Global Financial Regulatory Trends Related to ESG Issues Outside the EU

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This article provides an overview of the global developments in the regulatory landscape for ESG-matters (with a key focus on 'Environmental') applicable to banks, particularly on reporting, disclosure and initiatives to include ESG-factors in the prudential supervision of banks in (i) the US, (ii) the UK and (iii) Greater China, which for the purposes of this article focuses on the People's Republic of China (Hong Kong) and initiatives by the Basel Committee.

1. Introduction

When announcing the European Green Deal in 2019, Commission president Ursula von der Leyen used a beautiful turn of phrase: "*Today is the start of a journey. But this is Europe's 'man on the moon' moment.*"[2] This underlined the priority being given to environmental risks within the European Union (**EU**). The EU legislative and policy initiatives are primarily aimed at steering private capital into investments required to "green" the EU, to mitigate the risk of greenwashing and to embed relevant environmental, social and governance (**ESG)** factors in risk management systems and processes of banks and other financial services firms. Effectively addressing some of these risks – in particular those relating to climate change – requires a global approach. Furthermore, an internationally harmonised framework would enhance the level of playing fields in affected industries, including the financial markets.

This article provides a high-level overview of the ESG developments outside the EU relevant to the financial markets.

This article does not aim to provide a comprehensive overview of all ESG developments. We will zoom in on some of the relevant developments in (i) the United Kingdom, (ii) the United States and (iii) APAC (Greater China – PRC and Hong Kong SAR) and initiatives by the Basel Committee on Banking Supervision (the **Basel Committee**) and will be organised as follows. Paragraph 2 discusses whether, and if so, how, ESG factors (with a key focus on "Environmental") have been addressed in the global framework for prudential regulation developed by the Basel Committee (the **Basel Framework**). Paragraph 3, paragraph 4 and paragraph 5 will provide an overview on the developments in, respectively, the UK, U.S. and APAC. In each case, we will start by focusing on the prudential treatment of environmental-related risks and, thereafter, will cover other climate-related topics, such as initiatives around steering lending to sustainable finance and mitigation of greenwashing. As we will see, there is to date no harmonised, globally coordinated legislative approach to address ESG risks, even though certain common themes can be identified. Globally active financial groups will need to comply with multiple frameworks depending on the jurisdictions. It remains to be seen to what extend global common standards and norms will develop over time.

2. Basel Committee

2.1. *Basel Framework*

The Basel Committee's mandate is to strengthen the regulation, supervision and practices of banks worldwide and provide a forum for cooperation on banking supervisory matters.[3] The Basel Committee comprises 45 members from 28 jurisdictions, consisting of central banks and authorities with formal responsibility for the supervision of banking business.[4] The Basel Framework represents the most important international financial regulation frameworks and, although the rules are soft law and not

1. Volkan Capkurt works at Allen & Overy LLP in Amsterdam. This article has been a collaboration with colleagues in the United States, the United Kingdom, Greater China - PRC and Hong Kong SAR.
2. https://ec.europa.eu/commission/presscorner/detail/en/speech_19_6749
3. https://www.bis.org/bcbs/charter.htm
4. Member countries include, among others, China, Australia, France, Germany, Japan, Netherlands, United Kingdom and United States.

legally binding under international law, most Basel Committee member jurisdictions have adopted and implemented them.[5]

2.2. *Task Force on Climate-related Financial Risks*

The Basel Committee identified in 2019 that climate-related financial risks may potentially impact the safety and soundness of individual financial institutions and have broader financial stability implications for the entire banking system.[6] The current Basel Framework does not take explicit account of, and therefore only marginally addresses, environmental risks issues.[7] Pillar I of the Basel Framework requires banks to assess the impact of specific environmental risks on the bank's credit and operation risk exposures, but these are mainly transaction-specific risks. If assets are proven to be riskier than the current risk factor used to calculate their risk-weighted asset, their capital requirement should be increased.[8] Although Basel III provides a flexible framework for regulators to assess and measure the financial stability risks associated with climate-related risk, most of the bank regulators are not utilising this in their supervisory frameworks. Some countries already use the Basel Framework to incorporate environmental and sustainability risks into a bank's risk governance and management strategy. Specifically, Brazil has incorporated green governance requirements into its Basel III pillar 2 supervisory review assessments and requires Brazilian banks to put in place a climate responsibility policy for all their activities.[9] However, environmental-related risks are not explicitly embedded in the Basel Framework. Therefore, the Basel Committee established in February 2020 a high-level Task Force on Climate-related Financial Risks (**TFCR**) to undertake work on climate-related financial risks. [10]

The TFCR is charged with contributing to the Basel Committee's mandate of enhancing global financial stability.[11] In the first phase of its work, the TFCR conducted a questionnaire among its members on the existing regulatory and supervisory initiatives on climate-related financial risks and reported on the outcome (the **TFCR Report**).[12] The results of the TFCR Report were published in April 2020 and showed that the: (i) majority of the respondents agree that climate-related financial risks can have an impact on the stability of the financial system and the safety of individual financial institutions; (ii) majority of the respondents have not yet considered factoring climate-related risks into the prudential capital framework and (iii) respondents identified a number of operational challenges in developing a robust framework; to assess risks, including data gaps, methodological challenges and difficulties in mapping the transmission of climate risks to the banking system.

The TFCR also published two analytical reports on 14 April 2021. The first report (*Climate-related risk drivers and their transmission channels*) explores how climate-related risk drivers can arise and impact both banks and the banking system.[13] According to the report: (i) the financial impact of climate-related risk can vary according to geography and sector; (ii) traditional risk categories used by financial institutions and reflected in the Basel Framework (e.g. credit risk, market risk, liquidity risk, operational risk) can be used to reflect climate-related financial risks; and (iii) there is limited research and data available to explore how climate-related risks feed into the traditional risks banks are facing.

