Analysis of Best Practices in Environmental Disclosure Policies

A review of 101 policies worldwide based on Five criteria for high-quality disclosure

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Foreword IFC

As a global leader in developing frameworks for assessing environmental, social, and governance (ESG) risks, IFC is setting the bar for sustainable finance and disclosure frameworks. This report is timely as we all look to rebuild more sustainably and inclusively from the impacts of the COVID19 pandemic. Sustainability issues, such as income equality, good governance, poverty reduction, green growth, and climate change mitigation and adaptation, are at the center of the global and local agenda.

Worldwide, more companies are reporting publicly on these issues through integrated reports, reports to investors and, of course, as part of their listing requirements on stock exchanges. Given our role as a multilateral development institution that supports private sector development in emerging markets, we at IFC have seen firsthand the importance of setting up ESG reporting and disclosure requirements. IFC's Performance Standards and Corporate Governance Methodology are globally recognized as guiding frameworks for emerging markets.

Market regulators and stock exchanges play a critical role in promoting reporting guidelines for companies around ESG issues. These guidelines act as a lever and amplifier through their issuer base to change the broader market.

IFC has supported this work of regulators and stock exchanges in many ways. We have had a partnership with the UN Sustainable Stock Exchange initiative since 2018 to support member exchanges in developing ESG reporting guidelines. IFC's Disclosure and Transparency Toolkit is the foundation of our work and approach. It presents IFC's model for incorporating ESG into corporate value and reporting, coupled with the UN Sustainable Stock Exchange's Model Reporting Guidance.

A robust sustainability-reporting system developed in partnership with key stakeholders, including other multilateral development financial institutions, has supported IFC's work and credibility in issuing green, gender, social and sustainability-linked bonds across dozens of currencies over the decades.

Developing countries face specific challenges in reporting and disclosure. For example, there are countries where sustainable finance-related reporting exists, but the key performance indicators (KPIs) are limited to environment and climate change. In these situations, social and governance issues are not included, which means the reporting parameters are incomplete. In some countries, regulators introduce reporting templates, but high-quality reporting on sustainability is only achieved by market leaders.

This report provides practical examples from developed and developing markets on how to develop high-quality environmental regulation that addresses market needs and investor demand. Financial-market participants, whether a regulator or not, will find helpful information throughout the report. In particular, the report presents best practice examples from developing economies, along with practical recommendations. This report rests on IFC's approach to the corporate governance and sustainability regulation ecosystem (codes, scorecards, and reporting guidelines). It expands IFC's ability to support the development of sound guidelines through thought leadership.

We want to thank CDP for their role in mainstreaming climate. We also acknowledge our ongoing collaboration with the UN Sustainable Stock Exchange initiative on uplifting ESG disclosure regulation among stock exchanges and companies.

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Foreword CDP

The world of corporate reporting is going through a revolution. The increased realization of the gravity of the environmental crisis is creating a movement toward stronger and more inclusive reporting of the risks and opportunities of environmental factors on business activities. At the same time, there is a growing realization that, without a thorough understanding of the impacts that companies have on people and the planet, the world will not be able to deliver on the commitments of the Paris Agreement, the 2030 Agenda for Sustainable Development, and the upcoming Global Biodiversity Framework. Strong, reliable, and comparable data is fundamental to achieving this understanding. For over 20 years, CDP has been at the forefront of encouraging corporate disclosure, leveraging its reporting framework to support businesses in analyzing and disclosing their environmental risks, opportunities, and impacts.

Although voluntary initiatives have been fundamental in developing this awareness, there is a growing recognition that, in many cases, these may not be able to reach the necessary scale. This is why several jurisdictions (mainly, but not only, in developed economies) have started to implement mandatory environmental disclosure regimes. Most of these tend to focus on climate and be based on the recommendations of the Task Force on Climate-Related Disclosures (TCFD), although this is not always the case.

CDP fully supports the move toward mandatory environmental disclosure and has recently published a policy brief highlighting the elements of high-quality mandatory disclosure. The elements of this brief constitute the basis of the analysis in the following pages.

All this being said, at CDP we recognize that one size does not fit all situations, and that many jurisdictions may not be in a position to implement these regulatory regimes straight away. In these cases, instruments such as guidance and non-binding codes of conduct, issued by regulators or actors such as stock exchanges, can be an important first step toward a stronger awareness of environmental factors.

At CDP we strongly believe in the maxim that "you can't manage what you can't measure." This document will help all actors involved in the corporate disclosure ecosystem to improve their understanding of the best practices in policy and regulation around the world in order to better measure, and therefore better manage, their environmental risks, opportunities and impacts.

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Executive Summary

There is a growing focus on the need to shift capital effectively and rapidly toward environmentally sustainable solutions to innumerable challenges. Key questions remain, however, as to how investors, stakeholders, and decision-makers can best assess what companies, activities, or financial products are truly sustainable. Even when answers can be found, how can this information best be standardized across a wide array of contexts?

Much of the common practice in sustainability reporting has been reached through voluntary disclosure requirements. However, the detailed, comparable, enforceable, and decision-useful information needs of investors and decision-makers has made it clear that we have reached the next step in the journey of environmental disclosure policies. Underpinning the answer to the challenges are regulatory activities that help meet the information needs of the private sector for nonfinancial and sustainability information. With landmark legislation being introduced in a number of jurisdictions in the world, it is clear that the much-needed shift to mandatory disclosure requirements is under way. This regulatory development meets the need for a higher granularity in the quality of information available, greater clarity and comparability across the board between companies and industries, and timely and accessible data.

