Demystifying the UK ESG Investing Ecosystem

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Co-authors: Galya Wells, David Stead, Kirill Panduro

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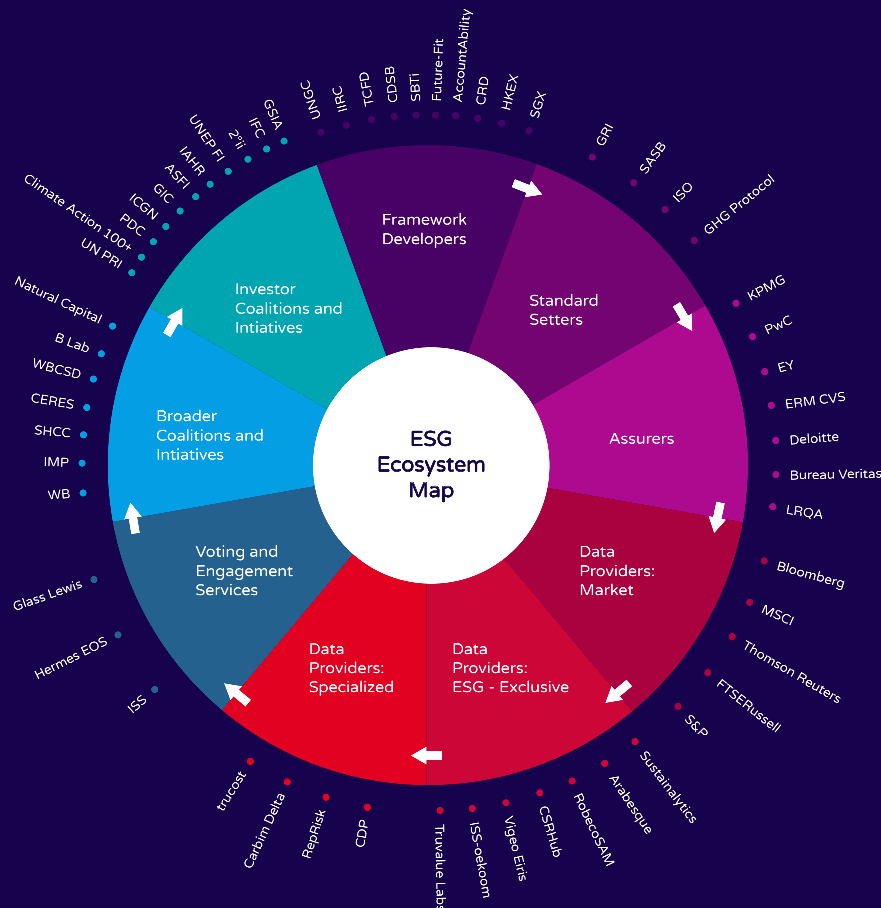
Introduction - getting under the froth

The objective of this working paper is to provide a 'bird's eye view' reference guide to the UK ESG Investing Ecosystem by summarising and explaining the key relevant definitions, reporting frameworks, initiatives and organisations for Asset Managers, Asset Owners and anyone else interested in the ESG investing topic. We hope it will help to bring clarity to a very crowded and confusing field.

The UK is well-positioned to maintain and strengthen its position as a global leader in Sustainable Finance. It has already demonstrated a number of 'firsts': the first country to adopt a climate change act (2008 Climate Change Act), embed Net Zero carbon emission targets in its legislature and most recently, to make climate change financial disclosures - TCFD as developed by the Financial Stability Board - mandatory across the economy.



The UK investment management industry is the second largest investment management centre in the world (£9.9 trillion assets under management or 14.7% of the £67 trillion global assets under management) after the US and is the largest centre in Europe. With a European market share of 37%, it is larger than the next three European centres (France, Germany and Switzerland) combined.

As of the end of 2019, 38% of assets under management incorporate ESG factors into their investment selection processes (up from 26% a year before). Exclusion policies are applied to 19% of total assets under management (AUM). Despite the growth in AUM and the investor interest reported by the investment association members, sustainability focused approaches and impact investing remain a relatively small proportion of the industry with 1.4% and 0.3% of assets respectively.

According to a recent KPMG Investor Survey 65% of investors[2] feel that the progress towards wider adoption of sustainable financing is hampered by the lack of robust templates, consistent definitions and reliable data.

When we embarked on this study we felt fairly confident that we understood the ESG topic fairly well, having between us over 30 years of experience in philanthropy, impact investing and sustainability. However what soon became clear is that the UK ESG Ecosystem is very convoluted with a lot of 'noise' due to the sheer number of interpretations, various national and global initiatives, organisations, reporting disclosures, as well as complexities due to the UK's departure from the EU, and the UK government's renewed ambition to position the country as a world's leader in sustainable finance.

Therefore we tried to apply 'materiality' lenses and hand-picked the intelligence on a 'need to know' not a 'nice to know' basis, focusing on what is relevant now and outlining the 'direction of travel' and future developments.

[2]Source: KPMG Sustainable Investing

Some of the questions we aimed to answer in this document (Part I) are:

01 What is ESG Investing and how is it different from Responsible Investing, Impact Investing and other types of Sustainable Financing?

02 Who are the 'key influencers' - the organisations, associations, investor initiatives and coalitions that are shaping the future of ESG investing in the UK?

03 What are the key reporting impact frameworks that matter and how widely have they been adopted by the UK players?

04 A snapshot of the current ESG regulatory landscape in the UK and the EU and the direction of travel.

In the future we plan to publish Part II of the reference guide, answering further questions such as:

- The key personalities in the UK ESG market;
- The main UK ESGTech Players;
- ESG resources: the best sustainable finance online training courses, ESG themed podcasts, videos and interviews.

We do hope you find this a useful reference guide and very much welcome all comments and suggestions.
*Please do keep in mind that this is not meant neither as a comprehensive guide to ESG nor as a technical legal note.

Co-authors: Galya Wells, David Stead, Kirill Panduro
Maanch Ltd, London, UK

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Key Takeaways

01

Definitions

The UK asset management industry has been using a spectrum of sustainable investing definitions. They range from Responsible Investing (which is defined as ESG integration and Active Ownership) to Sustainability themed investing (with strong intentions to achieve stated sustainability goals via efficient capital allocation) at the other end of the spectrum.

Between them lie a whole range of other sustainable investing strategies such as Ethical investing, Negative Screening, Positive or Best-in-Class Screening and Impact Investing. ESG Investing is not a strictly defined term, typically referred to ESG integration into investment decision making.