The second report (*Climate-related financial risks – measurement methodologies*) provides an overview of conceptual issues related to climate-related financial risk measurement and describes banks' and supervisors' current practices.[14] The key findings of the second report are that (i) climate-related financial risks have unique features, which means that sufficiently granular data (e.g. asset-level data such as location, emission profile or physical hazard) and forward-looking measurement methodologies (e.g. forward-looking projections based on climate-models) have to be developed and conventional risk management tools may need to be adapted, (ii) currently, banks and supervisors have predominantly focused on assessing the impact of climate-related risk on credit risk modelling, with a lesser focus on market risk, and a very limited focus on liquidity and operational risk and (iii) a range of methodologies is currently in use or is being developed; however, challenges remain in the estimation process, including data gaps and uncertainty associated with the long-term nature and unpredictability of climate change. The second report concludes that if banks address

5. The Basel Framework are a series of three banking regulation agreements set by the Basel Committee. Basel I was adopted in 1988 with the main objective to increase the level of regulatory capital in the international banking system. Basel II was proposed in 1999 and divided a bank's capital requirements into three 'pillars'. In response to the financial crisis of 2007-2009, the Basel Committee introduced Basel III to substantially strengthen the capital requirements. In 2017, the Basel Committee approved a series of significant changes to Basel III (informally referred to as Basel IV).
6. https://www.bis.org/speeches/sp190523.htm.
7. Kern Alexander, 'Stability and Sustainability in Banking Reform: Are Environmental Risks Missing in Basel III?', Cambridge/UNEP, October 2014, 16-17.
8. See Basel Capital Accord, pillar 1, para. 510.
9. The Central Bank of Brazil issued a Resolution on Social and Environmental Responsibility for financial institutions in 2014, which can be found on https://www.bcb.gov.br/pre/normativos/busca/downloadNormativo.asp?arquivo=/Lists/Normativos/Attachments/48734/Res_4327_v1_O.pdf.
10. https://www.bis.org/speeches/sp201014.htm.
11. https://www.bis.org/press/p200227.htm.
12. https://www.bis.org/bcbs/publ/d502.pdf.
13. https://www.bis.org/bcbs/publ/d517.pdf.
14. https://www.bis.org/bcbs/publ/d518.pdf.

these challenges, their ability to estimate and effectively mitigate climate-related financial risks will improve.

The two reports provide a conceptual foundation for the TFCR's next phase of work – to investigate the extent to which climate-related financial risks can be addressed within the existing Basel Framework, identify potential gaps and consider possible measures to address them.[15] It then remains to be seen to what extend such measures will result in a consistent implementation in national laws around the globe. In our view a common approach to address such risks would be very much welcomed by both banks, stakeholders and supervisors.

3. United Kingdom

3.1. *ESG risks in the prudential supervision*

In April 2019, the Prudential Regulation Authority (**PRA**) published its expectations surrounding firms' management of financial risks from climate change, intending to "embed the measurement and monitoring of these expectations into its existing supervisory framework".[16] These expectations are centred on governance, risk management, scenario analysis and disclosure. Although an implementation plan was required from firms by October 2019, the regulator stated in a Dear CEO letter in 2020 that firms should comply with these expectations by the end of 2021.[17]

The PRA expects firms to take a proportionate approach to implementation, scaling their quantitative approach to their climate-related financial risks exposure and the size of the firm. In their Dear CEO letter, the PRA set out findings of their thematic review of compliance efforts to date, highlighting good practice and significant gaps between firms' compliance and supervisor expectations. The regulator believes that there is much work for firms to do in order to close this gap before the end of the year deadline. In May 2021, the Bank of England (**BoE**) published a speech by Sarah Breedon, Executive Director, UK Deposit Takers Supervision, which outlines steps UK financial services firms could take to help the UK move to a net zero economy.[18] Ms Breeden emphasises the supervisory expectation that banks and insurers act strategically and pre-emptively before the consequences of inaction become clear and explains that climate change scenario analysis provides an appropriate toolkit for doing so. The BoE expects firms to run climate scenarios as part of business as usual risk management and embed climate risk management within day-to-day decision-making.

CRDV[19]/CRRII[20] (and the new EU prudential regime for investment firms, although this was not onshored in the UK following Brexit) extend several mandates to the EBA in the area of sustainable finance. These cover an assessment of whether to include ESG risks in the supervisory review and evaluation process, the development of technical standards for including ESG risks in the Pillar 3 disclosure requirements and an assessment of whether a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives would be justified, as a component of Pillar 1 capital requirements. With the end of the Brexit transition period, any proposals flowing from these EBA mandates will not be reflected in the UK regime unless the UK regulators chose to adopt a similar approach. In December 2020, the PRA stated that the inclusion of ESG risks in the SREP were outside of the scope of its work at that time but that it will consider this topic as part of future policy development.[21]

The BoE is using its 2021 biennial exploratory scenario (**BES**) to explore the financial risks posed by climate change. The exercise will test the resilience of the current business models of the largest banks, insurers and the financial system to climate-related risks and therefore the scale of adjustment that will need to be undertaken in coming decades for the system to remain resilient. The BoE launched the BES in June 2021 – by mid-October 2021, firms will be required to quantify risks to their end-2020 balance sheet and submit management actions they would take in respect of the risks that they identified. The BoE will analyse the submissions and identify system-wide impacts and inconsistencies. At the end of January 2022, the BoE will announce whether it will run a second round. It intends to publish the results of the BES in Q1 2022 or in May 2022, if there is a second round. The BoE plans to release system-level results of the financial sector's resilience to climate change but it will not disclose the results of individual firms.

3.2. *Other ESG-related developments*

3.2.1. *Impact of Brexit*

In September 2020, the Economic Secretary to the Treasury stated that "*Sustainability and responsible*

15. https://www.bis.org/press/p210414.htm.
16. https://www.bankofengland.co.uk/prudential-regulation/publication/2018/enhancing-banks-and-insurers-approaches-to-managing-the-financial-risks-from-climate-change
17. https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2020/managing-the-financial-risks-from-climate-change.pdf?la=en\&hash=A6B4DD1BE45B2762900F54B2F5BF2F99FA448424
18. https://www.bankofengland.co.uk/speech/2021/may/sarah-breeden-managing-the-impact-of-climate-change
19. Directive (EU) 2019/878
20. Regulation (EU) 2019/876
21. https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620.pdf

investment continues to be at the top of my agenda".[22] He also stated: *"I've been clear that at the very least, we will match the ambition of the EU Sustainable Finance Action Plan.*"[23]

As at the date of Brexit, the EU had put forward various legislative proposals to advance its action plan, e.g. the Taxonomy Regulation, the Sustainable Finance Disclosure Regulation (known as **SFDR**), and planned ESG-related changes to MiFID II,[24] AIFMD,[25] the UCITS Directive,[26] the Insurance Distribution Directive[27] and Solvency II.[28] These were intended to fit together as a package, advancing three overarching policy goals: (1) to steer private capital into investments required to "green" the EU; (2) to mitigate the risk of greenwashing; and (3) to "mainstream" the consideration of climate change and ESG risks generally, into the risk management systems and processes of banks and other financial services firms.