In order to assist regulators with an appetite for filling this important information gap, we have produced this report providing a comprehensive analysis of the state of environmental disclosure. First, we assess 101 policies to better understand what best practices exist in developed economies with deep financial markets. Second, we illustrate the current situation in these economies when it comes to environmental disclosure policy. Finally, we provide regulators with a framework to formulate better policies capable of helping fill the information needs.

We differentiate between developed and developing economies for two key reasons. Developing economies tend to be at an earlier stage in their journey of setting disclosure requirements. This creates an opportunity for these jurisdictions to leapfrog and incorporate best practices from more mature jurisdictions. Next to this, the appetite of these economies to attract investment creates a clear opportunity to act on the 2030 Agenda, the Paris Agreement, and the upcoming Global Biodiversity Framework.

Our analysis examines policies through the lens of the five success criteria set out by CDP on mandatory disclosure requirements.[1] According to these criteria, successful policy should (1) ensure environmental integrity, addressing sustainability-related financial disclosures as well as impacts on people and the planet, with a holistic environmental approach; (2) ensure compatibility of required or recommended disclosure standards; (3) provide an enforcement system; (4) adhere to the technical quality and content of the reporting process; and (5) allow space for innovation and more mature disclosure.

The initial aim of our analysis was to understand best practices in developed economies and to use this assessment to assist regulators in developing economies. However, our analysis also highlighted that due to the special positioning of developing markets, these jurisdictions are well on the path of innovation and have many lessons to offer to themselves across organizations internally and to other economies.

Based on our analysis we outline an overarching process, which regulators can use to embark on a policy (re) iteration process. This process can help regulators focus on aligning key indicators in policy with existing standards, focus on collating disclosed information in decision-useful ways, and regularly revisit and adjust disclosure requirements.

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[1] For more information, see CDP. 2021. "Shaping High-Quality Mandatory Disclosure: Taking stock and Building upon the TCFD Recommendations." London: CDP. https://cdn.cdp.net/cdp-production/cms/policy_briefings/documents/000/005/863/original/TCFD_disclosure_report_2021_FINAL.pdf?1631608521.

Abbreviations and Acronyms

CDSB	Climate Disclosure Standards Board
CSRD	Corporate Sustainability Reporting Directive
ESG	Environmental, Social, and Governance
EU	European Union
GRI	Global Reporting Initiative
ICGN	International Corporate Governance Network
IFC	International Finance Corporation
IIRC	International Integrated Reporting Council
IFRS	International Financial Reporting Standards Foundation
JSE	Johannesburg Stock Exchange
NFRD	Nonfinancial Reporting Directive
PRI	Principles for Responsible Investment
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goal
SME	Small and Medium Enterprise
SFC	Securities and Futures Commission (Hong Kong)
TCFD	Task Force on Climate-Related Disclosures
UNGC	United Nations Global Compact

1. Introduction

The environmental reporting policy arena has gone through substantial developments in the past decade. This is fueled in part by a growing interest in connecting traditional financial activities with sustainability at large—be it through the creation of new types of investment products focused on green activities or through a shift in the products or services provided by companies themselves.

Regulators are now focused more than ever on increasing the quality and quantity of corporate disclosure. Stock exchanges are introducing listing requirements, central banks are focusing on financial actors, and governments are adopting taxonomies for sustainable investment products,[2] all of which signal a shift toward sustainable finance solutions. This shift is underpinned by a need for disclosure to support risk management within companies as well as help organizations, decision-makers, and investors better understand the impact these companies may have on the environment and society. This in turn supports efforts to shift capital toward sustainable companies and activities, as collecting data helps support risk analysis within companies while disclosing data helps investors shift capital.

In particular, there is a growing interest for climate-specific reporting, enabled by robust regulatory standards. Climate is not the only issue, however; there is a growing urgency to act on a wider array of environmental issues, including deforestation, biodiversity loss, and water governance.

Examples of such regulatory actions are the creation of the Task Force on Nature Related Financial Disclosures,[3] the development of Model Guidance on Climate Disclosure for stock exchanges,[4] the European Union's (EU's) ambitious directive on Corporate Sustainability Reporting[5] as well as the International Financial Reporting Standards (IFRS) Foundation's International Sustainability Standards Board.[6] Each of these developments are important milestones in mainstreaming sustainability reporting, with an emphasis on environmental disclosure.

Despite these developments, there is much still to be done to achieve the ambitions set out in the 2030 Agenda, the Paris Agreement, and the upcoming Global Biodiversity Framework. The International Finance Corporation (IFC) and CDP have joined forces in partnership with the UN Sustainable Stock Exchanges (SSE) Initiative to identify a set of policy best practices for environmental disclosure applicable to regulators in developing economies, drawing on the experience and work of regulators across the world.

2 Van der Lugt, C. T., P. P. van de Wijs, and D. Petrovics. 2020. *Carrots and Sticks 2020— Sustainability reporting Policy: Global Trends in Disclosure as the ESG Agenda Goes Mainstream*. South Africa: Global Reporting Initiative (GRI) and the University of Stellenbosch Business School (USB).