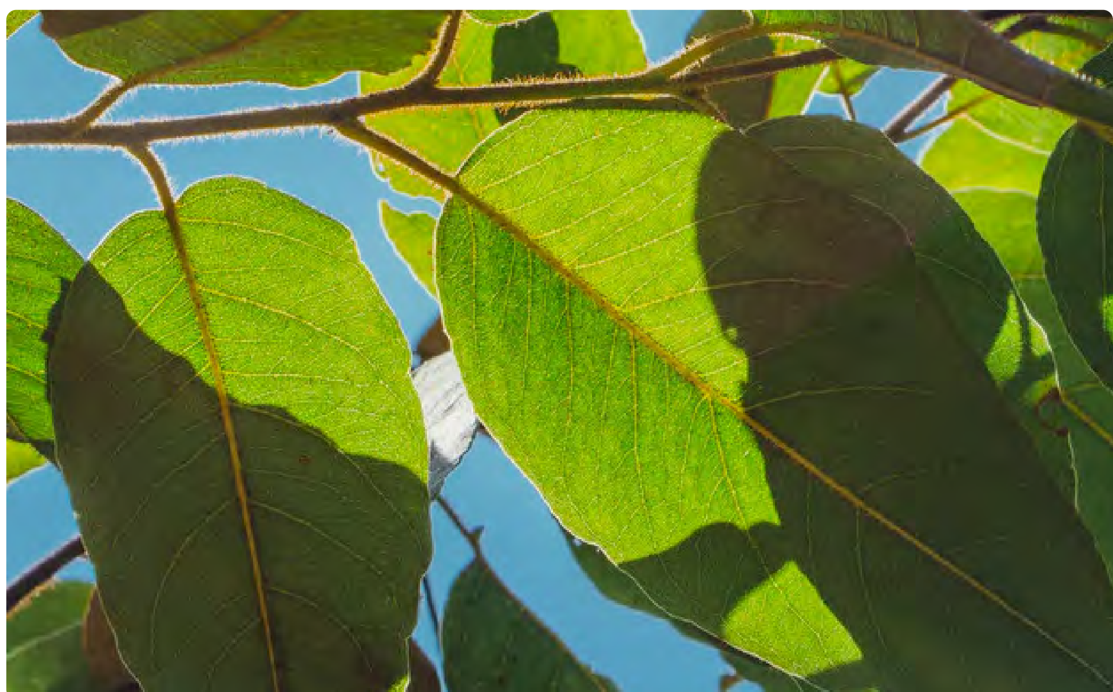
The term 'Impact Investing' is being more frequently used, its wide adoption is quite recent particularly in regards to consumer investment objectives, with its key hallmarks being intentionality and a requirement to measure impact alongside financial return. One of the main ambassadors of impact investing is Sir Richard Cohen, known as the father of British venture capital and a pioneer of social impact investment across the world. He is also a big protagonist of the concept of Impact-Weighted Accounts, a project being developed at the Harvard Business School with a bold mission of re-imagining capitalism.

[3]According to the Investment Association (TIA), during 2019, the definitions have been clearly outlines and as a result 2019-20 TIA Survey's data is based on the new definitions and not comparable with the data from the previous reports.

Organisations

02

In March 2019 the UK Green Finance Strategy was adopted with one of the stated objectives to cement UK global leadership in green finance.



During 2019, a number of organisations and forums were set up in the UK to push forward with the wider adoption of ESG investing in the UK and globally and facilitate the pathway towards the UK's 2050 Net Zero target. Such institutions include the Impact Investing Institute, Green Finance Institute, and Climate Finance Risk forum.

In November 2021, the UK will host the 26th UN Climate Change Conference of the Parties (COP26) in Scotland. The climate talks will bring together heads of state, climate experts and campaigners to agree coordinated action to tackle climate change.

Investor Initiatives

A number of initiatives by Asset Managers (such as AOP, ShareAction, ClimateChange100, Asset Managers for Net Zero) have originated in the UK or have UK asset managers among the founding members.

03

$9 trillion

Assets under management

30

Signatories jointly controlling these assets

The most recently announced (in December 2020) initiative by a group of international asset managers is known as 'The Net Zero Asset Managers Initiative' - whereby the signatories (30 signatories jointly control $9 trillion in assets under management) committed to supporting investing aligned with net zero emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius.

Such voluntary industry collaborations definitely have been helping to put pressure on companies in their investment portfolios to take climate change risk more seriously and take measures for risk assessment and mitigation. Also it is worth commending the Global Steering Group for Impact[4], a British charity set up in 2015, as the successor to, and incorporating the work of, the Social Impact Investment Taskforce established under the UK's presidency of the G8, with an objective to help foster collaboration between nations. The GSG's National and Regional Advisory Boards (NABs & RABs) currently cover 33 countries. It has established strategic partnerships with leading global organisations such as UNDP and the Impact Management Project. It is an organisation of over 500 senior people, chaired by Sir Ronald Cohen, which brings together leaders from the worlds of finance, business, government, social organisations, and philanthropy.

[4] https://gsgii.org.

Regulation

04

The pace of developing ESG-related legislation has accelerated over the past two years with the European Commission currently having no less than 4 ESG-related legislations in the pipeline (revisions to NFRD, new Disclosure Regulation (SFRD), Taxonomy, Human Rights Due Diligence), as part of its Sustainable Finance Action Plan.

However, feedback from the business community indicates that some of the regulatory requirements (eg. SFDR Level 2) are too stringent to be adopted straight away and the sheer volume of 'red tape' is overwhelming for businesses and financial institutions.

In the meantime, the UK's move to adopt TCFD gradually across the economy over the next 5 years appears to be a good practical solution towards better quality comparable ESG data. The UK has also announced that it plans to develop its own Green Taxonomy[5]. Also, the UK 2020 Stewardship Code is another recent important development to set higher standards of engagement (defined as purposeful dialogue with companies to maintain or enhance the value of assets). The fact that the code requirements apply across asset classes and across geographies and has to be adhered to in its entirety makes it particularly noteworthy.

Given the sheer size of the UK investment management industry, as detailed above, and the UK Government's statutory commitment to Net Zero (the first country among G7 to make such a commitment), it would be reasonable to expect that the UK will continue making its mark in global sustainable and green finance.

[5]One hopes that UK Green Taxonomy will have better alignment with existing disclosures compared to the EU Taxonomy and SFDR which have some areas that are not aligned resulting in criticism by the investor community.

Frameworks and Reporting

05

With nearly a dozen various global reporting frameworks it is easy to become disoriented!

However, it appears that we are closer than ever before to a set of global impact reporting standards based on the recent announcement by the ‘Group of 5’ (GRI, SASB, IIRC, CDP, CDSB) on their intention to collaborate on global and comprehensive reporting standards. (Moreover, the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) will by mid-2021 be merged into the Value Reporting Foundation.)

The ‘Group of 5’ have recently published an illustration of how their current frameworks, standards and platforms, along with the elements set out by the Task Force on Climate-related Financial Disclosures (TCFD), can be used together to provide a running start for development of global standards that enable disclosure of how sustainability matters create or erode Enterprise Value. They also plan to collaborate with the International Organization of Securities Commissions (IOSCO), the international body that brings together the world's securities regulators and is recognized as the global standard setter for the securities sector.

At the same time, at the end of 2020, the Trustees of the International Financial Reporting Standards (IFRS) Foundation have published a consultation about possible ways the Foundation might contribute to this development, by broadening its current remit beyond the development of financial reporting standards by building on sustainability disclosure standards that already exist.

In light of these developments, it appears that the world is finally en route towards developing a set of global and globally accepted reporting standards which would incorporate sustainability disclosures and enterprise value creation.

Frameworks and Reporting

05

We have created these infographics to help to make sense of what is happening with the ESG Regulation and the Reporting Frameworks.

ESG Global Frameworks & Standard Setting Institutions

Global Reporting Intiative (GRI)

The GRI Standards create a common language for organizations to report on their sustainability impacts in a consistent and credible way. This enhances global comparability and enables organizations to be transparent and accountable.

International Integrated Reporting Council (IIRC)

Integrated reporting is an evolution of corporate reporting, with a focus on conciseness, strategic relevance and future orientation. Integrated reporting makes the reporting process itself more productive, resulting in tangible benefits.

Sustainability Accounting Standards Board (SASB)

SASB's mission is to help businesses around the world identify, manage and report on the sustainability topics that matter most to their investors.

CDP (formerly Carbon Disclosure Project)

CDP runs the global environmental disclosure system. Each year CDP supports thousands of companies, cities, states and regions to measure and manage their risks and opportunities on climate change, water security and deforestation.

Frameworks and Reporting

05

ESG Global Frameworks & Standard Setting Institutions

Climate Disclosure Standards Board (CDSB)

The CDSB Framework can help companies understand how environmental issues affect their performance and the necessary actions they could take to address the related risks and opportunities.

UN Global Compact

Corporate sustainability starts with a company's value system and a principles-based approach to doing business. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption.