Some in the industry felt the UK government had signalled (directly or indirectly) that, at a minimum, the SFDR would be brought into UK law on Brexit, i.e. "onshored".[29] A number of UK firms and trade bodies had assumed "onshoring" and had projects in full swing for implementation. This onshoring has, however, not occurred.

3.2.2. UK initiatives since Brexit

Leaving Brexit to one side, some key ESG regulatory initiatives implemented or planned in the UK are as follows:

- Climate Financial Risk Forum – In 2019, the UK Climate Financial Risk Forum (**CFRF**) was established by the UK Financial Conduct Authority (**FCA**) and Prudential Regulation Authority (**PRA**). This brings together financial sector representatives to explore issues and share best practice in areas relating to climate risk. The working groups it has established have since published a number of guides on topics such as disclosure, scenario analysis, risk management and innovation, which are highly regarded within the industry.[30]
- FCA strategy – Following a discussion paper and feedback statement, the FCA has confirmed that its "sustainable finance strategy" is based on three key themes:[31] (i) Transparency – Promoting good disclosures along the investment chain; (ii) Trust – Ensuring that the market delivers sustainable finance instruments and products that genuinely meet investors' sustainability preferences; and (iii) Tools – Government, regulators and industry working together to share experience, develop guidance and tools, and provide mutual support as the challenges of climate change are addressed. The FCA has also been requested by the UK government, by a letter dated 23 March 2021, to "*have regard to the government's commitment to achieve a net-zero economy by 2050 under the Climate Change Act 2008 ... when considering how to advance its objectives and discharge its functions.*"[32] In the same letter, it was stated that: "*The government wishes to ensure that the UK remains an attractive domicile for internationally active financial institutions, and that London retains its position as the leading international financial centre and **hub for green finance***" (emphasis added).
- UK TCFD – In November 2020, a UK taskforce published an Interim Report and Roadmap, setting out a strategy towards mandatory TCFD-aligned disclosures across the UK by 2025. "TCFD" refers to the Task Force on Climate-related Financial Disclosures, set up by the Financial Stability Board in 2015 to identify the market's climate-related information needs and develop a set of climate-related disclosure recommendations. The TCFD's final report of June 2017 contained various recommended disclosures.

On 21 December 2020, the FCA confirmed its proposals to enhance climate-related disclosures by UK premium-listed commercial issuers and a clarification of existing disclosure obligations.[33] Relevant companies are now required to include a statement in their annual financial report which sets out whether their disclosures are consistent with the recommendations of the TCFD, or explain why not.

The FCA is also planning a consultation in late June 2021 on proposals to extend the application of this rule to more listed issuers and to strengthen the compliance basis of the rule. This is to be titled "CP: Proposals to extend climate-related disclosure rules to standard listed issuers and ESG-related discussion topics in capital markets" and will run for three months.[34]

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22. https://www.gov.uk/government/speeches/john-glen-addresses-investment-association-on-sustainability-and-responsible-investment
23. *Id.*
24. Directive 2014/65/EU
25. Directive 2011/61/EU
26. Directive 2009/65/EC
27. Directive 2016/97/EU
28. Directive 2009/9138/EC
29. See the policy paper issued by HM Treasury in February 2019 titled "Financial Services (Implementation of Legislation) Bill Updated Policy Note" (February 2019) - https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/780759/FS__IoL__Bill_Revised_Policy_Note_web__2_.pdf
30. https://www.fca.org.uk/transparency/climate-financial-risk-forum
31. https://www.fca.org.uk/firms/climate-change-sustainable-finance and https://www.fca.org.uk/publications/feedback-statements/fs19-6-climate-change-and-green-finance
32. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/972445/CX_Letter_-_FCA_Remit_230321.pdf
33. https://www.fca.org.uk/publication/policy/ps20-17.pdf
34. https://www.fca.org.uk/news/policy-development-update

Separately, on 24 March 2021, the UK Department for Business, Energy and Industrial Strategy (**BEIS**) published a consultation paper on proposals to mandate climate-related financial disclosures by publicly quoted companies, large private companies and limited liability partnerships.[35] This consultation closed in May 2021.

The FCA intends to consult on client-focused TCFD-aligned disclosures for asset managers (among others): "*Institutional and retail investors increasingly demand information on how their asset managers take climate into account in their investment decisions, and the outcomes they achieve.*" This may result in the publication of a new FCA "Environmental, Social and Governance Sourcebook" (**ESGS**). The consultation is expected in late June 2021 and will run for three months. It will be titled "CP: Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers".[36]

– Greenwashing – In a speech on 9 November 2020, the FCA observed that there had been record inflows that year into sustainable investment products and social and sustainable bonds, with sustainable equity funds gathering 82% more new money than traditional equity funds. It stated that: "*As this market grows we want to ensure that consumers can trust sustainable products. To do this firms need to be clear on their obligations around the design, delivery and disclosure of sustainable products. And consumers should receive the right information and advice. In the funds space, we have been considering measures to combat potential 'greenwashing'. We have developed a set of principles to help firms interpret existing rules requiring that disclosures are 'fair, clear and not misleading', including when they submit new products to us for authorisation.*" This guidance is expected shortly.