3 For more information, see United Nations Development Program. 2021. "Taskforce on Nature-Related Financial Disclosures (TNFD) Launched." ***https://www.unepfi.org/news/themes/ecosystems/tnfd-launch/***

4 For more information, see United Nations Sustainable Stock Exchanges Initiative. 2021. *Model Guidance on Climate Disclosure: A Template for Stock Exchanges to Guide Issuers on TCFD Implementation*. ***https://sseinitiative.org/publication/model-guidance-on-climate-disclosure-a-template-for-stock-exchanges-to-guide-issuers-on-tcfd-implementation/***

5 EU Corporate Sustainability Reporting Directive (2022).".

6 For more information, see International Financial Reporting Standards Foundation. 2021. "Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards." London: IFRS. ***https://www.ifrs.org/content/dam/ifrs/project/sustainability-reporting/ed-2021-5-proposed-constitution-amendments-to-accommodate-sustainability-board.pdf***

This report serves as the first building block of a series of activities to support IFC's role as advisor to financial market regulators by developing actionable, comprehensive, easily implementable, and transformative policies targeting private sector actors. This is done in admission to the role of stock exchanges as regulators (in some cases) and their special role in their local financial ecosystem. CDP, as the largest global disclosure system supporting investors, companies, cities, states, and regions in managing their environmental impacts, provides insights and expertise to regulators. Together, CDP and IFC aim to assist in fulfilling the Paris Agreement, the Sustainable Development Goals, and the upcoming Global Biodiversity Framework through shifting finance toward sustainable activities and shaping corporate behavior.

In this report we aim to assist regulators by the following: (1) highlighting examples of best practices in developed markets with deep financial markets, (2) showing regulators the state of play in developing economies when it comes to environmental disclosure policy, and (3) providing regulators with a framework to formulate better policies.

We focus on regulators in developing economies for two key reasons. First, admitting to the fact that policy requirements across the globe are still at an early stage, jurisdictions in developing economies are at a relatively earlier stage in developing their policy frameworks for the disclosure of environmentally focused sustainability and nonfinancial information. This means that, overall, there is flexibility to leapfrog and implement best practices from other jurisdictions to achieve high-quality reporting practices. Second, the appetite of developing economies to attract investment creates an opportunity to act on the ambitions of the 2030 Agenda and the Paris Agreement, and the upcoming Global Biodiversity Framework by effective policy formulation. Providing a sustainability framework allows for the management of longterm risks and impacts individual enterprises and the economy as a whole. With this backdrop it is essential to mention that our analysis does not only highlight the specific attributes of good policy but also focuses on the underlying enabling environment.

Section 2 of the report outlines the approach taken for the analysis and details the five criteria for successful mandatory disclosure developed by CDP. This is followed by a detailed analysis of policy best practices in developed economies with deep financial markets. In this third section, it becomes apparent that the EU is a pioneer in ambition, depth, and scope when it comes to disclosure requirements, but other jurisdictions are closing this gap as far as contextual conditions allow. Section 4 assesses a handful of best practice examples from developing economies and the conclusion sets out a detailed account of recommendations for regulators active in these jurisdictions.

2. Methodology and Approach

In our analysis we review core regulations, laws, and codes (from here on, "policies") in a number of developed and developing economies. We do so with the aim of firstly exploring where policies stand in economies with mature reporting practice in place, secondly to better understand what the effect of policy may be on mature reporting practice, and thirdly to explore what can be learned from these first two points for deepening reporting practice in developing economies. Finally, during our review, we also identified policies in developing economies, which are innovative and may shed light on two important aspects. These policies can assist other developing economies develop the appropriate regulatory tools as they are grounded in similar contexts when it comes to the maturity of reporting practice, and they may also pave the way for these economies towards leapfrogging in ambition.

In our review we consider policies that focus on public interest entities (as defined by the EU) and consider how rules for those companies should be developed and enforced.[7] The obvious (and inevitable) underpinning is that such policies will be developed by existing regulators and will be additions to an already existing large body of regulation that governs company disclosure.

For this reason, we review regulation from various ministries and governments as well as target central banks, securities regulators, and further financial regulators (for financial institutions). The sheer heterogeneity of types of regulation as well as the number of regulating entities suggests that policy makers around the world must decide to what extent to integrate sustainability regulations into other disclosure requirements, and how "proportional" these should be to all the other regulation that already exists. Striking the correct balance here may pose a challenge, however if done correctly the impact can be substantial both in terms of assessing risks for reporting entities and for economies at large.

In total, we review 101 policies from 38 different jurisdictions. For the complete list of policies, consult Appendix 1. In assessing these policies, we apply the five criteria for successful mandatory disclosure requirements developed by CDP.[8] These criteria set the ambition level of ideal policy and are a suitable lens for assessing best practices. The criteria are presented in Figure 2.1.

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7 The EU defines public-interest entities as companies with a significant public interest because of the nature of their business, size or number of employees or corporate status, including banks, insurance firms and listed companies. For more information, see European Commission. 2020. "Rules for Statutory Audit of Public-Interest Entities." ***https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3A4314939***

8 For more information, see CDP. 2021. "Shaping High-Quality Mandatory Disclosure: Taking stock and Building upon the TCFD Recommendations." London: CDP. ***https://cdn.cdp.net/cdp-production/cms/policy_briefings/documents/000/005/863/original/TCFD_disclosure_report_2021_FINAL.pdf?1631608521***

Figure 2.1 Five Criteria for Successful Mandatory Disclosure Requirements

1	**Environmental integrity, addressing sustainability-related financial disclosures as well as impact on people and planet, with a holistic environmental approach**	The policy is designed to advance the environmental agenda and is designed to lead to real change that impacts people and the planet positively.
2	**Ensure compatibility of disclosure standards required or recommended**	If not based on existing internationally agreed standards, the policy needs to be aligned with them. If national standards are developed, these need to be compatible with international ones.
3	**Provide an enforcement system**	The policy implementation should be monitored by the relevant government authority, and effective measures for noncompliance should be in place.
4	**Adhere to technical quality and content of the reporting process**	To meet this criterion, reporting should focus not only on risks but also on strategy, impact, sector focus, comparability of disclosures, reliability, and accuracy. It should require forward-looking information to allow transition.
5	**Allow space for innovation and more mature disclosure**	The regulation should not form a ceiling and create a tick box exercise but serve as a floor/minimum requirement that stimulates even more ambitious, broader, and deeper disclosure and action.