UN Sustainable Development Goals (SDGs)

The SDGS are a collection of 17 interlinked development goals designed to be a blueprint to achieve a better and more sustainable future for all.

Task Force on Climate-related Financial Disclosures (TCFD)

TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocation. TCFD recommendations are aligned with CDP and CDSB.

Frameworks and Reporting

05

Timeline of the Legislative Framework

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UK Climate Change Act adopted the first legally binding climate change mitigation target set by a country

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2022

First reporting on EU Taxonomy*

2023

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2025

TCFD aligned disclosures mandatory across the economy

2030

SDG Agenda

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UK Net Zero Emissions Target

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A. Definitions

First and foremost, we would like to clarify the most important and frequently used definitions in ESG investing which, although often used interchangeably, nevertheless have very specific meanings as described below:

ESG Investing

ESG Investing is a term that is often used synonymously with sustainable investing, responsible investing, mission-related investing, or screening. Typically it is defined as the consideration of environmental, social and governance (ESG) factors alongside financial factors in the investment decision-making process.

Stewardship

Stewardship (as defined in the 2020 UK Stewardship Code) is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Sustainable Finance/ Sustainability

In 1987, the United Nations Brundtland Commission defined sustainability as “meeting the needs of the present without compromising the ability of future generations to meet their own needs.”

Sustainable Investments Strategies

According to the UK Sustainable Investment and Finance Association (UKSIF), a member of the Global Sustainable Investment Alliance (GSIA) , there are seven distinct Sustainable Investments strategies:

01

Negative/Exclusionary Screening: the exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG (environmental, social and governance) criteria.

02

Positive/Best-In-Class Screening: investment in sectors, companies or projects selected for positive ESG performance relative to industry peers.

03

Norms-Based Screening: screening of investments against minimum standards of business practice based on international norms, such as UN treaties, Security Council sanctions, UN Global Compact, UN Human Rights Declaration and OECD guidelines.

04

ESG Integration/Responsible Investment: the inclusion of environmental, social and governance factors into financial analysis as a means to assess and reduce financial risk.

It also includes Corporate Engagement and Shareholder Action, also known as 'stewardship'. This strategy is the active use of shareholder power to influence corporate behaviour, including through direct corporate engagement (i.e. communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting guided by comprehensive ESG guidelines.

05

Sustainability Themed Investing: investment in themes or assets intentionally supportive of sustainability goals such as the Sustainable Development Goals (for example: clean energy, water, gender balance or sustainable agriculture).

06

Impact: Impact investments are investments made with the intention to generate positive and easily measurable social and environmental impacts alongside a financial return.

07

Ethical: Ethical investments are usually exclusionary and are strongly values driven (eg. Faith Based) . Ethical investors will often risk lower returns to ensure their money is aligned with their values.

Many funds use more than one strategy at a time to maximise their positive impact and deepen their protection of investment value. Eg. ESG Integration alone does not prohibit any investments - such strategies could invest in any business, sector or geography as long as the ESG risks of such investments are identified and taken into account, hence a fund might also adopt negative or best-in-class screening to better manage impact.

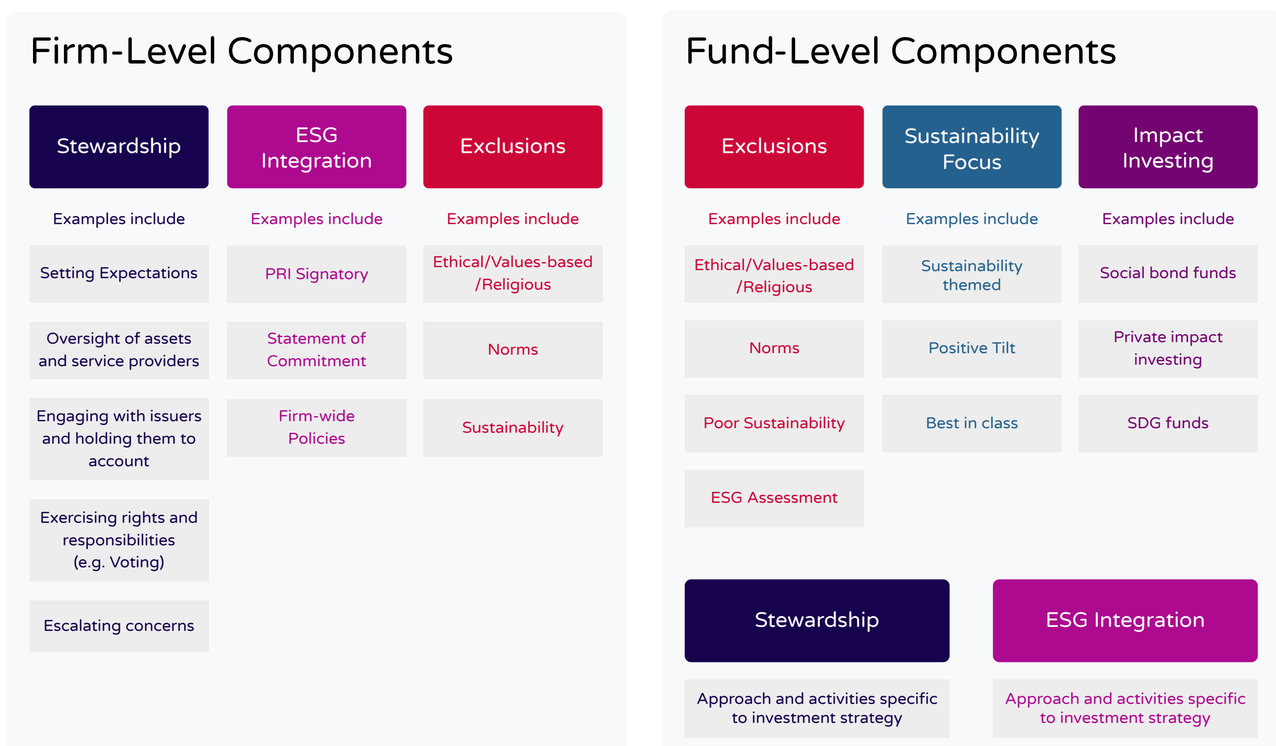
Responsible Investments

The UK Investment Association (TIA) has adopted the UN PRI definition of Responsible investment as a strategy and practice to incorporate ESG factors in investment decisions and active ownership.

On the back of an extensive consultation to develop industry-agreed definitions in 2019, TIA has published its Responsible Investment Framework which outlines specific strategies at a firm and fund level. It is worth noting that according to the TIA 2019-2020 report the data had previously been collected using GSIA definitions.

IA Responsible Investment Framework

Note: The components below are not mutually exclusive. They will typically be used with one another. "Fund-level components" is short-hand and can also refer to segregated mandates and individual investment strategies.



Socially responsible investment (SRI)

SRI is not listed among the Sustainable Investment Strategies (see above) which instead uses a similar definition of Ethical Investments.

According to the Corporate Finance Institute (CFI) Socially responsible investment, or SRI, is a strategy that emphasizes not only the financial gains from an investment but also ethical or social change. The origins of socially responsible investing may date back to the Religious Society of Friends (Quakers). In 1758, the Quaker Philadelphia Yearly Meeting prohibited members from participating in the slave trade – buying or selling humans. Some of the best-known applications of socially responsible investing were religiously motivated.

The modern era of socially responsible investing evolved during the political climate of the 1960s. During this time, socially concerned investors increasingly sought to address equality for women, civil rights, and labor issues and ending Apartheid in South Africa.

Socially responsible investors use various approaches to ensure their ventures achieve social goals. Such approaches could include: Negative Screening, Positive Investing and Community Investing. Taking the different methods into account, there are different types of socially responsible investments. They include: Mutual Funds and Exchange-Traded Funds (ETFs), Community Investments and Microfinance.