The FCA has also said: "*We plan to continue our policy research to better understand how retail investment products are designed, the accuracy of disclosure, and whether this enables consumers to make effective decisions on 'green products'.*"[37]

– UK taxonomy – Last, but not least, in November 2020, the UK government announced a proposal to "*implement a green taxonomy*", by which it meant "*a common framework for determining which activities can be defined as environmentally sustainable*". It stated that this would take the scientific metrics in the EU taxonomy as its basis but that a UK Green Technical Advisory Group (**GTAG**) would be established to "*review these metrics to ensure they are right for the UK market*". The UK has also joined the International Platform on Sustainable Finance.[38,39]

4. United States[40]

4.1. *ESG risks in the prudential supervision*

Since the election of President Joseph Biden in November 2020, the United States has taken steps to build on prior efforts to support the transition to a low-carbon economy, and in particular to address climate-related risk in the financial markets. This momentum toward sustainability goals is evident in statements and actions by the White House, financial regulators – including the U.S. Commodity Futures Trading Commission (**CFTC**), Securities and Exchange Commission (**SEC**), and banking regulators – and private-sector actors such as trade associations and investor groups. While, consistent with global trends, the focus has been on ESG generally, this discussion focuses mostly on trends in the transition to sustainability and climate risk.

President Biden's 20 May, 2021 Executive Order on Climate-Related Financial Risk[41] (**EO 14030**) seeks to address potential risks to the financial system and U.S. competitiveness posed by the intensifying physical impacts of climate change and related transitional risks to many companies, communities, and workers. Among other things, it requires the Financial Stability Oversight Council (**FSOC**) to issue a report to the President within 180 days on efforts by FSOC member agencies (which include the U.S. Treasury, CFTC, SEC, and federal banking regulators) to integrate consideration of climate-related financial risk into their policies and programmes. EO 14030 also requires the FSOC report to include a discussion of "*the necessity of any actions to enhance climate-related disclosures by regulated entities to mitigate climate-related financial risk to the financial system or assets and a recommended implementation plan for taking those actions.*"[42]

For their part, federal financial regulators, including the Federal Reserve Board (**Federal Reserve** or **FRB**), CFTC and SEC, have acknowledged that physical and transition-related risks associated with climate change may pose serious risks to financial institutions individually and to the financial system as a whole. Each of the FRB, the CFTC and the

35. https://www.gov.uk/government/consultations/mandatory-climate-related-financial-disclosures-by-publicly-quoted-companies-large-private-companies-and-llps
36. https://www.fca.org.uk/news/policy-development-update
37. https://www.fca.org.uk/publication/business-plans/business-plan-2020-21.pdf
38. https://www.gov.uk/government/news/chancellor-sets-out-ambition-for-future-of-uk-financial-services
39. https://www.gov.uk/government/publications/independent-expert-group-appointed-to-advise-government-on-standards-for-green-investment
40. The authors would like to thank Barbara Stettner, Bill Satchell, Ken Rivlin, and Megan Sharkey of Allen & Overy LLP for their contributions to this article with regard to U.S. regulatory developments.
41. Exec. Order No. 14030, 86 Fed. Reg. 27967 (May 20, 2021).
42. *Id.* at 27968.

SEC are pursuing initiatives to provide for appropriate assessment, management and disclosure of such risks by the entities they regulate. The Federal Reserve's action on climate change includes the creation of two committees, the Supervision Climate Committee and the Financial Stability Climate Committee, to identify, assess and otherwise address climate-related risks at the level of individual FRB-supervised institutions and of the U.S. financial system, respectively.[43] The CFTC has created a Climate Risk Unit to focus on derivatives being developed to address climate risk and facilitate the transition to a low-carbon economy, including how such products fit within the CFTC's regulatory and supervisory framework and the need for any refinements to such products or the CFTC's regulatory approach.[44] This follows from a September 2020 report by the Climate-Related Market Risk Subcommittee of the CFTC's Market Risk Advisory Committee (**MRAC**), issued at the behest of Acting Chairman Rostin Behnam.[45] The report recommends high-level measures for financial regulators to address the financial risks posed by climate change. Among other things, the report notes that the CFTC's swap dealer risk management requirements "*presumably could include climate-related risks if they are deemed material*," [46] though it remains to be seen how the CFTC might approach such an application of these rules.

4.2. *Other ESG-related developments*

The Biden Administration has taken and announced plans for a variety of measures to address climate change as a societal threat. These include: the reversal of the Trump Administration's withdrawal of the U.S. from the Paris Climate Accords;[47] the pledge to cut U.S. greenhouse gas emissions in half by 2030;[48] the appointment of former Secretary of State John Kerry as Special Envoy for Climate Change; the establishment of the White House Office of Domestic Climate Policy; and multiple executive orders relating to climate change.

A confluence of factors – including new EU disclosure rules and anticipated requirements in the U.S., increased media focus on climate and ESG more generally, the proliferation of "ESG" ratings and data providers, a crescendo of financial institution and corporate voices committing to address climate change and be more transparent, and concerns about greenwashing (misleading claims about the extent to which a financial product or service is truly environmentally friendly) – have created momentum in favour of additional disclosure guidance and regulation.[49]

In response, the SEC has begun a review of issuers' current climate risk disclosures and published a high-level request for comment on approaches for future disclosure regimes.[50] The SEC's Division of Enforcement launched a new Climate and ESG Task Force to identify material gaps or misstatements in issuers' climate risk disclosures and analyse disclosure and compliance issues relating to investment advisers' and funds' ESG strategies.[51] One issue the SEC may need to grapple with in this regard relates to the highly fact-dependent materiality threshold for reporting, and a lack of precedent establishing that particular climate-related information is "material" under existing case law.

The SEC's Division of Examinations (**Exams Division**) issued a recent Risk Alert describing, among other deficiencies, their observations of potentially

