission in January 2021 that calls for legislation to regulate ESG ratings. The Commission published a report in January 2021 that recommends developing industry-wide standards, including a certification system and supervisory body, for sustainability-related rating and data providers. It also recommends taking action to enhance companies' sustainability disclosures, and requiring sustainability-related declarations by asset managers. This follows a paper the French and Dutch regulators published in December 2020 calling for a mandatory EU regulatory framework for service providers of ESG data, ratings, and related services.	IOSCO also has a workstream on regulation of ESG ratings and data providers.	More detail expected in the Commission's Renewed Sustainable Finance Strategy.		Following

Asia ESG Policy Developments

JURISDICTION	FILE	DESCRIPTION	STATUS/NEXT STEPS	ICI ENGAGEMENT
Hong Kong	**Securities and Futures Commission (SFC)** Strategic Framework for Green Finance	In May 2020, the SFC and the Hong Kong Monetary Authority (HKMA) established the Green and Sustainable Finance Cross Agency Steering Group to coordinate the management of climate and environmental risks to the financial sector. The steering group released a strategic plan in December 2020 that laid out the following near-term actions: 1. Mandatory TCFD aligned climate disclosures across relevant sectors no later than 2025. 2. Aim to adopt the Common Ground Taxonomy, which will be developed by mid-2021 by the International Platform on Sustainable Finance (IPSF) Working Group on Taxonomies co-led by China and the EU. The Hong Kong Monetary Authority and Securities and Futures Commission have now also joined the IPSF. 3. Support the IFRS Foundation's proposal to establish a new Sustainability Standards Board for developing and maintaining a global, uniform set of sustainability reporting standards. 4. Promote climate-focused scenario analysis. The SFC is the vice chair of IOSCO's Sustainability Task Force.		Following but not actively engaging.
Hong Kong	**SFC guidance on green funds**—ICI summary	SFC released guidance on ESG and green funds in April 2019. Requires managers to provide details on: » objectives of a fund; » why it should be considered ESG/green; » investment selection process; and » the ESG analysis and evaluation methodology. Guidance applies only to SFC-authorized funds that incorporate one or more of the globally recognized green or ESG criteria or principles (set out in Annex 1 to the circular) as their key investment focus and reflect this in their name and investment objective or strategy (i.e., "green" or "ESG"). In May 2020, the SFC launched a dedicated webpage listing all SFC-authorized green or ESG funds that comply with the SFC's requirements. Under the SFC framework, a fund adopting screening or thematic investment strategies should demonstrate that at least 70% of its total net asset value is invested in securities or other investments reflecting the stated green or ESG-related investment focus.	SFC is working with funds in scope of the requirements and has published a list of green and ESG funds.	Engagement with SFC.

Asia ESG Policy Developments CONTINUED

JURISDICTION	FILE	DESCRIPTION	STATUS/NEXT STEPS	ICI ENGAGEMENT
Hong Kong	**SFC Climate Risk Requirements for Asset Managers**	The SFC conducted a survey in March 2019 to gain a better understanding of whether and how asset managers integrate environmental and climate change-related factors into their investment and risk management processes, post-investment ownership practices, and disclosures. The SFC released an official consultation (summary) in October 2020 on regulatory requirements for asset managers on climate-related risk. The SFC proposes to amend the Fund Manager Code of Conduct (FMCC) to require fund managers to take climate-related risks into consideration in their investment and risk management processes. The proposal also would require asset managers to make climate risk disclosures. The consultation makes reference to the TCFD reporting framework and builds on an earlier soft consultation.	Consultation deadline is 15 January 2021.	Our response to the October 2020 consultation urged the SFC to take a principles-based approach, clarify certain elements of the proposed requirements, focus on materiality, avoid requiring entity-level quantitative disclosure, and avoid conflicts with other jurisdictions.
Hong Kong	**Stock Exchange of Hong Kong Limited (HKEX)**	The SFC is working closely with HKEX on climate-related corporate disclosure. HKEX launched a consultation last May on proposed changes to its ESG Reporting Guide and related listing rules. HKEX recently published a report in December 2019 outlining its conclusions and implementing the following key changes: (1) Introducing mandatory disclosure requirements to include: (a) a board statement setting out the board's consideration of ESG matters; (b) application of reporting principles such as materiality, quantitative, and consistency; and (c) explanation of reporting and identification boundaries in ESG reports; (2) Requiring disclosure of significant climate-related issues which have impacted and may impact the issuer; (3) Enhancing disclosure of ESG metrics; (4) Shortening the deadline for publication of ESG reports. HKEX launched an online sustainable and green exchange "STAGE" in December 2020 as part of its wider plans to encourage the launch of sustainable ETFs and advance ESG investing.	The new amendments to the listing rules and ESG Reporting Guide will take effect for financial years commencing on or after 1 July 2020. HKEX also is launching director e-training on ESG reporting and will update its guidance on how to prepare an ESG report, including FAQs.	Following but not actively engaging.
Singapore	**Monetary Authority of Singapore (MAS)**—Green Finance Action Plan	In November 2019, the MAS released its Green Finance Action Plan for Singapore to become a leading global center for green finance. The Plan describes MAS' objectives to build financial system resilience to environmental risk, develop green finance solutions and markets, and leverage innovation and technology.		Following but not actively engaging.