Source: CDP. 2021 "Shaping High-Quality Mandatory Disclosure: Taking stock and Building upon the TCFD Recommendations." London: CDP

3. Analysis of Best Practice Policies

Policy best practices exist throughout developed economies with deep financial markets, and they resemble the criteria set for successful (mandatory) requirements from CDP. This section outlines such best practices in detail through the lens of the five criteria. Our analysis has also heralded a set of best practices beyond these requirements. They include sectoral guidance as well as the coupling of mandatory disclosure requirements with detailed guidance documents, called the *hand-in-hand approach*. Finally, this section also explores the use of voluntary reporting requirements. Despite the effectiveness of mandatory disclosure requirements, in order to ensure comparability and quality of data, voluntary initiatives have proven to be a useful first step toward the introduction of mandatory disclosure.

3.1. Best Practices in Developed Economies

Environmental integrity, addressing sustainability-related financial disclosures as well as impact on people and the planet, with a holistic environmental approach

Most policies in our analysis link their purpose to the broader environmental agenda. Such broad policy framing allows one to clearly define the purpose of a regulation. The preambles and introductory texts in general carry references to broad initiatives such as the 2030 Agenda,[9] the Paris Agreement,[10] or Paragraph 47 of the UN Rio+20 conference.[11] Next to such broad references, policies such as the EU's Regulation (EU) 2019/2088 on Sustainability-Related Disclosures in the Financial Services Sector and Regulation (EU) 2019/2089 on Low Carbon Benchmark Regulation provide in-depth accounts of negative characteristics of the current system (short-term financial interests versus long-term environmental planning for example). The overall admissions by policy makers to shortcomings of nonfinancial reporting, such as boilerplate reporting or the lack of forward-looking and the presence of onerous processes, also signal the environmental integrity of a policy. Such admissions are made explicit, for example, in the EU's Corporate Sustainability Reporting Directive.[12]

In addition, requirements on how entities can and should use various timeframes (such as 5-, 10-, or 20-year horizons) to assess risk is emerging in upcoming draft regulation.[13]

[9] Japanese Ministry of Environment. 2018. *Environmental Reporting Guidelines*. Tokyo. ***https://www.env.go.jp/policy/j-hiroba/kigyo/2018Guidelines_E20190412.pdf***
[10] European Parliament and Council, Regulation on Sustainability-Related Disclosures in the Financial Services Sector (2019/2088).
[11] EU Directive on Non-Financial Reporting (2014/95/EU).
[12] EU Corporate Sustainability Reporting Directive (2022)."
[13] United States House of Representatives, Corporate Governance Improvement and Investor Protection Act (2021).

Such a shift can counter the structural pressures of a short-term focus when it comes to risk assessments.

Concurrently, establishing board responsibility in environmental impact management and reporting is key to driving corporate behavioral change toward environmental integrity. Listing Rule 711A of the Singapore Stock Exchange embeds such responsibility in a manner which is conducive to (1) constructing the processes needed for the management of environmental impact and reporting on it and (2) identifying the impact of activities more precisely. Similarly, in the field of (impact) investment, linking investment focus (for example, climate change) with an objective (for example, climate mitigation) as well as including tools for screening investment products (for example, positive or negative screening) can be outlined as best practices.[14]

Finally, a key takeaway from a number of policies performing well in terms of environmental integrity is that their overall focus is not limited only to sustainability-related (non)financial disclosures but also considers impacts on people and the planet in broader terms (see box 3.1 for a summary). This in effect equips such policies to incorporate the logic of double materiality explicitly (impact of, and on, the reporting entity). See more on double materiality in section 3.2. Best practices linked to environmental integrity are summarized in Box 3.1.

Compatibility of disclosure standards

In terms of the compatibility of disclosure standards, the immediate and straightforward action, which most policies cater to, is spelling out recommended or required reporting frameworks: such as done by CDP, the Global Reporting Initiative (GRI), the International Sustainability Standards Board integrating the Climate Disclosure Standards Board (CDSB), the IFRS Foundation, the Sustainability Accounting Standards Board (SASB), TCFD, United Nations Global Compact (UNGC), and so forth[15] Guidance documents such as the NASDAQ reporting guide[16] take this a step further and spell out specific metrics, attached to the required reporting framework.

Box 3.1 Summary: Best Practices Linked to Environmental Integrity

- **Grounding preambles in broad policy frameworks**
- **Incorporating long-term planning**
- **Establishing board responsibility in managing environmental impact and reporting**
- **Connecting investment focus with objective and including tools for investment screening**
- **Admitting and mitigating existing shortcomings of nonfinancial reporting**
- **Not limiting focus to sustainability-related financial disclosures but including impacts on people and the planet to ensure that the goals of the Paris Agreement and the 2030 Agenda are met**

[14] Hong Kong Securities and Futures Commission. 2021. "Circular to Management Companies of SFC-authorized Unit Trusts and Mutual Funds–ESG Funds." ***https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/products/product-authorization/doc?refNo=21EC27***

[15] EU Directive on Non-Financial Reporting (2014/95/EU); EU Corporate Sustainability Reporting Directive (2022); European Commission. 2019. *European Union Guidelines on Reporting Climate-Related Information*. ***https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf***; Senate of California, California Senate Bill No. 964: Climate-Related Financial Risk; Proposed revisions to Japan's Corporate Governance Code (2021).