43. Lael Brainard, Governor, Federal Reserve Board, *Financial Stability Implications of Climate Change* (Mar. 23, 2021), www.federalreserve.gov/newsevents/speech/brainard20210323a.htm.
44. *CFTC Acting Chairman Behnam Establishes New Climate Risk Unit*, Commodity Futures Trading Commission (Mar. 17, 2021), https://www.cftc.gov/PressRoom/PressReleases/8368-21.
45. Climate Risk Subcommittee of the CFTC Market Risk Advisory Committee, *Managing Climate Risk in the U.S. Financial System* (Sept. 9, 2020), avail. at https://www.cftc.gov/sites/default/files/2020-09/9-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf ("**MRAC Climate Risk Report**").
46. MRAC Climate Risk Report at 45-46; 17 CFR 23.600.
47. Anthony Blinken, *The United States Officially Rejoins the Paris Agreement*, U.S. Department of State (Feb. 19, 2021), https://www.state.gov/the-united-states-officially-rejoins-the-paris-agreement/#.
48. FACT SHEET: President Biden Sets 2030 Greenhouse Gas Pollution Reduction Target Aimed at Creating Good-Paying Union Jobs and Securing U.S. Leadership on Clean Energy Technologies, The White House Briefing Room (Apr. 22, 2021), https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/22/fact-sheet-president-biden-sets-2030-greenhouse-gas-pollution-reduction-target-aimed-at-creating-good-paying-union-jobs-and-securing-u-s-leadership-on-clean-energy-technologies/#.
49. MRAC Climate Risk Report at v, 106-107.
50. Allison Herren Lee, Then-Acting Chair, SEC, *Public Input Welcomed on Climate Change Disclosures* (Mar. 15, 2021), https://www.sec.gov/news/public-statement/lee-climate-change-disclosures; Allison Herren Lee, Then-Acting Chair, SEC, *Statement on the Review of Climate-Related Disclosure* (Feb. 24, 2021), https://www.sec.gov/news/public-statement/lee-statement-review-climate-related-disclosure. Recently confirmed SEC Chair Gary Gensler has reaffirmed the SEC's commitment to addressing climate risk disclosures. *See, e.g.*, Gary Gensler, *Testimony Before the Subcommittee on Financial Services and General Government*, U.S. House Appropriations Committee (May 26, 2021).
51. *SEC Announces Enforcement Task Force Focused on Climate and ESG Issues*, U.S. Securities and Exchange Commission (Mar. 4, 2021), https://www.sec.gov/news/press-release/2021-42.

inaccurate statements, potentially unsuitable investment advice and recommendations, and inadequate controls related to ESG investment options offered by investment advisers, registered investment companies, and private funds.[52] The Exams Division's concerns centred around how high investor demand, and the resulting rapid expansion of new ESG products and services, has resulted in the lack of standardisation of terms in ESG-related investment strategies and products. The Risk Alert warned that such variable and imprecise terminology can confuse investors absent clear and consistent disclosures by investment advisers and funds, underscoring that the ESG asset class and related strategies should be assessed like any other investment. Indeed, SEC Commissioner Hester M. Peirce issued a statement shortly after the release of the Risk Alert, noting that "*[t]he issuance of an ESG-specific risk alert should not be interpreted as a sign that ESG investment strategies are unique in the eyes of examiners.*"[53] She further highlighted that:

> *"advisers and funds should not make claims that do not accord with their practices, and our examiners will be looking for that consistency between claims and practice. The SEC's role is not to assess whether any particular strategy is a good one, but to ensure that investors know what they are getting when they choose a particular adviser, fund, strategy, or product."*[54]

The CFTC is also beginning to consider ESG-related disclosures. Following warnings in the MRAC Climate Risk Report that greenwashing concerns are impeding flows of private capital to sustainable, low-carbon activities, the CFTC's Climate Risk Unit intends to work with other regulators to pursue consistent standards, taxonomies and disclosures across derivatives markets. As the MRAC Climate Risk Report noted, the CFTC has a variety of existing risk disclosure requirements for its registrants, which may be interpreted to require disclosure of climate-related risks where material to a particular derivative product or commodity pool strategy.[55]

Separate from their focus on regulated entities' climate risk management and disclosures, U.S. regulators are also hoping to encourage innovation in climate risk mitigation, including with respect to carbon markets. In the aftermath of the Texas storms that saw catastrophic failure of the power grid, Acting Chairman Behnam called for the establishment of a credible U.S. carbon market to replace the existing piecemeal system.[56] He views the CFTC as ideally placed to create and regulate "*a functional, transparent and credible carbon offset market.*"[57]

To further this effort, the CFTC could explore alleviating regulatory requirements for some derivatives transactions related to climate risk mitigation. For example, the agency could exempt forward sales of carbon credits involving non-commercial counterparties from CFTC regulation. The CFTC has previously confirmed that environmental commodities such as carbon credits may qualify as "non-financial commodities" as required for the exclusion from CFTC jurisdiction for forward transactions. However, to date it has not expressly confirmed that it would interpret this exclusion to apply beyond transactions between "commercial" counterparties.[58] As a result, it is not clear that financial entities such as banks and hedge funds could rely on the forward exclusion for all types of transactions in the trading of carbon credits outside the spot market, for example, even if such credits meet the other requirements for the exclusion.

Private-sector actors are also working to further the development of carbon markets. For example, the Taskforce on Scaling Voluntary Carbon Markets (**TSVCM**), led by the Institute of International Finance, brings together private-sector institutions and environmental NGOs, investor alliances, academics and international organisations, with the objective of "*scal[ing] an effective and efficient voluntary carbon market to help meet the goals of the Paris Agreement.*"[59] TSVCM is working to provide recommendations for "*the most pressing pain-points facing voluntary carbon markets.*"[60] Acting Chairman Behnam has expressed support for the TSVCM's effort, reaffirming statements from its founder, Mark Carney, that carbon markets "*need to be scaled exponentially.*"[61]

In addition to some of the more established ESG-linked financial instruments such as ESG-linked

52. Division of Examinations, SEC, *Risk Alert: The Division of Examinations' Review of ESG Investing* (Apr. 9, 2021), www.sec.gov/files/esg-risk-alert.pdf.
53. Hester Peirce, Commissioner, SEC, *Statement on the Staff ESG Risk Alert* (Apr. 12, 2021), www.sec.gov/news/public-statement/peirce-statement-staff-esg-risk-alert.
54. *Id.*
55. MRAC Climate Risk Report at 47-48. For example, as the report notes, the CFTC requires a swap dealer to disclose to its counterparty the material characteristics and risks of a swap prior to entering into the swap. 17 CFR 23.431. It also has extensive customer risk disclosure requirements for other registrants. *See, e.g.*, 17 CFR 1.55, 4.21, 4.24, 4.31, 4.34.
56. James Ryder, *After Texas Storm, CFTC's Behnam Renews Carbon Trading Push*, Risk (Feb. 18, 2021), https://www.risk.net/risk-management/7798491/behnam-freak-texas-cold-snap-a-sign-of-growing-climate-risks.
57. *Id.*
58. CFTC and SEC, Final Rule: Further Definition of "Swap", "Security-Based Swap", and "Security-Based Swap Agreement"; Mixed Swaps; Security-Based Swap Agreement Recordkeeping, 77 Fed. Reg. 48234 (Aug. 13, 2012).
59. TSVCM, *About Us*, https://www.iif.com/tsvcm.
60. *Id.*
61. Interview by Walt Lukken, President and CEO, Futures Industry Association ("**FIA**"), with Rostin Behnam, Acting Chairman, CFTC (Mar. 18, 2021), https://www.youtube.com/watch?v=HSS3zkWYhaY. Allen & Overy advised the FIA on their comment on the TSVCM consultation paper of December 2020.