Asia ESG Policy Developments CONTINUED

JURISDICTION	FILE	DESCRIPTION	STATUS/NEXT STEPS	ICI ENGAGEMENT
Singapore	**MAS**—Guidelines on Environmental Risk Management for Asset Managers	The MAS issued final Guidelines on Environmental Risk Management (summary) for asset managers, banks, and insurers in December 2020. The Guidelines (based on the TCFD recommendations) set out MAS' supervisory expectations for financial institutions' governance, risk management, and disclosure of environmental risk. The MAS-convened Green Finance Industry Taskforce (GFIT) has launched a best practices handbook for asset managers, banks, and insurers on implementing MAS' Guidelines on Environmental Risk Management.	Asset managers will have 18 months to implement the requirements. The Guidelines note that asset managers that are part of global groups may take guidance from or leverage the group's environmental risk management governance structure, framework, and policies, as long as they meet the principles set forth in the Guidelines.	We submitted a response to the MAS consultation on proposed guidelines, and we were pleased to see that the final Guidelines address many of our comments.
Singapore	**MAS-convened Green Finance Industry Taskforce (GFIT)**—Proposed taxonomy to identify green or transition activities	On 28 January, the MAS-convened Green Finance Industry Taskforce (GFIT) issued a proposed taxonomy for Singapore-based financial institutions to identify activities that can be considered green or transitioning towards green. The consultation seeks feedback on GFIT's recommendations on the environmental objectives, focus sectors, and a "traffic-light" system which sets out how activities can be classified as green, yellow (transition), or red according to their level of alignment with environmental objectives. The taxonomy references international best practices and adapts them to the Asian context where relevant.	Consultation responses are due 11 March 2021. In its next phase of work, GFIT will develop a combination of principle-based criteria and quantifiable thresholds for activities.	Considering whether to respond.
China	**Asset Management Association of China (AMAC)**	AMAC issued China's first Green Investing Guidelines in November 2018. The guidelines stipulate that fund houses must conduct companywide self-assessments at least once a year, using either in-house experts or specialized institutions. In April 2019, AMAC asked asset managers to conduct a self-assessment on their green investing practices, covering green investing policies, operational aspects of green investment products, risk controls for green investments, and relevant disclosure issues. In September 2019, AMAC released a report that stressed the importance and necessity of growing the uptake of ESG in the domestic mutual fund market, as well as a dedication to implement this in an "urgent" manner. AMAC plans to (1) require ESG disclosures from listed companies in China; and (2) develop more ESG indices to form market benchmarks. A set of guidelines on ESG ratings, investment strategies and instruments will then be constructed and practised based on these benchmarks. In March 2020, AMAC released results from a survey of 324 financial institutions (including 48 mutual fund companies) on use of ESG investing. Mutual fund managers stated that alpha generation was the most important driver of ESG investing, followed by risk reduction and client demands.		Following but not actively engaging.

Asia ESG Policy Developments CONTINUED

JURISDICTION	FILE	DESCRIPTION	STATUS/NEXT STEPS	ICI ENGAGEMENT
China	**China Securities Regulatory Commission (CSRC)**—mandating listed company ESG disclosure	The CSRC, in collaboration with China's Ministry of Environmental Protection, has introduced new requirements that, by 2020, will mandate all listed companies and bond issuers to disclose ESG risks associated with their operations.		Following but not actively engaging.
Japan	**Financial Services Agency (FSA)**	In March 2020, the FSA revised its Stewardship Code to encourage institutional investors to focus on ESG considerations when making investments. Specifically, the revisions call for institutional investors to engage in dialogue with investee companies and clearly state how they will incorporate ESG into their investment strategies.		Following but not actively engaging.
Taiwan	**Financial Supervisory Commission (FSC)**—Green Finance Initiative 2.0	In August 2020, the Financial Supervisory Commission (FSC) launched the Taiwan Green Finance Initiative 2.0 to align sustainable investing practices with international standards. The initiative encourages lenders to provide better financial support for green finance companies, facilitate green bond issuance, cultivate local talent for sustainable investing, improve the transparency of ESG disclosures, and urges more frequent communication with global players on sustainable investing issues.		Following but not actively engaging.
Taiwan	**Taiwan Depository & Clearing Corporation (TDCC)**	In August 2020, the Taiwan Depository & Clearing Corporation (TDCC) launched the Taiwan ESG Dashboard that provides issuers and investors with free access to ESG ratings of Taiwanese companies. Four leading ESG rating providers partnered with TDCC to launch the dashboard. [NOTE: The EU is considering developing a centralized database for ESG information from corporate issuers.]		Following but not actively engaging.
India	**Securities and Exchange Board of India (SEBI)**—new mandatory stewardship code	SEBI has adopted a mandatory stewardship code that requires institutional investors (e.g., asset managers) to maintain (and publicly disclose) a comprehensive stewardship policy with a number of details on engagement with portfolio companies, including on matters such as performance, strategy, corporate governance, and material ESG opportunities or risks, as well as various proxy voting disclosure.	The stewardship code comes into effect beginning 1 April 2020.	Following but not actively engaging.
Australia	**Australia Securities and Investments Commission (ASIC)**—updates guidance on climate change risk–related disclosure	In August 2019, ASIC added climate change risk (using the TCFD model) to the list of examples of common risks that may need to be disclosed in retail prospectuses or in a company's operating and financial review. *See* Table 7 of Regulatory Guide 228 (Prospectuses: Effective Disclosure for Retail Investors).		Following but not actively engaging.