[16] NASDAQ. 2019. *ESG Reporting Guide 2.0—A Support Resource for Companies*. ***https://www.nasdaq.com/docs/2019/11/26/2019-ESG-Reporting-Guide.pdf***

Our analysis also found that in-text illustrations of the strengths of various frameworks and where their use may be relevant carries concrete actionable power. For example, climate-linked policies, such as the California Senate Bill on climate-related financial risk, outlines CDP and GRI as options for reporting on climate-related information.[17] Finally, illustrating where potential overlaps and alignments between existing frameworks are found can also be considered a good practice.

Furthermore, the compatibility of disclosed information is not only guaranteed through the explicit requirement to use existing reporting frameworks but also by activities of the standard setters. CDP, CDSB, GRI, IIRC, and SASB have issued a joint statement in which they outline a shared vision for what is needed to progress toward comprehensive reporting. To date, this has included a joint statement on the intent to establish a framework focused on value creation by integrating financial reporting with sustainability disclosure.[18] In addition, CDP, CDSB, GRI, IIRC, and SASB have coauthored a draft of how their frameworks may feed into a draft prototype of a climate-related financial reporting standard borrowing elements from the TCFD framework.[19] In November 2021, the IFRS Foundation released a climate-related disclosures prototype. Best practices linked to the compatibility of disclosure standards are summarized in Box 3.2.

Enforceability

Based on our analysis, enforceability ties in with two simple, albeit rarely used, mechanisms. The establishment of a monitoring authority or the delegation of such responsibility to existing bodies is key to ensuring reporting is done according to the requirements set by policy. For example, the EU's Non-Financial Reporting Directive (NFRD) delegates this responsibility to member states,[20] while the EU's Corporate Sustainability Reporting Directive explicitly calls on member states to issue penalties in case of noncompliance.[21] In the case of the environmental, social, and governance (ESG) guidelines for credit ratings set by the European Securities and Market Authority, the authority periodically monitors the reporting of credit rating authorities.[22] Similarly, the Hong Kong Securities

Box 3.2 Summary: Best Practices Linked to the Compatibility of Disclosure Standards

- **Reference to and requirement to use various reporting frameworks**
- **Constructive engagement with various frameworks**
- **The illustration of what the strength of various frameworks are and where they may be applicable**
- **The illustration of where overlaps and alignments between existing frameworks are found**

[17] Senate of California, California Senate Bill No. 964

[18] For more information, see "Statement of Intent to Work Together towards Comprehensive Corporate Reporting," September 11, 2020. ***https://impactmanagementproject.com/?s=statement+of+intent***.

[19] For more information, see CDP, "Global Sustainability and Integrated Reporting Organisations Launch Prototype Climate-Related Financial Disclosure Standard." Press Release, December 18, 2020. ***https://www.cdp.net/en/articles/media/global-sustainability-and-integrated-reporting-organisations-launch-prototype-climate-related-financial-disclosure-standard***.

[20] EU Directive on Non-Financial Reporting (2014/95/EU).

[21] EU Corporate Sustainability Reporting Directive (2022)."

[22] European Securities and Market Authority. 2019. "Guidelines on Disclosure Requirements Applicable to Credit Ratings Include Environmental, Social, and Governance (ESG) Considerations (2019)." ***https://www.esma.europa.eu/sites/default/files/library/esma33-9-320_final_report_guidelines_on_disclosure_requirements_applicable_to_credit_rating_agencies.pdf***.

and Futures Commission (SFC) sets out responsibilities for ESG fund managers to inform both the SFC and investors about changes to the investment focus of the fund and, as an enforcement mechanism, can take regulatory action for compliance breaches in not meeting the stated objective of various funds.[23]

Next to delegating such authority, explicit enforcement of measures boils down to the introduction of penalties for noncompliance with reporting obligations. The most notable policy incorporating such measures is the amendment introduced by the Government of New Zealand targeting the financial sector.[24] The policy links monetary penalties for noncompliance as well as civil liability for individuals holding responsibility within reporting entities that do not comply with the reporting obligation. The UK Occupational Pension Scheme, which sets out certain reporting obligations, also includes a clause on clear enforcement measures in the case of a failure to produce a "strategic report."[25] Best practices linked to enforceability are summarized in Box 3.3.

Technical quality and content

In terms of ensuring high-level technical quality and content, a number of innovative best practices are emerging. First, the EU's Corporate Sustainability Reporting Directive sets out to incorporate digital tagging of relevant information in sustainability reports.[26] This will ensure the quick and targeted accessibility of relevant information for decision-makers and investors. In addition, the directive aims to balance the reporting burden for small and medium enterprises (SMEs) by introducing standards tailored to the reporting capacity of such entities—admitting to difficulties SMEs face in using elaborate reporting standards.

Furthermore, certain policies such as the EU's guidelines on reporting climate-related information[27] spell out reporting metrics in detail—here a best practice is to do so by building on existing reporting frameworks and making reference to these frameworks explicit.[28] Similarly, in its *ESG Reporting Guide 2.0*, NASDAQ outlines that ESG information is "not text but data, focusing on performance that is measurable, manageable, actionable, and reportable."[29] To this end, a further step policy makers can take is to connect reporting requirements and metrics to technical initiatives such as Science Based Targets or the Paris Agreement Capital Transition Assessment. These trends are underlined by aims to align any type of operation with the Paris Agreement, something that is arguably signaled by the number of net-zero initiatives emerging.