Impact Investing

TIA has adopted the Global Investment Impact Network (GIIN) definition of impact investments as investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.
There are four key elements of Impact Investing according to TIA framework.

01

Intentionality: Impact investments intentionally contribute to social and environmental solutions.
This differentiates them from other strategies such as ESG investing, Responsible Investing, and screening strategies.

02

Financial Returns: Impact investments seek a financial return on capital that can range from below market rate to risk-adjusted market rate. This distinguishes them from philanthropy.

03

Range of Asset Classes: Impact investments can be made across asset classes.

04

Impact Measurement: A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance of underlying investments.

One of the key proponents of impact investing and impact-weighted accounts as a measure to reimagine capitalism is Sir Richard Cohen, who is known as the father of British venture capital and a pioneer of social impact investment across the world. His latest book, very timely published in mid 2020: “Impact: Reshaping Capitalism to drive real change” is a must-read for everyone interested in the subject of impact investing.

Net Zero

The UK government announced a target of net zero for UK greenhouse gas (GHG) emissions by 2050 following recommendations made by the Committee on Climate Change. This change to legislation came into force on 27 June 2019 and amended the Climate Change Act 2008 target of an 80% reduction in GHG emissions compared with the 1990 levels.

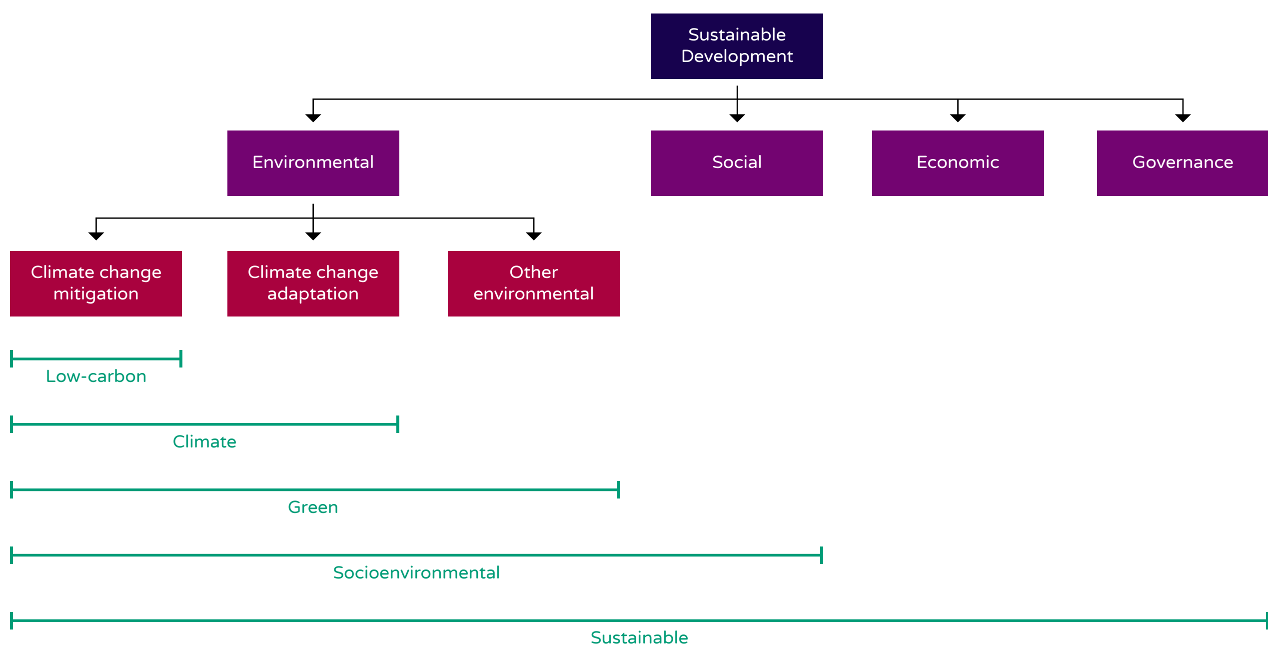
Net zero means that the UK's total greenhouse gas (GHG) emissions would be equal to or less than the emissions the UK removed from the environment. This can be achieved by a combination of emission reduction and emission removal. GHG emissions can be removed by the natural environment or by using technologies like carbon capture (usage) and storage (CC(U)S).

Read more on UK Net Zero here.

Green Finance

Green finance is closely associated with related concepts, such as climate finance and sustainable finance. While some organisations use these terms interchangeably, UN's reports are based on the understanding that climate, green and sustainable finance are nested concepts in the way illustrated in figure 1 below.

Linkages between climate, green and sustainable finance



ESG Indices Passive Funds

They work like regular index funds in that they track a specific stock market index – giving investors a wide range of shares in one package. The key difference is they track market indices that have already screened out companies that don't meet independently established ESG standards.

Morganstar ESG Commitment Level is a useful tool to identify the best-in-class funds in the context of ESG investing.

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B. Organisations

The Investment Association (TIA)

The Investment Association is the trade body and industry voice for UK investment managers. It's 200+ members collectively manage over £8.5 trillion of assets on behalf of their clients in the UK and around the world.

Sustainability and Responsible Investment has been among its key initiatives in 2019-2020 which included publishing SFDR Q&As, Climate Change position paper, Responsible Investments Framework and has been involved in some of the major global and European initiatives.

Investor Forum

The purpose of the UK-based Investor Forum is to position stewardship at the heart of investment decision- making. The Forum is the primary mechanism for investors to work collectively to escalate any material issue which needs to be addressed by the Board of a UK-listed company.

B. Organisations

UKSIF

The UK Sustainable Investment and Finance Association (UKSIF) is the UK's membership network for sustainable and responsible financial services. The Association was launched in 1991 to bring together the different strands of sustainable and responsible financial services within the UK and to act as a voice for the industry.

UKSIF's 260+ members and affiliates include retail and institutional fund managers, banks, investment banks, pension funds, investment consultants, financial advisers, socially responsible investment (SRI) research providers, trade unions, community development finance institutions, NGOs and interested individuals. UKSIF runs a series of projects which aim to develop the market for sustainable and responsible finance. UKSIF also runs a wide range of events, from analyst seminars to larger events reflecting the full spectrum of interests of our members. It also works to educate the public and government about sustainable and responsible finance. UKSIF is one of seven members of the Global Sustainable Investment Alliance ('GSIA') bringing together regional sustainable investment forums from Europe, the United States, Japan, Canada, and Australia and New Zealand.

The UK Parliament Environmental Audit Committee (EAC)

The Environmental Audit Select Committee is a select committee of the House of Commons in the Parliament of the United Kingdom. The remit of the committee is to examine how government departments' policies and programmes will affect both the environment and sustainable development.

UK Impact Investing Institute

The Impact Investing Institute, an independent, non-profit organisation, which brought together two influential initiatives: the Government's Taskforce for Growing a Culture of Social Impact Investing in the UK and the UK National Advisory Board on Impact Investing was launched in 2019 with a simple mission to accelerate the growth and improve the effectiveness of the impact investing market in the UK and internationally. In Dec 2020 together with the Green Finance Institute and the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science (LSE), the Impact Investing Institute published a proposal for a Green+ Gilt that emphasises the strategic potential for a green sovereign bond to scale up the UK's drive to a net-zero carbon economy with well-defined social and economic benefits.

Climate Financial Risk Forum (CFRF)

The Climate Financial Risk Forum (CFRF) is an industry forum jointly convened by the Bank of England's Prudential Regulation Authority ('PRA') and The Financial Conduct Authority ('FCA') to build capacity and share best practice. Since its inception in March 2019, the CFRF has set up four technical working groups on disclosure, scenario analysis, risk management and innovation.