loans and bonds, exchange-traded ESG-linked derivatives are becoming increasingly popular in the U.S., with the two largest U.S. futures exchanges having launched a variety of popular carbon credit futures contracts.[62] In addition, in Europe, LCH clears swaps based on ESG indices.[63] Over-the-counter ESG derivatives are still gaining traction, but one interesting development has been the use of sustainability-linked key performance indicators (**KPI**) in swap transactions. The benefit of the ESG aspect is a rebate tied to meeting the KPI, incentivising the accomplishment of sustainability goals. Though not yet widespread, this type of product could both finance and further motivate the transition to a low-carbon economy. These products may present opportunities for the CFTC to put into practice its developing approach to encouraging ESG products, as there are a number of regulatory considerations, including classification, reporting and margin requirements, but these transactions are evidence for the potential for derivatives markets to help facilitate the transition to a low-carbon economy.

5. APAC

The development of the regulatory landscape in APAC as it relates to ESG has been steadily evolving, albeit at varying paces and in differing ways across jurisdictions. ESG investment in APAC has also grown exponentially, supported by a strong steer from governments and regulators to scale up green finance. Below is a snapshot of the state of play in Greater China – PRC and Hong Kong SAR.

5.1. China

5.1.1. ESG risks in the prudential supervision

In recent years, China has gradually prioritised ESG by introducing policies to support the transition from a traditional economy to a green finance economy. As early as 2012, the China Banking and Insurance Regulatory Commission (**CBIRC**), an agency authorised by the State Council to regulate and supervise the banking and insurance institutions in China, issued the Green Credit Guidelines which aim to encourage banking institutions to develop green credit and introduced the Green Credit Key Performance Indicators to strengthen the evaluation of green banking within the sector. Furthermore, the People's Bank of China (the central bank, the **PBOC**) has been incorporating green finance into the macro-prudential assessment system, an assessment system that includes indicators for capital and leverage, asset and debt, liquidity, risk of cross-border financing and implementation of credit policy, etc. to address interconnectivity and regulatory arbitrage.[64] For example, banking institutions are given extra points in a macro-prudential assessment if it has a higher ratio of green credits on its balance sheet and a record of issuing green bonds, and has a higher chance of being able to enjoy a higher interest rate for deposits with the PBOC.[65] To mitigate individual banking institution's systemic risk from ESG issues, the PBOC has further issued the Green Credit Performance Evaluation Plan for Banking Deposit Financial Institutions in July 2018, which consolidated the performance evaluation plan for individual banking institutions in their assessment of their green credits performance. Specific indicators include the proportion of green loan balance, the ratio of green loan increment, the year-on-year growth of green loan balance and the non-performing green loan ratio, which are factors to ensure the stability of individual banking institutions.

In addition to the consolidation of green credits performance, the PBOC, along with six ministries, issued the Guidelines for Establishing the Green Financial System in 2016 (**2016 Guidelines**) which provide concrete implementation on the overall strategy of promoting ecological civilization and China's green financial system.[66] The 2016 Guidelines include a series of policy measures to incentivise green lending, e.g. re-lending operations by the PBOC, specialised green guarantee programmes, interest subsidies for green loan-supported projects, launch of a

62. ICE has the ICE Global Carbon Futures Index, which saw record highs in the first quarter of this year, and the ICE EU Carbon Allowance Options, which saw an average daily volume of over 20,000 contracts. *ICE Announces Update on Global Environmental Complex as the ICE Global Carbon Futures Index Hits Record High and EUA Options Reaches Record Volume*, businesswire (Mar. 5, 2021), available here; *see also ICE Global Environmental Complex*, Intercontinental Exchange, https://www.theice.com/energy/environmental. CME Group has also launched environmental products, such as Global Emissions Offset futures, with the goal of "provid[ing] a regulated, market-based solution that can help address risk management needs for near-term emissions reduction strategies, as well as a standardized pricing benchmark to help facilitate long-term climate goals." *CME Group to Launch a Global Emissions Offset (GEO) Futures Contract on March 1*, CME Group (Jan. 26, 2021), available here.
63. LCH, *What We Clear*, https://www.lch.com/services/cdsclear/what-we-clear. For additional information about ESG derivatives products, see *Overview of ESG-Related Derivatives Products and Transactions*, International Swaps and Derivatives Association (Jan. 1, 2021), www.isda.org/a/qRpTE/Overview-of-ESG-related-Derivatives-Products-and-Transactions.pdf.
64. https://www.asifma.org/wp-content/uploads/2020/03/sustainable-finance-in-asia-pacific.pdf ; https://www.bis.org/publ/bppdf/bispap94h.pdf
65. http://www.pbcsf.tsinghua.edu.cn/upload/default/20210120/f0778b65848f4cce3cd2bfac87eb29c5.pdf
66. http://www.chinadaily.com.cn/business/2016hangzhoug20/2016-09/04/content_26692931.htm ; http://www.pbc.gov.cn/english/130721/3131759/index.html ; https://www.un-page.org/people%E2%80%99s-bank-china-issued-%E2%80%9Cguidelines-establishing-green-financial-system%E2%80%9D

national-level green development fund by integrating existing funds for energy conservation and environmental protection, and promote self-regulatory green banking evaluation mechanism to major Chinese banks before gradually expanding to small and medium-sized commercial banks.[67]

The policy framework to support green lending is further outlined in CBIRC's Guiding Opinions of the China Banking and Insurance Regulatory Commission on Promoting the High-quality Development of the Banking and Insurance Industry in January 2020 (**2020 Guidelines**). The 2020 Guidelines include directives to China-based banking institutions to promote green finance by incorporating ESG requirements into the credit granting process. For instance, banking institutions are required to establish risk management systems in relation to possible risks and liabilities arising from climate change and pollution, and are also encouraged to establish green finance business units and green sub-branches to strengthen ESG information disclosures and communications among business entities and banking institutions.[68]