Furthermore, ensuring data is continuously updated through the use of forward-looking metrics and

Box 3.3 Summary: Best Practices Linked to Enforceability

- **The establishment of monitoring responsibility and a relevant authority with sufficient enforcement powers and funding to carry out its mandate**
- **The introduction of penalty measures for noncompliance with reporting obligations**

[23] Hong Kong Securities and Futures Commission. 2021. "Circular to Management Companies of SFC-authorized Unit Trusts and Mutual Funds–ESG Funds."
[24] Government of New Zealand, Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill (2021).
[25] Parliament of the United Kingdom, The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (2019).
[26] EU Corporate Sustainability Reporting Directive (2022)."
[27] European Commission. 2019. *European Union Guidelines on Reporting Climate-Related Information*.
[28] For more information, see Science-Based Targets. n.d. "Lead the Way to a Low-Carbon Future." ***https://sciencebasedtargets.org/how-it-works***.
[29] NASDAQ. 2019. *ESG Reporting Guide 2.0—A Support Resource for Companies*

transition planning is an area of particular interest. The overall lack of such forward-looking metrics in reporting as well as their need in policy is explicitly mentioned in the EU's Corporate Sustainability Reporting Directive (CSRD).[30] Next to forward-looking metrics, quality reporting can be ensured through setting timeframes for reporting periods. For example, setting a timeframe for reporting (for example, one year) and setting a date by which the report should be published, as is done by the EU's NFRD (six months after the balance sheet date),[31] can serve such a purpose. Similarly, the Hong Kong Stock Exchange requires disclosure statements to be published within five months after the end of the fiscal year.[32]

Finally, requiring the use of disclosure frameworks, which aggregate data in a comparable manner and do so by ranking and benchmarking disclosing entities against each other (as does CDP), can enhance the collation of timely and decision-useful information. Best practices linked to technical quality and content are summarized in Box 3.4.

Innovation

The nonfinancial and sustainability reporting space is dynamic and continuously developing. This means that reporting practice, standards, and policies all have to keep pace with data demand, sustainability challenges, and the needs of decision-makers.

Considering the noted references to varied reporting frameworks throughout policies, our analysis suggests there is still room for incorporating the latest developments in metrics, targets, and reporting frameworks. We therefore suggest periodic amendments to mirror latest developments in reporting frameworks. One example is the latest update of NASDAQ's *ESG Reporting Guide*, version 2.0, which incorporates new developments in the reporting space, such as the emergence of the TCFD, Sustainable Development Goals (SDGs), updated GRI Standards, the transposition of the EU NFRD, and so forth. Periodically

Box 3.4 Summary: Best Practices Linked to Technical Quality and Content

- **The digital tagging of information**
- **Balancing the reporting burden for SMEs**
- **Spelling out metrics based on existing reporting frameworks**
- **Connecting to technical initiatives such as Science-Based Targets**
- **Ensuring the continuous update of data**
- **Setting a clear timeframe for reporting obligation**
- **Requiring the use disclosure systems, which aggregate information**

[30] EU Corporate Sustainability Reporting Directive (2022)."
[31] EU Directive on Non-Financial Reporting (2014/95/EU).
[32] Hong Kong Stock Exchange. 2020. *Leadership Role and Accountability in ESG—Guide for Board and Directors*. ***https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Environmental-Social-and-Governance/Exchanges-guidance-materials-on-ESG/directors_guide.pdf?la=en***

amending guidance documents can be an advantageous way of complementing disclosure requirements with latest developments.

Likewise, establishing a minimum reporting requirement, as in the EU's NFRD [33] and the draft CSRD,[34] can enhance innovation in reporting practice where industry leaders choose to do so. As opposed to setting ceilings for reporting practice, such an approach allows for covering the baseline information requirements needed for decision-makers and investors, while also allowing for innovation to emerge. *The Consultation Paper on Climate and Diversity* published by the Singapore Stock Exchange applies this logic neatly by setting a minimum requirement for reporters, which is gradually raised in scope. Initially, all reporters are expected to report on specific metrics based on a "comply and explain" basis in 2022, moving to multiple sectors having to disclose on a mandatory basis by 2024.[35] The consultation paper also encourages reporters to go past the minimum reporting requirements, which is a much-welcomed approach. This is due to much of the current reporting practice being built on such innovation from the past decade, suggesting that regulators should not only set requirements but ensure that industry is interested in pushing the limits of current reporting practice.

Incorporating models of best practice reporting and illustrating expectations directly in policy can be considered a best practice itself, particularly in guidance documents, which carry more flexibility than directives or regulation. To this end, the Singapore Stock Exchange's practice note,[36] which is attached to its Listing Rule 711A, outlines a full materiality matrix as well as a multiphased approach to reporting, including sample content of a sustainability report. Such guidance is only one example of what regulators can do to ease the reporting burden of reporters. It should not be treated as a one-size-fits-all solution, however, and it should serve as an example of what regulators can do.

Finally, purpose- and audience-driven policy making can enhance the functionality of internal markets. Consequentially, reflecting on who is targeted by disclosure (for example, impact investors) can enhance the formulation of reporting requirements. Arguably, most of the activities feeding into the formulation of such a policy will take place before the drafting of regulation. Nevertheless, spelling out explicitly who the audience of a policy is can be useful in illustrating this process. A clear example for such a targeted approach can be found in the EU's Regulation on Sustainability-Related Disclosures Targeting the Financial Services Sector.[37] Best practices linked to innovation are summarized in Box 3.5.

Box 3.5 Summary: Best Practices Linked to Innovation

- **Invitation or incentives to implement latest developments in metrics, targets, and reporting frameworks**
- **A focus on models of best-practice reporting**
- **A focus on the audience and purpose of policy**

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33 EU Directive on Non-Financial Reporting (2014/95/EU).