Department for Environment, Food and Rural Affairs (DEFRA)

DEFRA develops and implements policy on the environment, food and rural issues. It has responsibility for protecting biodiversity, the countryside and the marine environment, and for supporting the growth of a sustainable green economy (including rural communitie, British farming and food production).

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C. Regulation

The objective of the present section is to give a snapshot of the most relevant legislation for ESG investing in the UK.

Timeline of the Legislative Framework

2008

UK Climate Change Act adopted the first legally binding climate change mitigation target set by a country

2013

The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

2015

UK became one of the 195 countries which signed up to the 2015 Paris climate treaty.

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SDG Agenda

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UK Net Zero Emissions Target

*The UK Government committed in the Green Finance Strategy to at least match the EU Sustainable Action Plan ambitions, even though EU taxonomy and SDFR will not automatically be part of the UK law

The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the "SR Regulations")

The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the "SR Regulations") came into force on 1 October 2013. The SR Regulations both extended the scope of mandatory non-financial reporting obligations in the UK and introduced a new format for reporting.

Uppermost, it has required all UK quoted companies to report on their greenhouse gas emissions as part of their annual Directors' Report.

Quoted companies have to provide ("to the extent necessary for an understanding of the development, performance or position of the company's business") information about human rights issues alongside social and community issues; a gender breakdown at the end of the financial year of the directors, senior managers and employees of the company. If the report does not contain this information, it has to say so clearly.

The SR Regulations also introduced a new requirement on quoted companies to state the annual quantity of emissions expressed in terms of tonnes of carbon dioxide equivalent arising from the activities for which that company (and its consolidated undertakings) is responsible (for example, from direct emissions to the atmosphere) and arising from the purchase of energy for heating or cooling. The UK's mandatory ESG provisions can be summarised as follows.

The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the "SR Regulations")

Type of disclosure	Quoted companies	Large companies	Medium-sized companies
Principle business risks and uncertainties	✓	✓	✓
Analysis of Key Performance Indicators (KPIs) for non-financial matters	✓	✓	✗
Business strategy and model	✓	✗	✗
Environment Employees, Social, Community and Human Rights Diversity	✓	✗	✗

The UK's 2008 Climate Change Act and 2050 Target Amendment Order 2019

The UK 2008 Climate Change Act (the first global legally binding climate change mitigation target set by a country) set a target for the year 2050 for the reduction of targeted greenhouse gas emissions; to provide for a system of carbon budgeting; to establish a Committee on Climate Change; to confer powers to establish trading schemes for the purpose of limiting greenhouse gas emissions or encouraging activities that reduce such emissions or remove greenhouse gas from the atmosphere; to make provision about adaptation to climate change; to confer powers to make schemes for providing financial incentives to produce less domestic waste and to recycle more of what is produced; to make provision about the collection of household waste; to confer powers to make provision about charging for single use carrier bags; to amend the provisions of the Energy Act 2004 about renewable transport fuel obligations; to make provision about carbon emissions reduction targets; to make other provision about climate change; and for connected purposes.

Greenhouse gas emissions to net zero by 2050

In June 2019 the new target was approved which would require the UK to bring all greenhouse gas emissions to net zero by 2050 (compared with the previous target of at least 80% reduction from 1990 levels).

The UK's 2008 Climate Change Act requires DEFRA to monitor how UK companies and institutions are adapting to climate change via an audit (or disclosure of climate strategies), every 5 year.

Other UK environmental regulations are listed here.

UK Green Finance 2019 Strategy

Published in 2019 UK Green Finance Strategy builds on the 2018 Accelerating Green Finance report by Green Finance Taskforce, and details measures intended to mobilize investment in green projects and to solidify London's role in the transition to a low-carbon economy.

The Strategy outlines two objectives:

01

To align private sector financial flows with clean, environmentally sustainable and resilient growth, supported by UK government action.

02

To strengthen the competitiveness of the UK financial sector.

The UK government is seeking transition to a clean, low-carbon economy, which will improve air quality and living conditions across the country. As part of this shift, the UK government intends to review the costs of decarbonization in order to deliver a transition that benefits households, businesses, and public finances. A formal review of progress against the Strategy plans will be conducted in 2022.

The Strategy is an important document, signaling the UK government's commitment to transition to a green economy through green financing. Relevant initiatives include the TCFD Recommendations, the Accelerating Green Finance document, the UK government's recent commitment to net-zero emissions by 2050, and the recent growth in green finance across the financial world.

The UK's Green Finance Strategy

01

Aligning private sector financial flows with clean, environmentally sustainable and resilient growth.

02

Strengthening the competitiveness of the UK financial services sector.

Greening Finance

Mainstreaming climate and environmental factors as a financial and strategic imperative

- Establishing a shared understanting
- Clarifying roles and responsibilities
- Fostering transparenct and embedding a long-term approach
- Building robust and consistent green financial market frameworks

Financing Green

Mobilising private finance for a clean and reilient growth

- Establishing robust, long-term policy frameworks
- Improving access to finance for green investment
- Addressing market barriers and building capability
- Developing innovative approaches and new ways of working

Capturing the opportunity

Cementing UK leadership in green finance

- Consolidating the UK's position as a global hub for green finance
- Positioning the UK at the forefront of green financial innovation and data and analytics
- Building skills and capabilities on green finance

Taskforce on the Climate-related Financial Disclosures (TCFD)

In November 2020, the Chancellor Rishi Sunak has announced the UK Government's intention to make TCFD-aligned disclosures mandatory across the economy by 2025, with a significant portion of mandatory requirements in place by 2023.

Thus the UK will become the first country to make the Task Force on Climate-related Disclosures (TCFD) mandatory. The upcoming rules and regulations will capture a significant portion of the economy including listed commercial companies, UK-registered large private companies, banks, building societies, insurance companies, UK-authorised asset managers, life insurers, FCA-regulated pension schemes and occupational pension schemes.

The UK will also implement a green taxonomy – a common framework for determining which activities can be defined as environmentally sustainable – which will improve understanding of the impact of firms' activities and investments on the environment and support our transition to a sustainable economy.

The UK taxonomy will take the scientific metrics in the EU taxonomy as its basis and a UK Green Technical Advisory Group will be established to review these metrics to ensure they are right for the UK market.

And to support and benefit from the development of common international standards on taxonomies, the UK also intends to join the International Platform on Sustainable Finance.

New requirements for Pension Funds Trustees

In 2016 and 2017, The Pensions Regulator (TPR) updated guidance for defined contribution and defined benefit schemes respectively, advising that trustees need to take all factors that are financially material to investment performance into account, including ESG factors.

In 2018, the Department for Work and Pensions (DWP) issued amendments to the Occupational Pension Schemes Regulations. The investment regulations require funds to take ESG factors into account in their Statement of Investment Principles and disclose a stewardship policy. The governance regulations require the TPR to update its code of practice to cover how the trustees' system of governance considers ESG factors in investment decisions and assess new or emerging risks, including climate change

Regulatory proposals have been introduced across the industry and for trustees of occupational pension schemes from 1 October 2020. New legislation was introduced by the DWP on 1 October 2019 which requires trustees to consider ESG factors in their investment decisions. In particular, trustees are now required to include in their Statement of Investment Principles (SIP) explicit policies in relation to:

01

How they take account of financially material considerations (including ESG factors) in their investment decision making.

02

How they undertake engagement activities and exercise rights that attach to their investments.

03

The extent (if at all) to which non-financial matters (such as members' views) are taken into account in the selection, retention and realisation of investments.

Trustees must now publish their SIP on a publicly available website.

From 1 October 2020, trustees need to set out in their SIP a range of matters in relation to their arrangements with their asset managers. This includes how that arrangement incentivises the asset manager to align the investment strategy with the trustees' investment policies (including policies on ESG).