On 12 March 2021, China released its 14th Five-Year Plan (2021-2025) for National Economic and Social Development and Long-term Objectives through 2035. One of its major policy blueprints includes the improvement on green finance capabilities in order to meet its "30/60 goal" of reduction of carbon emissions by 2030 and carbon neutrality by 2060. In particular, Governor Yi of PBOC emphasised the Five Year Action Plan to support the transition to a green economy, including (i) developing a mandatory disclosure on climate and carbon emission information in accordance with uniform disclosure standards. Currently, only the use of funds raised from green financial bonds in the interbank market is required to be disclosed on a quarterly basis, but there is a lack of unified disclosure standards; (ii) incorporating climate change factors into the stress test of banking institutions, which assess, among others, the impact on inflation forecasts from the economy's transition to green energy; and (iii) encouraging banking institutions to measure climate risks on their projects and implement quarterly green credit assessments to deal with potential climate risks.[69] No specific timeline has been publically announced for the introduction of these measures.

5.1.2. Other ESG-related developments

Consistent with the development of taxonomies elsewhere, the PBOC, China Securities Regulatory Commission (**CSRC**), and National Development & Reform Commission (**NDRC**) published the Green Bond Endorsed Project Catalogue 2020 (**Green Bond Catalogue**) which defines the six categories of projects that qualify as "green projects" eligible for green bond financing. The Catalogue was updated in 2021 (**2021 Catalogue**), which notably eliminated projects that use fossil fuels e.g. coal to issue green bonds. The elimination of fossil fuels in the 2021 Catalogue is touted to make China's green bond issuance more regulated and stricter.[70]. The PBOC has announced that it will continue to work with the European Union to adopt a common green taxonomy across the two regions. Work is underway via the International Platform on Sustainable Finance (**IPSF**) and is expected to complete by the end of 2021.[71]

Apart from developing common green taxonomy across the region, China has been setting its financial standards in green financing through PBOC's promulgation of Financial Industry Standardisation System Construction Development Plan (2016-2020) (**Standardisation Plan**). The Standardisation Plan includes, among others, green credit rating standards and information disclosure standards for banking financial institutions. The PBOC also plans to update financial standards for green credit, green bonds and green funds to further improve its green finance standards to support the carbon neutrality objective.[72] The harmonisation of China and global green standards, coupled with China taking steps to further open up the bond market and provide foreign investors with access to a wider range of financial products, will catalyse further investments in China's green finance market.

5.2. Hong Kong SAR

5.2.1. ESG risks in the prudential supervision

Regulatory developments in Hong Kong are picking up pace with important steps taken recently and more expected soon in the areas of prudential and regulatory development including the development and use of a taxonomy. In considering the crucial importance to develop local expertise in green certification services, the HKSAR Government has encouraged the Hong Kong Quality Assurance Agency to develop a Green Finance Certification Scheme, which provides third-party conformity assessment on green financial instruments by making reference to a number of international and national standards.

67. https://www.waizi.org.cn/law/14652.html
68. http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=881921\&itemId=928
69. https://www.globalelr.com/2021/04/china-and-eu-to-collaborate-on-green-investment-standards/#_edn1
70. https://www.climatebonds.net/files/files/the-Green-Bond-Endorsed-Project-Catalogue-2021-Edition-110521.pdf
71. https://www.globalelr.com/2021/04/china-and-eu-to-collaborate-on-green-investment-standards/
72. https://www.bis.org/review/r201222g.htm

The Hong Kong Exchanges and Clearing Limited (**HKEX**), the operator of Hong Kong's central securities and the regulator of listed issuers and companies, has published its ESG Reporting Guide, which introduced certain mandatory disclosure requirements for listed companies.[73] Further, the banking regulator, the Hong Kong Monetary Authority (**HKMA**) and the Securities and Futures Commission (**SFC**) have been increasingly involved in the development of green and sustainable finance, together with formulating disclosure and reporting requirements to enhance the Hong Kong ESG market.

In May 2020, the HKMA and the SFC established the Green and Sustainable Finance Cross-Agency Steering Group (**Steering Group**) which aims to facilitate the climate and environmental risk management in the banking sector through, among others, examining regulatory issues in green and sustainable finance. Policy directions will also include guidelines on regional cooperation, in particular the Guangdong-Hong Kong-Macro Greater Bay Area. Consequentially, the Steering Group announced its green and sustainable finance strategy and five key action points to align Hong Kong's ESG regulatory standards with the international initiatives in December 2020 (the **Strategic Plan**). For instance, the Steering Group aims to engage and collaborate with the banking industry to consider the climate-related risks as part of the sector's strategy, risk management and investment decision-making. Together with the Strategic Plan and the White Paper (as elaborated below) the Steering Group has indicated a prudential supervisory framework for authorised institutions (**AIs**) to strengthen Hong Kong's financial ecosystem to support a greener and more sustainable future. Notably, to support green and sustainable bond issuance and lending, a new Green and Sustainable Finance Grant Scheme was launched in May 2021 by the HKMA to provide subsidy for eligible bond issuers
and loan borrowers to cover their expenses on bond issuance and external review services.

A key action plan announced by the Steering Group is to align the climate-related disclosures with the Task Force on Climate-related Financial Disclosures recommendations (**TCFD**). In addition to the existing requirements on listed companies' climate-related disclosures, the Steering Group will take active steps to enhance climate-related disclosures on financial institutions and increase the coverage of mandatory disclosure on climate change. To align with TCFD's recommendations, climate-related disclosures will be mandatory across relevant sectors no later than 2025. To enhance AIs sustainability reporting standards, the Steering Group will also take active steps to support the International Financial Reporting Standards Foundation's proposal to establish a new Sustainability Standards Board and develop a uniform set of sustainability reporting standards. Lastly, the Steering Group aims to promote climate-focused scenario analysis, for instance, through a pilot climate risk stress testing exercise for AIs to assess the financial impacts under different climate considerations. With the results of the stress testing and consultation, we expect the HKMA to formulate more detailed supervisory expectations that align practices in Hong Kong with international ESG developments.