34 EU Draft Directive on Corporate Sustainability Reporting (2021).

35 For more information, see Singapore Exchange Regulation. 2021. *Consultation Paper on Climate and Diversity*. ***https://www.sgx.com/regulation/public-consultations/20210826-consultation-paper-climate-and-diversity***.

36 Singapore Stock Exchange. 2020. "Practice Note 7.6 Sustainability Reporting Guide. Singapore." ***http://rulebook.sgx.com/rulebook/practice-note-76-sustainability-reporting-guide***

37 European Parliament and Council, Regulation on Sustainability-related Disclosures in the Financial Services Sector (2019/2088).

3.2. Further Examples of Best Practices

A number of best practices emerge that do not necessarily fit the categorization of the five criteria. This section reviews these practices.

First, the nonfinancial and sustainability reporting space has been dealing with the question of materiality in varied ways in the past decade. This has resulted in two dominant interpretations of impact—one that considers the impact of a reporting entity on its wider environment and stakeholders and the other that considers impact on a reporting entity and considers risks to operations and long-term growth. To deal with these developments the EU's guidelines on nonfinancial reporting introduce the concept of *double materiality*, which incorporates both perspectives.[38] Incorporating such an approach in policy allows for alleviating the potential risks when considering only one aspect (for example, climate risks related to a company's operations only versus considering the wider impacts of such operations). This is particularly true for the recommendations set out by the TCFD. These recommendations are currently the most commonly used tool for climate reporting. However, the framework focuses only on single materiality (risks for the financial industry and companies therein).[39] The European Financial Reporting Advisory Group is currently working on a climate standard prototype, which implies double materiality as well as the to-date most detailed attempt at standardizing disclosure requirements of climate-related (non)financial information, while also building on existing frameworks.[40] Similarly, the IFRS has developed a climate-related disclosures prototype, which signifies the overall trend of standard setters to tailor disclosure frameworks in light of climate change.[41]

Second, growing attention is being paid to sector-specific metrics and guidance. To this end, the EU's NFRD set out the goal to build sectoral guidance and Key Performance Indicators, building on the core regulation.[42] To date, however, most sector-specific policies focus on the financial sector and organize specific disclosure requirements around asset management and investment responsibilities.[43]

Third, targeted policy such as regulations requiring sector-specific disclosure is most effective when considered as a part of a broader package of policies. To this end, the EU is a leading example where relevant regulation makes cross-references to other policies throughout.[44] Such an approach ensures robust and detailed policy, which allows for the disclosure of decision-useful information. A further approach, which contributes to targeted and useful reporting, is the hand-in-hand approach. A number of regulators have introduced this approach whereby a mandatory disclosure requirement is set in a regulation and a guidance document provides the details of how reporting can be done.[45]

Finally, a notable development is the change in types of regulators who issue policy. The growth in activity by financial market regulators—including stock exchanges

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38 European Commission. 2019. Guidelines on Non-Financial Reporting: *Supplement on Reporting Climate-Related Information*. ***https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf***

39 Task Force on Climate-Related Financial Disclosures. 2017. *Recommendations of the Task Force on Climate-related Financial Disclosures*. Basel, Switzerland. ***https://www.fsb-tcfd.org/recommendations***.

40 For more information see European Financial Reporting Advisory Group. 2021. "EFRAG PTF-ESRS Welcomes 'Climate Standard Prototype' Working Paper." Press Release, September 8, 2021. ***https://www.efrag.org/News/Project-527/EFRAG-PTF-ESRS-welcomes-Climate-standard-prototype-working-paper?AspxAutoDetectCookieSupport=1***

41 For more information see: Technical Readiness Working Group, Chaired by the IFRS Foundation, Climate-related Disclosures Prototype. ***https://www.ifrs.org/content/dam/ifrs/groups/trwg/trwg-climate-related-disclosures-prototype.pdf***

42 EU Directive on Non-Financial Reporting (2014/95/EU).

43 See, for example, European Parliament and Council, Regulation on Sustainability-related Disclosures in the Financial Services Sector (2019/2088); Government of New Zealand, Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill (2021).

44 European Parliament and Council, Regulation on Sustainability-related Disclosures in the Financial Services Sector (2019/2088); European Parliament and Council, Regulation on Low Carbon Benchmark Regulation (2019/2089).

45 See, for example, Australian Stock Exchange Corporate Governance Council. 2019. *Corporate Governance Principles and Recommendations*, 4th ed. Sydney.

through listing requirements and central banks—suggests that setting disclosure requirements is done not only by governments.[46] This illustrates opportunities and flexibilities of the regulatory system. Setting reporting as a listing requirement for stock exchanges, regulating disclosure requirements for any type of entity issuing securities, or regulating the activities of financial actors by a central bank can all be mentioned as examples. Notable examples of regulation carrying best-practice examples include the EU's NFRD as well as the CSRD.[47] Among guidance documents, that issued by NASDAQ can be mentioned as a remarkable example,[48] while regarding listing requirements the Singapore stock exchange stands out as a key example.[49] Further best practices are summarized in Box 3.6.

3.3. Further Assessment of Voluntary Reporting Requirements

Mandatory disclosure requirements generally set stringent requirements on reporting entities. While such requirements can lead to decision useful information, they can also result in a sudden reporting burden, potentially undermining meaningful disclosure. Mandatory requirements are useful as they help in collating information in a comparable manner, in which the format of information and the content of disclosures can be predefined. This reduces the need for other entities such as data aggregators to collect, reformat, and collate data from sustainability reports. Considering the urgency to act on a number of environmental issues, including biodiversity loss and climate change, regulators have both an opportunity and responsibility to build a framework for collating decision-useful information.