In addition, trustees will be required to publicly produce an implementation statement which must disclose how they have acted on the principles in their SIP. This will force trustees to report on the implementation of their ESG policies, engagement activities and voting.

This statement must be included in the first annual report and accounts produced after 1 October 2020. This is about more than ticking some boxes and inserting some new words in the SIP. This is about making sure trustees are in a position to meaningfully challenge their investment advisers and asset managers and demonstrate that they're taking ESG considerations seriously. If they can't demonstrate this, then trustees run the risk of facing criticism from both the Pensions Regulator (TPR) and scheme members, not to mention reputational damage and legal challenges.

The Department for Work and Pensions (DWP) has published a consultation, setting out proposals for larger occupational pension schemes and authorised master trusts to publish their climate risk financial disclosures.

The DWP has recommended that trustees calculate the carbon footprint of pension schemes, and how the value of these assets and liabilities would impact temperature rises. These proposals would be required to be made public, referenced from the schemes' annual reports and accounts section.

Additionally, DWP is proposing that trustees with £1 billion or more in assets should be included in these proposals from 2023, while this consultation will be extended to all occupational trustees from 2024.

EU Regulations and their applicability to the UK financial market players:

Now that the UK has formally left the European Union's trade bloc (and the financial services have not been included in the last minute UK-EU trade deal) the question of what regulation will be applicable becomes particularly testing.

Based on our review of the public legal opinions it appears that:

01

Under current UK law, only EU law that is operative at 11pm on 31 December 2020 will be automatically onshored into UK domestic law. As a result, the ESG-related regulations listed below will not be onshored into UK law and will not automatically apply in the UK.

02

Given the UK Government's stated desire to "lead from the front" on ESG, the market participants expect the UK to introduce a similar regime in the not-too-distant future (eg. the government has already committed to publishing UK Green Taxonomy). Any UK-specific regime would likely require new legislation to be passed in Parliament with the usual FCA consultation process before being implemented.

03

The regulations will nevertheless apply directly to UK firms in certain circumstances:

- Marketing to EU investors/clients: the Regulation will apply to UK firms who market their funds or other financial products in the EU;
- Managing EU funds or products. The Regulation will also apply to UK firms who continue to provide alternative investment fund manager services to EU-based funds.

04

The regulations will not apply to UK firms with wholly UK operations (i.e. those who do not have any EU-based funds or products and who do not market to EU-based investors). However, some firms in this camp may nevertheless decide to “opt in” and voluntarily adopt the obligations imposed by the regulations, perhaps for reputational reasons or to meet (or exceed) investor or client ESG expectations.

05

For more detail on the EU ESG regulations, please see a legal overview note by UK law firm Macfarlanes here.

EU ESG-related Regulation

NFRD

The European Union (EU) Non-Financial Reporting Directive 2014/95/EU (NFRD) - 2014 Directive of the European Parliament that large European-based companies prepare non-financial statements on environmental, social, employee-related, anti-corruption and bribery matters, respect for human rights, and diversity. (Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014).

Despite the vote for Brexit, the UK had to adopt the directive into the national legislation. The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016 represented the UK's transposition and comes as an amendment to the Companies Act 2006 mandatory reporting requirements. Under this legislation, some organisations continued to comply with the Companies Act 2006, with others having to ensure compliance with the Companies, Partnerships and Groups Regulations 2016 for financial years commencing on or after 1 January 2017.

NFRD apply to all 'public-interest' companies (including international companies and subsidiaries) with more than 500 employees, with 'public-interest' referring to traded companies, credit institutions and insurance undertakings.

In December 2019, as part of the European Green Deal, the European Commission committed to reviewing the NFRD. The objectives of this review were two-fold: (i) to improve disclosure of climate and environmental data by companies to better inform investors about the sustainability of their investments and, (ii) to give effect to changes required by the new SFRD (Disclosure Regulation) and the forthcoming EU Taxonomy Regulation.

In response to NFRD, European-based companies began in earnest to require extensive ESG disclosures from their US-based supply chain partners, and in some cases, certification of adherence to the European company's CSR/sustainability standards.

EU ESG-related Regulation

SFRD ('Disclosure Regulation')

The new Sustainable Finance Disclosure Regulation (SFDR) issued in November 2019 introduced various disclosure-related requirements for financial market participants and financial advisors at entity, service and product level. It aims to provide more transparency on sustainability within the financial markets in a standardised way, thus preventing greenwashing and ensuring comparability. The majority of the new disclosure obligations will be applicable as of 10 March 2021. The rules for Financial Market Participants (FMPs) to make declarations on their websites on how they integrate sustainability considerations – SFDR Level 1 – iare still expected to come into effect in March 2021.

However, a second layer requiring much more detailed disclosures – called the Level 2 Regulatory Technical Standards (32 indicators) – is likely to be postponed to the end of the year based on the market participants' feedback that the company's data is often unavailable (According to a recent workshop on SFDR by UKSIF only circa ⅓ of required data is readily available).

See a useful discussion on this topic on ESG Clarity blog here.

EU ESG-related Regulation

EU Taxonomy

The EU taxonomy entered into force on 12 July 2020. Taxonomy is a tool to help investors understand whether an economic activity is environmentally sustainable and to navigate the transition to a low-carbon economy. Setting a common language between investors, issuers, project promoters and policy makers, it helps investors to assess whether investments are meeting robust environmental standards and are consistent with high-level policy commitments such as the Paris Agreement on Climate Change.

The EU Directive on Human Rights Due Diligence

On April 29, 2020, the European Commissioner for Justice, Didier Reynders, announced that the European Union plans to develop a legislative proposal by 2021 requiring businesses to carry out due diligence in relation to the potential human rights and environmental impacts of their operations and supply chains (the EU Directive on Human Rights Due Diligence). He further indicated that the draft law, once developed, is likely to be cross-sectoral and provide for sanctions in the event of non-compliance.

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D. Investor Initiatives

Below is the short list of the most relevant, in our opinion, global investor initiatives with high participation of UK- asset managers.

Principles of Responsible Investments (PRI)

Note: Almost all leading institutional investors of UK listed companies are PRI signatories.

Principles of Responsible Investments (PRI) is an investor initiative in partnership with UNEP FI and the UN Global Compact. Founded in 2006 and supported by the United Nations, the PRI has become the leading network for investors demonstrating their commitment to responsible ownership and long-term, sustainable returns. Pension funds, insurance companies, sovereign/development funds, investment managers and service providers make up the PRI network.

The Six Principles of Responsible Investments were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. They have attracted a global signatory base representing a majority of the world's professionally managed investments.

Reporting requirement

Voluntary but de facto has become an industry standard.

Who it applies to?

Investors

Principles of Responsible Investments (PRI)

Principle 1

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

Principle 2

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

Principle 3

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

Principle 4

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

Principle 5

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

Principle 6

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

ShareAction Asset Owners Disclosure Project (AODP)

The Asset Owners Disclosure Project (AODP), (part of UK-based ShareAction campaigning organisation) rates and ranks the world's largest institutional investors and assesses their response to climate-related risks and opportunities. The ratings are made public, providing much-needed transparency for beneficiaries, clients, investors and stakeholders, and emphasised through advocacy and direct engagement to drive change.

As the only comprehensive, climate-specific, independent, non-self-selective assessment, AODP prides itself on being the world's benchmark of climate leadership in the investment system.

Reporting requirement

Voluntary, aligned with TCFD recommendations.

Who it applies to?

Investors

Climate Action 100+

Climate Action 100+ is a global investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

$52 trillion

Assets under management

545

Investors

545 investors with USD 52 trillion in assets under management are engaging companies on improving governance, curbing emissions and strengthening climate-related financial disclosures.