US ESG Policy Developments

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	ICI ENGAGEMENT
SEC **Amendments to Regulation S-K Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information** (19 November 2020)	On 19 November 2020, the SEC adopted amendments to Items 301, 302, and 303 of Regulation S-K to modernize, simplify and enhance certain financial disclosures. (See below for statements by Commissioners Lee and Crenshaw in connection with this adoption.)	The amendments do not apply to registered investment companies. Of note are the comments made by Commissioners Lee and Crenshaw in connection with the adoption, described below.		Following but not actively engaging.
SEC **Modernization of Regulation S-K Items 101, 103, and 105** (26 August 2020)	On 26 August 2020, the SEC adopted amendments to modernize the descriptions of business and legal proceedings, and the disclosure requirements for risk factors. (See below for statements by Commissioners in connection with this the adoption.)	The amendments do not apply to registered investment companies. They affect other issuers as described below. » Issuers must disclose the impact of all material government regulations, including environmental regulations, on the issuer's business. In addition, issuers may select a threshold where disclosure would be required for environmental proceedings to which the government is a party if the proceeding involves potential monetary sanctions. » Issuers must provide new disclosures regarding "human capital resources," which includes any human capital measures or objectives that the issuer focuses on in managing the business.	None.	Following but not actively engaging.
Public Companies: Disclosure of Environmental, Social and Governance Factors and Options to Enhance Them (2 July 2020) (Report)	The US Government Accountability Office (GAO) issued a report in July 2020, which examined, among other things: » why investors seek ESG disclosures, » public companies' disclosures of ESG factors, and » the advantages and disadvantages of ESG disclosure policy options.	The SEC generally concurred with GAO's findings and stated that the report will contribute to the ongoing discussion around ESG disclosures among public companies, investors, and policymakers.		Following but not actively engaging.

US ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	ICI ENGAGEMENT
SEC Fund Names Rule (Rule 35d-1) and SEC staff disclosure review comments	The SEC adopted the Investment Company, or Fund Names Rule in 2001. The rule requires a fund with a name suggesting that the fund focuses on a particular type of investment (e.g., "stocks" or "bonds") to invest at least 80% of its assets accordingly. We understand that the SEC Division of Investment Management's disclosure review staff currently takes the position that when there are references in a fund's name to ESG or similar terms (e.g., Green Fund, Sustainable Fund), the staff expects the fund to adopt a policy to invest at least 80% of its assets in ESG-related investments, defined using the criteria or process disclosed in the fund's prospectus. Aside from fund name rule-related comments, funds that list ESG in their names, or as a strategy, are asked to disclose ESG investment risks. On 2 March 2020, the SEC published a request for comment (summary) on the Fund Names Rule, which included as a current challenge the number of funds with ESG investment mandates.	We understand that many funds have disagreed with this staff position on the basis that the fund is pursuing a particular investment strategy, similar to a value or growth investment strategy. As a result, some funds have implemented an 80% policy, while others have not, meaning there are now different approaches and disclosure among funds with ESG references in their names. We understand that, like any other material investment risk, funds disclose risks related to ESG investing. We expect the staff will use the comments received to inform future disclosure comments.	Each fund needs to decide whether to accede to any staff comment on its disclosure filings. Any new fund that requires the staff to declare its registration statement effective may have to accede to the comment in order for the staff to declare it effective. Funds filing post-effective amendments that go into effect automatically may or may not accede to the comment. The SEC could issue a rule proposal, followed by a comment period, and ultimately, amend the Fund Names Rule. The SEC staff could retain, or revise, its disclosure comments.	ICI staff regularly engages with members and the SEC staff on disclosure issues. ICI's Disclosure Review Working Group has three conference calls annually to discuss staff comments on disclosure. ICI's 5 May 2020 comment letter recommended that the SEC clarify that references to ESG, Sustainable, Responsible, or other names of funds with investment mandates requiring qualitative assessment of E-, S-, or G-related factors not be required to comply with the Fund Names Rule, as these names suggest an investment strategy akin to names like "growth" or "value." Continuing to follow closely.
SEC guidance regarding disclosure related to climate change (2 February 2010)	SEC interpretive release that provides guidance to public companies regarding the Commission's existing disclosure requirements as they apply to climate change matters.			Following but not actively engaging.
SEC public statements or speeches	Commissioners Lee and Crenshaw Joint Statement on Amendments to Regulation S-K: Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information (19 November 2020)	Lee and Crenshaw dissented from the adoption because of two issues they could not support, one of which is that the rule fails completely to address climate risk. They asserted that: » Research and analysis have shown that a principles-based approach, coupled with voluntary disclosure, results in non-standardized, inconsistent, and incomparable disclosures. » A major purpose of requiring companies to disclose specific information about climate risk and human capital management is to allow market participants to accurately price and compare the risks and opportunities associated with these risks. » Without specific requirements, much of the information is simply not there to be worked into the analysis.		Following but not actively engaging.

US ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	ICI ENGAGEMENT
SEC public statements or speeches, continued	Commissioner Lee "Playing the Long Game: The Intersection of Climate Change Risk and Financial Regulation" (5 November 2020). See ICI summary.	Lee indicated her interest in the SEC taking regulatory actions related to climate change risk including: » For public companies and financial institutions, rules that would require uniform, consistent, and reliable ESG data. » For advisers, rules that would require policies and procedures governing their approach to ESG investment. Lee asked: whether the SEC should encourage credit rating agencies to be more transparent about how they weigh ESG factors; and whether the Financial Accounting Standards Board (FASB) should analyze how climate risks translate when applying generally accepted accounting principles (GAAP).		Following but not actively engaging.
SEC public statements or speeches, continued	Commissioner Peirce "Lucy's Human: Remarks at Virtual Roundtable on The Role of Asset Management in ESG Investing Hosted By Harvard Law School and the Program on International Financial Systems" (17 September 2020). See ICI summary.	Peirce delivered a speech expressing her views on ESG investing and various considerations for Commission regulation. Peirce stated that she agrees with Roisman that "funds must clearly disclose their investment strategies so that an investor can make informed decisions about whether a fund that claims to be an ESG fund is an ESG fund as that investor defines it." Peirce asserted, however, that the SEC should not standardize what it means to have an ESG strategy because it would "limit choices for investors, stifle innovation by funds, and put the SEC in the inappropriate position of deciding whether an asset manager's strategy is, for example, sufficiently green or properly socially conscious." Peirce also noted that the Commission should not implement a standardized ESG disclosure framework because market participants have not coalesced around a single framework.		Monitoring and engaging with SEC staff.

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	ICI ENGAGEMENT
SEC public statements or speeches, continued	Chairman Clayton "Modernizing the Framework for Business, Legal Proceedings and Risk Factor Disclosures" (26 August 2020) Commissioner Peirce "Statement at Open Meeting on Modernization of Regulation S-K 101, 103, and 105" (26 August 2020) Commissioner Roisman "Opening Remarks at the Open Commission Meeting to Adopt Amendments to Items 101, 103, and 105 of Regulation S-K" (26 August 2020) Commissioner Lee "Regulation S-K and ESG Disclosures: An Unsustainable Silence" (26 August 2020) Commissioner Crenshaw "Statement on the 'Modernization' of Regulation S-K Items 101, 103, and 105" (26 August 2020)	Clayton noted that human capital accounts for and drives long-term business value for many issuers more so than it did in previous years, but that these metrics vary widely depending on the nature of the issuer's business and workforce. Specifically, he believes that the "principles-based approach" requirement that issuers must describe human capital resources affords sufficient flexibility as issuers continue to evolve in the future. Peirce reiterated that disclosure requirements must be "rooted in materiality." Roisman heralded that the amendments incorporate recent priorities among investors and issuers, such as public companies relying more on intangible assets and key employees. Lee remarked that "ESG investing is no longer just a matter of personal choice," and the Commission must more directly address investors' increased focus on ESG risks. Crenshaw urged the Commission to form an internal task force to study how investors use ESG metrics to assess a company's long-term financial performance and an external ESG Advisory Committee to ensure that the Commission is aware of, and responding to, ESG trends affecting the market and is held accountable for taking action.		Following but not actively engaging.
SEC public statements or speeches, continued	Commissioner Roisman, Keynote Speech at the Society for Corporate Governance National Conference (7 July 2020)). See ICI summary.	Roisman indicated that: » he has serious reservations about imposing prescriptive disclosure requirements on public companies; » the SEC would be well within its authority to elicit more ESG disclosure from asset managers.; » "retail investors who want 'green' or 'sustainable' products deserve more clarity"; » another risk for investors is "greenwashing," which is conveying a false impression to retail investors that a given product is environmentally friendly; and » he hopes that "the Commission can set forth clearer parameters around how investment products, such as 'ESG' mutual funds and ETFs, are named."		Following but not actively engaging.

US ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	ICI ENGAGEMENT
SEC public statements or speeches, continued	Chairman Clayton, A Conversation with SEC Chairman Clayton: Long-term Investing, Sustainability, and the Role of Disclosures (23 June 2020) See ICI summary.	SEC Chairman Clayton participated in a webinar on long-term investing, sustainability, and the role of disclosures, where he discussed his views on the importance and role of ESG-related disclosures and reiterated the importance of separately analyzing "E," "S," and "G." Clayton noted that the SEC staff is reviewing, and commenting on, public company disclosure related to environmental, or "E," issues and "at some point" SEC's 2010 guidance regarding disclosure related to climate change would be updated. He noted that many ESG metrics are forward looking and that they are moving into "somewhat uncharted territory" given the subjective and uncertain nature of any forward-looking information. Clayton noted that the SEC already requires disclosure around governance, or "G." Clayton stated that disclosure of material information includes financial and nonfinancial information and should be evaluated from a reasonable investor's perspective. For example, disclosure regarding climate change is material to a reasonable investor in a property and casualty company. In contrast, a reasonable investor in a fabric manufacturer in the Midwest would consider the importance of climate change to an investment in that company differently. He described the SEC's role in encouraging diversity as increasing dialogue with the goal of overcoming inherent biases. Clayton underscored SEC's commitment to international organizations (e.g., FSB, IOSCO) and importance of working with global regulators on ESG matters. He also pointed out that potential liability is an important consideration regarding disclosure in the US but not necessarily outside of the US.		Following but not actively engaging.
SEC public statements or speeches, continued	Chairman Clayton Remarks at Meeting of the Asset Management Advisory Committee (AMAC) (27 May 2020)	Clayton stated that he believes that in many cases one or more "E" issues, "S" issues, or "G" issues are material to an investment decision but that he has not seen circumstances where combining an analysis of E, S, and G together, across a broad range of companies—for example with a "rating" or "score," particularly a single rating or score—would facilitate meaningful investment analysis that was not significantly overinclusive and imprecise. He also noted that he has requested engagement on this topic, particularly from active portfolio managers with actual track records.		Following but not actively engaging.

US ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	ICI ENGAGEMENT
SEC public statements or speeches, continued	Chairman Clayton "Statement on Proposed Amendments to Modernize and Enhance Financial Disclosures; Other Ongoing Disclosure Modernization Initiatives; Impact of the Coronavirus; Environmental and Climate-Related Disclosure" (30 January 2020) Commissioner Peirce "Statement on Proposed Amendments to Modernize and Enhance Financial Disclosures" (30 January 2020) Commissioner Lee "'Modernizing' Regulation S-K: Ignoring the Elephant in the Room" (30 January 2020)	Clayton reiterated his support for the Commission's approach to requiring ESG-related disclosure. Peirce reiterated the views that Hinman and Clayton expressed, stating that the concept of materiality applies to ESG and sustainability disclosures just as it does to other information. Lee disagreed with the views of Hinman, Clayton, and Peirce on ESG disclosure principles, stating that the broad, principles-based "materiality" standard has not produced sufficient disclosure to ensure that investors are getting the information they need about climate risk disclosure, and stating that without a mandatory standardized framework, not all issuers will disclose, and disclosure will continue to vary greatly by issuer, making it difficult—if not impossible—for investors to compare companies.		Following but not actively engaging.
SEC public statements or speeches, continued	Chairman Clayton Remarks at the Investor Advisory Committee Meeting (15 January 2020) Commissioner Peirce Remarks at Meeting of the SEC Investor Advisory Committee Meeting (15 January 2020)	Clayton stated that he views "E," "S," and "G" as quite different baskets of disclosure matters and that lumping them together diminishes the usefulness, including investor understanding, of such disclosures. Peirce reiterated her view that a new SEC disclosure framework for ESG information seems an unnecessary response when the SEC's existing securities disclosure framework is very good at handling all types of material information; she also stated that if the IAC is able to focus attention on discrete pieces of information for which disclosure mandates are necessary, perhaps a substantive discussion could follow.		Following but not actively engaging.

US ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	ICI ENGAGEMENT
SEC public statements or speeches, continued	Commissioner Lee Statement at Inaugural Meeting of the Asset Management Advisory Committee (14 January 2020)	Lee encouraged the Asset Management Advisory Committee to consider several topics, including: » How can the Commission ensure that asset managers and their clients can meaningfully pursue their investment goals and have access to critical information related to climate risk and, more broadly, to ESG issues? » What set of standards will best serve investors and asset managers in evaluating a company's exposure to climate risk and assessing and pricing that risk? » What should it mean when a fund calls itself an ESG fund? » And how can the Commission and investors ensure that asset managers are not only investing in line with the long-term goals of their clients, but also voting in line with those goals?		Following but not actively engaging.
SEC public statements or speeches, continued	SEC Chairman Jay Clayton, Remarks to the SEC Investor Advisory Committee (7 November 2019)	Chairman Clayton remarked on the IAC agenda item on whether investors use ESG data in investment/capital allocation decisions and reiterated the themes of Director Hinman's earlier remarks.		Following but not actively engaging.
SEC public statements or speeches, continued	William Hinman, Director, Division of Corporation Finance, "Applying a Principles-Based Approach to Disclosing Complex, Uncertain, and Evolving Risks: Remarks at the 18th Annual Institute on Securities Regulation in Europe" (15 March 2019)	The SEC takes a principles-based and market-driven view to operating company disclosure of ESG-related information. It analyzes ESG disclosure using a "materiality" lens (i.e., companies should disclose information that a reasonable investor needs to make informed investment and voting decisions based on each company's particular facts and circumstances). Division of Corporation Finance Director William Hinman explained the staff view in his remarks.		Following but not actively engaging.

US ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	ICI ENGAGEMENT
SEC staff's examination of ESG-related funds: SEC OCIE 2020 examination priorities (7 January 2020) SEC OCIE document request letter on funds' ESG investments (2019)	The SEC's Office of Compliance Inspections and Examinations (OCIE) is paying close attention to ESG investing in its examinations of funds and investment advisers. OCIE's 2020 exam priorities include a focus on "the accuracy and adequacy of disclosures provided by registered investment advisers offering clients new types or emerging investment strategies, such as strategies focused on sustainable and responsible investing, which incorporate…ESG criteria." We understand OCIE has conducted examinations and made specific document requests related to ESG investing over the last year. One ESG-focused document request from OCIE listed a wide range of information and documents including items such as: » a fund's definition of terms that relate to ESG and that are used in marketing or disclosure; » a list of ESG factors used and written policies relating to application of the factors; » a list of all ESG investments recommended to clients during the exam period; » a list of ESG investments that were previously but are no longer being recommended; » information on proprietary scoring systems or third-party scoring systems used by a fund or adviser; and » a fund's or adviser's three most profitable and three least profitable investment decisions for ESG investments offered to clients along with due diligence and research files and performance returns for each client.			Following but not actively engaging.

US ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	ICI ENGAGEMENT
SEC's Investor Advisory Committee IAC archived webcast	Recommendation from the Investor-as-Owner Subcommittee of the SEC Investor Advisory Committee Relating to ESG Disclosure (as of 14 May 2020)	The subcommittee recommended that the SEC consider whether ESG disclosure is material and should be incorporated into its mandatory disclosure regime. It also recommended that the SEC update the reporting requirements of public companies to include material, decision-useful, ESG factors. To begin this process, for example, the Commission could undertake a series of outreach efforts to both investors and issuers (e.g., roundtables). This would help the staff to review and evaluate multiple options or approaches to updating the reporting requirements regarding material ESG issues. One committee member dissented, urging private parties, rather than the Commission, to address ESG disclosure.		Following but not actively engaging.
SEC's Office of Investor Advocate Report on Activities (Fiscal Year 2020)	The Office of Investor Advocate has four functions: » To provide a voice for investors; » To assist retail investors; » To study investor behavior; » To support the Investor Advisory Committee. The Office was established pursuant to a Congressional mandate, and the law requires the Investor Advocate to submit reports directly to Congress, without any prior review or comment from the Commissioners or SEC staff. The Investor Advocate files two reports to Congress each year: » A Report on Objectives, due each 30 June, which sets forth the objectives of the Investor Advocate for the following fiscal year, and » A Report on Activities, due each 31 December, which describes the activities of the Investor Advocate during the immediately preceding fiscal year.	The Investor Advocates 2020 Report on Activities states that the principles-based disclosure requirements are insufficient and supports suggestions by Commissioners Lee and Crenshaw to create an SEC advisory committee and internal task force to evaluate the issues. The principles-based disclosure requirements have failed to deliver important, decision-useful information because information provided by companies tends to vary in quality and is not presented in a standard format that enables comparisons between companies. This also contributes to the practice of greenwashing because general, principles-based disclosures make it difficult to determine whether a company or fund is following its stated objectives.		

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	ICI ENGAGEMENT
SEC's Asset Management Advisory Committee (AMAC) **1 December 2020 Meeting** » ESG Subcommittee Update (1 December 2020) » Potential Recommendations (1 December 2020) » Summary Draft: Preliminary Recommendations (1 December 2020) **16 September 2020 Meeting** **ESG Subcommittee Update (16 September 2020)** » Archived Webcast (16 September 2020) » Transcript of Meeting (16 September 2020) **27 May 2020 Meeting** **ESG Subcommittee Update (27 May 2020)** » Archived Webcast Part 1 (27 May 2020) » Archived Webcast Part 2 (27 May 2020) » Transcript of Meeting (27 May 2020)	The ESG subcommittee explores assessing performance of ESG strategies; proxy voting in ESG strategies; issuer disclosure of ESG data; and the role of ESG rating systems and benchmarks. A summary of the 1 December 2020 meeting is available here		AMAC presented the following potential recommendations to the SEC at the 1 December 2020 meeting and determined to consult further with corporate issuers: Recommendations Regarding Issuer Disclosure of ESG Risks: » The SEC should require the adoption of standards by which corporate issuers disclose material ESG risks » The SEC should utilize standard setters' frameworks1 to require disclosure of material ESG risks » The SEC should require that material ESG risks be disclosed in a manner consistent with the presentation of other financial disclosures Recommendations Regarding ESG Investment Product Disclosure: » The SEC should suggest best practices to enhance ESG investment product disclosure, including alignment with the taxonomy developed by the ICI ESG Working Group2, and clear description of each product's strategy and investment priorities, including description of non-financial objectives such as environmental impact or adherence to religious requirements » The SEC should suggest best practices for investment products to describe each product's planned approach to share ownership activities in the Statement of Additional Information, and any notable recent ownership activities outside proxy voting, which is reported in Form N-PX, in shareholder reporting	Provided ICI views to AMAC and following developments.

US ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	ICI ENGAGEMENT
CFTC's Market Risk Advisory Committee's Climate-Related Market Risk Subcommittee	CFTC Commissioner Behnam initiated the CFTC's effort to examine climate-related impacts on the financial system with the formation of the Market Risk Advisory Committee's Climate-Related Market Risk Subcommittee in 2019. The subcommittee chair, Bob Litterman (founding partner, Kepos Capital), reported that at its first meeting in November, there seemed to be a strong consensus among subcommittee members that the appropriate role of the public sector is to not to direct investments, but rather to provide incentives and the appropriate regulatory framework, and let the market freely allocate capital.			Following but not actively engaging.
CFTC's Market Risk Advisory Committee's Climate-Related Market Risk Subcommittee's Managing Climate Risk in the U.S. Financial System (Report) (ICI summary) (9 September 2020)	The Report contains 53 recommendations intended to mitigate the risks that climate change poses to financial markets. These recommendations are based on the conclusions described below. » Climate change poses a major risk to the US financial system's stability and its ability to sustain the economy. » Climate risks may exacerbate unrelated financial system vulnerabilities, such as those stemming from COVID-19, that have strained balance sheets, government budgets, and household wealth. » US financial regulators must recognize that climate change poses a major risk to the US financial system and should move urgently to measure, understand, and address these risks. » US financial regulators can help promote the role of financial markets in providing solutions to climate-related risks.	The Report identifies mutual funds, which often hold climate-impacted assets, as a type of financial institution that may be affected by climate-related risks. For example, the ineffective management of climate-related risks could lead to large financial losses, which could trigger asset fire sales and elevated counterparty risk, which can channel financial contagion.		Monitoring

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	ICI ENGAGEMENT
DOL Final Regulation on Financial Factors in Selecting Plan Investments	In October 2020, DOL finalized its regulation on retirement plan investment selection (the rule on ESG investments). DOL intends the rule to codify existing sub-regulatory guidance, through a notice and comment process, and provide clear regulatory guideposts for retirement plan fiduciaries in light of recent trends involving ESG investing. The final rule is substantially improved from DOL's June 2020 proposed rule. Nonetheless, the final rule continues to place new burdens on plan fiduciaries when selecting investments based on non-pecuniary factors.	The final rule contains no specific references to ESG or ESG-themed funds and, instead focuses the relevant analysis on "pecuniary" and "non-pecuniary" factors. ERISA fiduciaries must evaluate investments based solely on pecuniary factors—i.e., factors that the responsible fiduciary prudently determines are expected to have a material effect on risk and/or return of an investment based on appropriate investment horizons consistent with the plan's investment objectives and the funding policy. By contrast, the proposal would have treated any fund that includes environmental, social, corporate governance, and/or "any similarly oriented assessments or judgments in their investment mandates" as "ESG investments" that are subject to heightened scrutiny and increased administrative burden. The final rule allows 401(k) plan fiduciaries to include investment options that support non-pecuniary goals; however, they must meet the rule's requirements related to prudence and loyalty, including the requirement to evaluate investments solely based on pecuniary factors when selecting any such investment. The final rule prohibits plans from having an investment as a QDIA, or as a component of a QDIA, if its objectives or goals or its principal investment strategies include, consider, or indicate the use of one or more non-pecuniary factors. It is sufficient for a fiduciary to look at the investment's prospectus to apply this test. The final rule provides that non-pecuniary factors may be considered only "when choosing between or among investment alternatives that the plan fiduciary is unable to distinguish on the basis of pecuniary factors alone." Fiduciaries must meet certain documentation requirements if they use this "tie-breaker" test. DOL should not single out one investment category for special treatment. Until now, the same fiduciary standard has applied to every kind of investment. The proposal, however, singles out one investment category for increased scrutiny and additional administrative requirements.	The final regulation will be effective 60 days after publication in the Federal Register (the rule is scheduled to be published on 13 November, which we expect will make the rule effective on 12 January). There will be strong political pressure for the Biden administration to make changes (which it would need to do through a new rulemaking project).	ICI submitted a comment letter on 30 July 2020, urging DOL to withdraw the proposal. ICI is closely following these developments.

US ESG Policy Developments CONTINUED

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	ICI ENGAGEMENT
White House Executive Order Affecting DOL's ESG Investing, Proxy Voting Guidance	On 10 April 2019, the White House issued an Executive Order on Promoting Energy Infrastructure and Economic Growth (the EO). The goal of the EO is to promote private investment in US energy infrastructure, with a focus on crude oil and natural gas. Among other directives intended to accomplish this goal, the EO directs the DOL to: » Complete a review of available data filed with the DOL by retirement plans subject to ERISA in order to identify whether there are discernible trends with respect to such plans' investments in the energy sector; » Provide an update to the Assistant to the President for Economic Policy on any discernible trends in energy investments by such plans; and » Complete a review of existing DOL guidance on the fiduciary responsibilities for proxy voting to determine whether any such guidance should be rescinded, replaced, or modified to ensure consistency with current law and policies that promote long-term growth and maximize return on ERISA plan assets.	The EO appears focused on limiting the impact of ESG influences on curtailing investment in the fossil fuel energy industry.	As described above, in October, DOL issued a final regulation addressing ESG investments in retirement plans. In addition, in August, DOL issued a new proposed regulation addressing ERISA fiduciaries' duties regarding proxy voting and exercises of other shareholder rights (see ICI comment letter). These rulemakings appear to relate to the EO.	Following closely.