The HKMA has published the White Paper on Green and Sustainable Banking (**White Paper**) in June 2020, which provides supervisory expectations on AIs' abilities to build its climate resilience. These guiding principles encompass nine separate frameworks based on AIs' governance, e.g. board's accountability and oversight on climate development, strategy formulation and implementation, climate-related risk management, and disclosure of climate-related information to enhance transparency. [74] Together with the establishment of the Alliance for Green Commercial Banks, which is initiated by the HKMA and the International Finance Corporation in November 2020, it aims to provide a learning and sharing platform for AIs to acquire skills and knowledge to transform into "greener" banks and seize climate-related investment opportunities.

To summarise HKMA's supervisory approach on AI's ESG developments, it should be noted that, in May 2019, it announced a three-phased approach to promote green and sustainable banking, encompassing the following:

- Phase I – developing a common framework to assess the "Greenness Baseline" of individual banks, in which the HKMA will collaborate with relevant international bodies to provide technical support to AIs in Hong Kong to better understand the green principles and baseline assessment;
- Phase II – engaging the industry and other relevant stakeholders in a consultation on the supervisory expectation on green and sustainable banking; and lastly
- Phase III – implementing, monitoring and evaluating AIs' progress in relation to green and sustainable banking.[75]

As a key milestone of Phase I measures, the HKMA has developed a self-assessment common assessment framework (**Common Assessment Framework**) to assess AIs' "Greenness Baseline". The Common Assessment Framework will collect information about AIs' stage of development in preparing

73. www.hkex.com.hk/Listing/Rules-and-Guidance/Environmental-Social-and-Governance/ESG-Reporting-Guide-and- FAQs?sc_lang=en

74. https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200630e1a1.pdf

75. https://www.hkma.gov.hk/eng/key-functions/banking/banking-regulatory-and-supervisory-regime/green-and-sustainable-banking/

for climate-related risks, including governance, corporate planning and tools, risk management process, business policies, products and services, performance and resources, and disclosure and communication. Through the assessment, HKMA intends to facilitate AIs' readiness in addressing environmental risks and consolidate HKMA's expectation on ESG development.[76]

5.2.2. *Other ESG-related developments*

In order to minimise the discrepancies between green taxonomy across regions, the HKMA and the SFC have also joined the IPSF Working Group co-led by China and the EU, which aims to develop the common ground taxonomy by the end of 2021 (**Common Ground Taxonomy**). Adopting the Common Ground Taxonomy is intended to minimise the discrepancies between green taxonomy across regions,[76] and provide transparency to AIs and further promote green financing across relevant IPSF jurisdictions.

From the securities regulators' perspective, following the announcement in 2018 of its strategic framework to contribute to the development of green finance in Hong Kong, the SFC has prioritised the engagement with the asset management industry to formulate an appropriate regulatory response to climate change. As part of this, the SFC conducted a survey of asset managers on aspects of sustainable investing and setting requirements on reporting ESG performance. The published survey results illustrated that asset owners interviewed agreed that disclosure standards from an outcome and evidence perspective and a more supported analysis of asset-specific ESG risks are needed. They also highlighted the lack of consistency, availability and reliability of information to be a challenge in their investment and risk management processes. In response, the SFC issued a circular of additional requirements for asset managers and owners managing SFC-authorised ESG funds to address issues raised, including measures to mitigate greenwashing. These include, among others, specific disclosure requirements on their offering documents and ongoing monitoring obligations. In October 2020, a consultation process was launched on the management and disclosure of climate-related risks by fund managers (**Consultation Paper**). However, as the Consultation Paper is intended to foster the development of a more consistent disclosure framework and minimise the industry's compliance burden, the SFC has made reference to the widely endorsed TCFD recommendations in developing these proposed requirements and standards. The SFC has also been working closely with various international bodies, including the International Organisation of Securities Commissions, and drawing upon the experiences of international counterparts in developing our policy and supervisory approaches. In summary, 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, as well as to make appropriate disclosure requirements. The proposed amendments will cover four key elements, namely, governance, investment management, risk management and disclosure. The SFC's proposed amendments will apply to fund managers who manage collective investment schemes (but not part of a fund only), and at the initial stage such requirements will not be mandatory for fund managers who manage discretionary accounts. The proposed amendments will cover four key elements, namely, governance, investment management, risk management and disclosure. In terms of the level of compliance, there will be (i) baseline requirements, which will apply to all fund managers and (ii) enhanced standards for larger fund managers, which will apply subject to the principle of proportionality, having regard to factors such as the size and complexity of a fund manager's business and the investment strategies adopted by the funds. Conclusions are still pending.

The SFC continues to also stress that addressing the impact of ESG risks requires extensive global cross-disciplinary coordinations, and that it intends to continue to cooperate with the International Financial Reporting Standards (IFRS) Foundation to develop a global baseline standard for corporate sustainability reporting, and improve the transparency of ESG data and ratings with IOSCO.

6. Conclusion

In conclusion, the Basel Committee identified that climate change represents a major threat to the future stability of the entire banking system. Nevertheless, environmental-related risks are currently not explicitly embedded in the existing Basel Framework. In February 2020, the Basel Committee has established a high-level task force, the TFCR, to undertake work on climate-related financial risks. The TFCR has thus far published various reports and will – as a next phase of its work – further investigate the extent to which climate-related financial risks can be addressed within the existing Basel Framework. These initiatives will ultimately end up in national bank supervision legislations and impact the lending business around the world. Hopefully this will result in common international standards being implemented consistently in national prudential supervisory frameworks around the globe, thus ensuring a level playing field as much as possible. Embedding climate-related risks in the Basel Framework will also minimise the existing discrepancies in the prudential treatment of climate-related risks across regions.

The country reports of the UK, the U.S., China and

76. https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200513e1.pdf

Hong Kong demonstrate that the legislative and regulatory landscapes on climate-related topics outside the EU are still evolving too and whilst common themes are addressed, some of the measures have understandably been rather fragmented. These international developments do show, however, that the global financial markets have been and will increasingly be subject to increasing investor, government and media focus on climate change and rules mitigating ESG risks. Collaboration between policy makers to ensure a coherent and consistent approach to the issues – aimed at supporting the transition and achieving the Paris targets - across economies is important as common rules in this area would benefit investors, supervisors, customers and the financial institutions themselves in changing markets.