The companies include 'systemically important emitters', accounting for two-thirds of annual global industrial emissions, alongside others with significant opportunity to drive the clean energy transition.

Reporting requirement

Voluntary

Who it applies to?

Investee - companies

Pensions for Purpose

Pensions for Purpose is a collaborative initiative of impact managers, pension funds, social enterprises and others involved or interested in impact investment in the UK.

The organisation's aim is to promote understanding of impact investment by effectively sharing news stories, blogs, case studies, academic research and thought leadership papers and organising training workshops for pension funds interested to move towards Responsible/Sustainability Themed Investing.

Reporting requirement

Voluntary

Who it applies to?

Asset owners (pension funds) and asset managers.

Net Zero Asset Managers

Net Zero Asset Managers initiative has been announced in November 2020 coinciding with the 5th Anniversary of the Paris Agreement, and echoes the commitment statement for members of the UN-convened Net-Zero Asset Owner Alliance, which was launched in September 2019 and now has 33 members.

The founding signatories are 30 asset managers from across the world managing $9 trillion AUM.

To fulfil the requirements established by the initiative, signatories also make further commitments, including to setting an interim target for 2030 for the proportion of assets to be managed in line with the net-zero goal.

The interim target is to be set before the UN climate change conference in November 2021 (COP26), or, for signatories joining too late for this, within a year of making the initiative's commitment. The target should be by a date no later than 2030.

Signatories also commit to "implement a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with the ambition for all assets under management to achieve net-zero emissions by 2050 or sooner".

Reporting requirement

Voluntary, based on expectation that that governments will follow through on their own commitments Paris Agreement

Who it applies to?

Asset Managers

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E. Frameworks and Reporting

The most recent development in Sustainability reporting areas is that in September 2020, 5 global reporting frameworks - CDP, CDSB, GRI, IIRC and SASB issued a joint statement of intent outlining a shared vision for a comprehensive corporate reporting system, which incorporates disclosures that reflect an organisation's significant impacts on the economy, environment and people, and those that are material for enterprise value creation.

At the same time, IFRS Foundation, the organisation behind financial reporting standards used worldwide, has launched a consultation with regards to global sustainability reporting standards and creation of Sustainability Standards Board (SSB). Its objective would be to develop and maintain a global set of sustainability-reporting standards initially focussed on climate-risk, and the standard-setting would make use of existing sustainability frameworks and standards.

Also, in Sep 2020 World Economic Forum (WEF) through its International Business Council (IBC), released a report titled "Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation". The White Paper offers a set of universal environmental, social and governance (ESG) metrics and disclosures to measure stakeholder capitalism that companies can report on regardless of their industry or region. Organized around the pillars of principles of governance, planet, people and prosperity, the identified metrics and disclosures align existing standards, enabling companies to collectively report non-financial disclosures.

Viewed together these recent developments seem to indicate that the global push towards development of the global standards for sustainability reporting and enterprise value creation has finally reached a tipping point and tangible results could be expected in the short-to-mid term.

Tier 1 Frameworks

The most widely used and quoted frameworks and disclosure requirements on a global and national level which in our view are the most relevant for the UK asset managers

The International Integrated Reporting Council (IIRC)

The International Integrated Reporting Council (IIRC) was formed in August 2010 and aims to create a globally accepted framework for a process that results in communications by an organisation about value creation over time.

It is a global coalition of regulators, investors, companies, standard setters, the accounting profession, academia and NGOs. The coalition promotes communication about value creation as the next step in the evolution of corporate reporting.

The IIRC's mission is to establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors. Its vision is to align capital allocation and corporate behaviour to wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking.

In November 2020 it was announced that the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC) are to merge into one organization by mid-2021 with the aim of offering investors and companies a comprehensive corporate reporting framework to drive global sustainability performance.

Regulation or Voluntary (non-binding)

Voluntary

Who it applies to?

Investee - companies and investors

SASB Standards

The Sustainability Accounting Standards Board ("SASB") was founded in 2011 to develop and disseminate sustainability accounting standards. SASB recognizes investors' need to focus on ESG information that is material to operating performance and to an investment decision. The final SASB standards, released in November 2018, cover eleven sectors and 77 industries, the taxonomy of which is based on industries' sustainability profiles, allowing for an emphasis on material information and the ability to compare the performance of different companies with a particular industry. The standards were developed based on extensive feedback from companies and investors as part of a publicly-documented process. Current SASB alliance members include well known institutional investors, asset managers, and financial advisors. Over 120 companies worldwide have started using the SASB standards in their sustainability reports.

In November 2020 the UK regulator stated that it expects public interest entities to report under both TCFD and sector-specific disclosures aligned with the Sustainability Accounting Standards Board (SASB).

In November 2020 it was announced that the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC) are to merge into one organization by mid-2021 with the aim of offering investors and companies a comprehensive corporate reporting framework to drive global sustainability performance.

Regulation or Voluntary (non-binding)

Voluntary, widely recognised as an industry standard for Materiality assessment

Who it applies to?

Investee - companies and investors

United Nations
Global Compact

UN Global Compact

In order to promote sustainable development and responsible business practices, the United Nations ("UN") first brought together governments, businesses, and labor in 1999 through a collaborative forum process known as the UN Global Compact. The Compact launched The Ten Principles for responsible business practices in 2004, which address human rights, labor, the environment and anti-corruption practices. As of October 2020, over 12,000 businesses worldwide (617 in the UK including Aviva, Legal & General, Schroeders, Aeon Investments, HSBC, Lloyds, Nationwide and others) have become signatories.

Note: Some Asset Managers use UN Global Compact information for Norms-based Screening.

Regulation or Voluntary (non-binding)

Voluntary

Who it applies to?

Investee - companies and investors

Global Reporting Initiative (GRI)

CERES, the Coalition for Environmentally Responsible Economies, formed an independent non-profit organization, the Global Reporting Initiative ("GRI") and published its first version in 2000, which has become the most widely used ESG and sustainability framework for reporting by multinational companies, small enterprises, governments, NGOs, and industry groups in over 90 countries. Now in its fifth iteration, the GRI Standards program provides a modular framework, guidance, and training on how to prepare a self-published report for measuring and communicating economic, environmental, social, and governance performance. Once complete, a reporting entity may register the report with GRI (in glossy format and indexed to GRI Standards) and make it available to investors and the general public.

467

UK organisations have submitted their GRI reports in 2019

A significant benefit of preparing a GRI-compliant report is that it satisfies the EU NFRD regulations.

Regulation or Voluntary (non-binding)

Voluntary, GRI-compliant report satisfies the EU NFRD regulations.

Who it applies to?

Investee - companies and investors

CDP

The London-based CDP (formerly the Carbon Disclosure Project, established in 2000) is specifically geared toward helping the investment community assess sustainability issues among target and portfolio companies. Investors and customers can request climate/carbon, water security and/or forest-related information from companies via CDP. Respondents (and self-selected companies) provide voluntary disclosures to CDP and may elect whether or not to make the information available to the requesting investors, the customers, and the public.

CDP analyzes and scores the responses. Scoring is designed to motivate companies to take action to reduce negative impacts on the environment. Investors may use the information to assess a company's financial vulnerability to climate change risk. Accordingly, CDP can be thought of as a form of outsourced due diligence.

Over 7,000 companies responded last year, and over 525 investors with $96 trillion in assets requested information through CDP last year. According to the Governance & Accountability Institute, 65% of S&P 500 companies respond to CDP.

Regulation or Voluntary (non-binding)

Voluntary

Who it applies to?

Investors

CDSB

Formed in 2007 as a project of CDP, the London-based Climate Disclosure Standards Board ("CDSB") is an international consortium of business and environmental NGOs. The CDSB Framework for reporting environmental, climate, and natural capital information is designed to help organizations present the information in existing mainstream reports for the benefit of investors.