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	ICI ENGAGEMENT
DOL 2018 Update of Guidance on Fiduciary Duties Related to Exercise of Shareholder Rights and Consideration of ESG Factors	On 23 April 2018, the DOL issued Field Assistance Bulletin (FAB) 2018-01 providing guidance to its staff in national and regional offices regarding proxy voting, shareholder engagement, and economically targeted investments by plan fiduciaries. The FAB is intended to "clarify" earlier DOL guidance issued in Interpretative Bulletins (IBs) 2016-01 and 2015-01 and is the latest chapter in the DOL's back-and-forth on how fiduciaries can permissibly take environmental, social, and governance (ESG) factors into account when making plan investments and in exercising shareholder rights.	According to the FAB, plan fiduciaries may not sacrifice investment returns or take on additional investment risk by using plan investments to promote collateral social policy goals; however, when competing investments serve the plan's economic interests equally well, plan fiduciaries can use such collateral considerations as tiebreakers for an investment choice. The DOL acknowledges that in some cases, otherwise collateral ESG issues may present material business risk or opportunities to companies; however, the FAB cautions that "[f]iduciaries must not too readily treat ESG factors as economically relevant to the particular investment choices at issue when making a decision," that "fiduciaries must always put first the economic interests of the plan in providing retirement benefits," and that "[a] fiduciary's evaluation of the economics of an investment should be focused on financial factors that have a material effect on the return and risk of an investment based on appropriate investment horizons consistent with the plan's articulated funding and investment objectives." Regarding 401(k) investment options, the FAB provides that "a prudently selected, well managed, and properly diversified ESG-themed investment alternative" may be an appropriate part of an investment menu that includes a broad range of alternatives. However, the DOL seems to narrow this position somewhat when it cautions in footnote 6 that a "decision to designate an investment alternative may not be influenced by noneconomic factors unless the investment ultimately chosen for the plan, when judged solely on the basis of its economic value, would be equal to or superior to alternative available investments." The DOL raises significant concerns regarding consideration of ESG factors when selecting a qualified default investment alternative (QDIA) for a plan.	As discussed in more detail above, DOL's final rule issued in October 2020 is intended to "codify" the guidance from the FAB and the prior IBs into regulation. The final rule withdraws IB 2015-1 and supersedes the portion of the FAB that addresses ESG investment considerations.	ICI has discussed the impact of the FAB with ICI's Pension Committee and other ICI members.

FILE	DESCRIPTION	MAIN ISSUES	STATUS/NEXT STEPS	ICI ENGAGEMENT
PCAOB Public Statements or Speeches	J. Robert Brown Jr., PCAOB board member, "It's Not What You Look at that Matters: It's What You See, Revealing ESG in Critical Audit Matters." Board member Brown "It's Not What You Look at that Matters: It's What You See, Revealing ESG in Critical Audit Matters (4 November 2020)	Suggests there should be more disclosures concerning ESG matters in critical audit matters (CAMs) than have been made so far and expects to see more auditor reports describing them in the future. Climate change can directly affect the financial statements, which include assumptions, estimates, and valuations that are materially impacted by the effects of climate change. Recently adopted rules require auditors to report "critical audit matters" in their audit reports. CAMs are intended to alert investors to aspects of the audit that were particularly difficult or subjective. To date auditors have reported relatively few CAMs relating to climate change. ESG CAMs will presumably increase as the financial impact of ESG matters continues to accelerate. The PCAOB is well positioned to assess whether ESG CAMs are being disclosed with the required frequency through its auditor inspection program. The PCAOB should also consider the role of the auditor in providing assurance on ESG metrics as part of the financial statement audit.		Following but not actively engaging.
Notable Events	On February 2, 2021, Brookings sponsored the following event: "Climate change and financial market regulations: Insights from BlackRock CEO Larry Fink and former SEC Chair Mary Schapiro." Please see links below for: » Summary of the event » Archived recording of the event	Larry Fink, CEO of BlackRock, observed that because we are now seeing the foundations for better climate-related reporting by companies, including based on the Task Force on Climate-related Financial Disclosures (TCFD) framework and Sustainability Accounting Standards Board (SASB) standards, investors are able to better evaluate the climate-related risks of companies. He also highlighted concerns about the potential for public/private arbitrage if climate-related disclosure is limited to public companies. Mary Schapiro, former SEC chair and current TCFD Secretariat leader, discussed the Biden Administration's whole government approach to climate risk and highlighted the roles of various government agencies. She stated that, among the tools available to the SEC to address climate risk, is the ability to create disclosure standards to improve the quality and comparability of information in the marketplace, which she believes the SEC should do. She also indicated that the SEC should work with European and other regulators so that there is a global solution.		Following but not actively engaging.

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