The Framework was updated in April 2018 to align with the TCFD recommendations.

Regulation or Voluntary (non-binding)	Who it applies to?
Voluntary	All companies

TCFD

The Task Force on Climate-Related Financial Disclosures ("TCFD") was set up in 2015 by the Financial Stability Board ("FSB," formed by the G20 major economies following the global financial crisis) under the former chair and the Bank of England Governor Mark Carney to develop voluntary, consistent climate-related financial risk disclosure protocols for use by companies, banks, and investors in providing information to stakeholders. The motivating idea is that the availability of more reliable information on the exposure of financial institutions to climate-related risks and opportunities will strengthen the stability of the financial system and facilitate the transition to a more stable and sustainable global economy.

Chaired by Michael Bloomberg, in 2017 the TCFD issued comprehensive recommendations and guidance on how climate-related financial disclosures should be prepared. The recommendations are structured around the core elements of how organizations operate – governance, strategy, risk management, and metrics & targets. The TCFD also issued comprehensive implementation guidance for the finance sector and for four non-financial groups such as the energy group, the transportation group, the materials and buildings group, and the agriculture, food, and forest products group. TCFD guidance is intended to be used in conjunction with the TCFD recommendations, the SASB standards, and the CDSB framework.

As of February 2020, 1,207 globally organizations have supported one or more of the TCFD recommendations since the framework was first launched. In the UK 94 of the top 100 companies reported TFCD in 2019.

Among its 11 recommendations, TCFD calls for use of climate-related scenario analysis, such as eg. IEA scenarios.

Regulation or Voluntary (non-binding)

Voluntary globally, mandatory in the UK

Who it applies to?

Mandatory in the UK for premium listed companies and certain financial institutions from 2021. It will be expanded to other companies thereafter. See the Roadmap.

The UN Sustainable Development Goals (SDGs)

In 2015, the UN adopted The UN Sustainable Development Goals ("SDGs"), which are a collection of 17 global goals. The SDGs are part of Resolution 70/1 of the United Nations General Assembly: "Transforming our world: the 2030 Agenda for Sustainable Development" (shortened to "2030 Agenda"). The goals are broad and interdependent, yet each has a separate list of targets to achieve. Achieving all 169 targets would signal accomplishing all 17 goals. The SDGs cover social and economic development issues including poverty, hunger, health, education, global warming, gender equality, water, sanitation, energy, urbanization, environment and social justice. Remarkably, many corporations around the world are strategically adopting selected SDGs and aligning their corporate sustainability programs with the goals and related targets. The simple, colorful graphic SDG icons are easily recognizable on corporate websites and literature.

According to KPMG UK 2020 Sustainability Reporting survey, more than two-thirds of the UK reporting companies (94 out of top 100) now connect their business activities with the UN Sustainable Development Goals in their corporate reporting.

Regulation or Voluntary (non-binding)

Voluntary but becoming a defacto framework for governments, investors and companies to monitor progress to 2030 Net Zero Goals

Who it applies to?

All companies

Tier 2 Frameworks

Other noteworthy reporting standards and guidelines.

International Organisation for Standardisation (ISO)

It is commonly agreed that ISO Standards can help meet US SDGs.

ISO has published more than 22 000 International Standards and related documents that represent globally recognized guidelines and frameworks based on international collaboration. Built around consensus, they provide a solid base on which innovation can thrive and are essential tools to help governments, industry and consumers contribute to the achievement of every one of the SDGs.

Eg. for businesses and organizations committed to operating in a socially responsible way, there's ISO 26000.

It provides guidance to those who recognize that respect for society and environment is a critical success factor. As well as being the "right thing" to do, application of ISO 26000 is increasingly viewed as a way of assessing an organization's commitment to sustainability and its overall performance.

Regulation or Voluntary (non-binding)

Voluntary

Who it applies to?

All companies

WEF Stakeholder Capitalism Metrics

In September 2020 World Economic Forum (WEF) through its International Business Council (IBC), released a new standard in a white paper titled "Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation" (Report). The Report was the culmination of over a year's work, reflecting assistance from the WEF, collaboration with the Big Four, and consultations with companies (including non-IBC members), investors, standard-setters, non-governmental organizations (NGOs) and international organizations.

A main objective of the IBC initiative was to identify a set of universal, material ESG metrics and disclosures companies can use when preparing their mainstream annual reports. In addition, the metrics (the 21 core metrics and 34 expanded metrics and disclosures) would be capable of verification and assurance. The Project deliberately drew metrics from existing standards such as the Global Reporting Initiative (GRI) to enable accelerated adoption.

In 2017, the IBC spearheaded a commitment from more than 140 CEOs to align their corporate values, goals and strategies with the SDGs, to better serve society. The IBC sees the common standards as delivering a means through which any interested CEO and the CEO's company can meet the commitment to stakeholder capitalism.

Regulation or Voluntary (non-binding)

Voluntary, non binding guidance

Who it applies to?

All companies

London Stock Exchange (a member of the International Organisation of Securities Commission (IOSCO) ESG Reporting Guidelines

LSE released its guidance to ESG reporting in January 2018.

The global guide responds to demand from investors for a more consistent approach to ESG reporting. It has also been sent to more than 2,700 companies that have securities listed on LSE Group's UK and Italian markets with a combined market capitalisation of more than £5 trillion.

The report's intention is to help companies gain a clear understanding of what ESG information investors would like to see provided by companies. London Stock Exchange Group, as a leading international markets infrastructure provider connected to issuers, sell side and investors, is ideally placed to help promote good practice across the industry.

Regulation or Voluntary (non-binding)

Voluntary, non binding guidance

Who it applies to?

All issuers, regardless of size, reporting relevant and material information to investors so that they can make better-informed investment decisions

The Operating Principles for Impact Management (Impact Principles)

The Impact Principles, launched in April 2019 at World Bank-IMF, provide a framework for investors to ensure that impact considerations are purposefully integrated throughout the investment life cycle. These 9 principles bring greater discipline and transparency to the impact investing market, requiring annual disclosure statements and independent verification of Signatories' impact management systems and processes.

Signatories are a diverse group of impact investors, comprised of asset managers, asset owners, Multilateral Development Banks and Development Finance Institutions. In addition to committing to these global standards, signatories have the opportunity to collaborate and lead on key impact investing initiatives that will help shape the future of this growing market.

Regulation or Voluntary (non-binding)

Voluntary

Who it applies to?

Investors

Stewardship in ESG Investing

Stewardship and sustainable investment are core priorities in investment management. Asset managers and their clients (like Pension Funds) are changing the way they make investment decisions by taking into account broader social and environmental factors and data. Stewardship is central, driven by stakeholder demand, regulation and policy, like the 2020 Stewardship Code.

At Maanch, an early stage “impact tech” B-Corp, we are building an engagement tracker, as part of our tech solutions to facilitate portfolio impact. Making the process automated, efficient and effective, the platform enables constructive, trackable dialogues with companies for greater accountability.

It will be the first SaaS solution to enable portfolio companies and investors to record interactions within seconds, and to streamline engagement metrics and matters as a strategic priority. A unique solution across markets and asset classes (including Fixed Income & Equities) it enables users like Investment Managers and Impact/ESG Analysts to manage and record evidence of effective stewardship, engagement goals, actions, results and outputs. Reporting is automated and real-time information can be shared across the firm.

The demands on asset managers for efficient processes and reporting on ESG and SDG impact are growing rapidly. For example, the 7,100 instances of UK corporate engagement and 150 engagements per manager each year will increase as it becomes an investor priority, making an efficient, high-quality, automated SaaS solution essential.

Visit us at maanch.com

Or contact us at info@maanch.com

Co-authors: Galya Wells, David Stead, Kirill Panduro