This being said, voluntary reporting requirements carry potential in three main ways: (1) they drive innovation in reporting practice, (2) allow jurisdictions to ease reporters into reporting practice, and (3) assist in standardizing new types of information.[50] For this reason—despite the overall trend for stricter and mandatory reporting requirements—such voluntary requirements can also be

Box 3.6 Summary: Further Best Practices

- **Explaining various takes on materiality**
- **Issuing sectoral guidance**
- **Establishing clear links to existing regulation**
- **Coupling mandatory disclosure requirements and detailed guidance documents (hand-in-hand approach)**
- **Involving an active role by regulators (stock exchanges, securities and exchange commissions, central banks, and so forth) in addition to state legislators**

[46] Van der Lugt, C. T., P. P. van de Wijs, and D. Petrovics. 2020. *Carrots and Sticks 2020—Sustainability reporting Policy: Global Trends in Disclosure as the ESG Agenda Goes Mainstream*. South Africa: Global Reporting Initiative (GRI) and the University of Stellenbosch Business School (USB).

[47] EU Directive on Non-Financial Reporting (2014/95/EU); EU Corporate Sustainability Reporting Directive (2022).

[48] NASDAQ. 2019. ESG Reporting Guide 2.0—*A Support Resource for Companies*.

[49] Singapore Stock Exchange, Listing Requirement 711A (2016).

[50] Singapore Stock Exchange, Listing Requirement 711A (2016).

useful. Nonetheless, it is highly advisable to graduate voluntary measures to mandatory measures, allowing a market to adjust. For this reason, there is no either/or choice regulators should make. These choices should be congruent to market conditions in a given jurisdiction—while ensuring that the desired information is disclosed in a timely and complete manner.

Voluntary instruments such as corporate governance codes and stewardship codes are increasingly making references to ESG topics. This trend has been paved in developing economies by the *King IV Report on Corporate Governance for South Africa* in making ESG considerations an explicit as part of the Board's responsibility.[51] The UK Corporate Governance Code, for example, sets out all corporate governance code activities in terms of 'long-term sustainable success' of companies.[52] Similarly, the revised Japanese Corporate Governance Code sets out the incorporation of mid- to long-term value creation through including ESG topics explicitly linked to TCFD recommendations.[53]

In addition, following the 2008 financial crisis, it became evident that the sheer existence of corporate governance codes alone has not driven the transition to actual good governance. Seeing the much-needed structural shift in how the economy is viewed from the boardroom, it is necessary not only to recognize the proliferation of corporate governance codes but to assess the global push by the International Corporate Governance Network (ICGN) in establishing Global Governance Principles.[54] These principles bring together boards of directors and institutional investors through the creation of a common language aimed at good governance. Furthermore, the overall emergence of scorecards also signifies tighter scrutiny as these tools allow for the measurement of corporate governance in practice.[55]

Similarly, stewardship codes are also emerging as potential vehicles of change. These documents underline investor stewardship obligations, processes, and practices. Notably, ICGN has put out a set of Global Stewardship Principles,[56] setting a common baseline for stewardship codes around the world. Accordingly, the UK Stewardship Code mentions the systematic integration of material ESG topics by signatories (those who invest on behalf of savers and pensioners) into their investment decisions.

IFC's work has enabled the creation of 145 new codes, laws, and regulations in markets around the world, the revision of 60 corporate governance codes worldwide since 2005, and the development of 20 scorecards since 2008.[57] These activities ensure that major financial players incorporate ESG topics into investment decisions and can support a structural shift toward a sustainable financial system as well as the greening of investment decisions.[58]

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51 Institute of Directors, Southern Africa. 2016. *King IV Report on Corporate Governance for South Africa*. Sandown, Sandton. South Africa. ***https://www.iodsa.co.za/page/king-iv***

52 UK Financial Reporting Council, The UK Corporate Governance Code (2018).

53 Tokyo Stock Exchange, Japan's Corporate Governance Code (2021).

54 International Corporate Governance Network. 2014. *Global Governance Principles*. London. ***https://www.fsa.go.jp/en/refer/councils/corporategovernance/reference/icgn.pdf***

55 For more information on scorecards, see International Finance Corporation (IFC). n.d. "Corporate Governance Codes and Scorecards." Washington, DC: IFC. ***https://www.ifc.org/wps/wcm/connect/ef902c43-9f50-4c37-9c59-ffebafcee405/Codes_Scorecards_Fact_Sheet_May2019.pdf?MOD=AJPERES&CVID=mI22mqy*** and ***https://www.ifc.org/wps/wcm/connect/6d117589-32a1-4e3c-b29c-e6ccd935c2c5/Scorecards_LL_Web_Feb2011.pdf?MOD=AJPERES&CVID=jtCx2J9***.

56 ICGN, Global Stewardship Principles (2016).

57 UK Financial Reporting Council, The UK Stewardship Code (2020).

58 For more information, see IFC, 2019, "Corporate Governance Codes and Scorecards." Washington, DC: IFC. ***https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+cg/topics/codes+and+scorecards***.

3.4. Topic-Specific Deep-Dives on Supply Chain Environmental Impact, Biodiversity, and Taxonomies

Supply chain environmental impact

In a global economy characterized by the international flows of goods and by consumer choices impacting ecosystems on different continents, the topic of supply chain environmental impact has grown in importance. With lawmakers lacking regulatory power over other jurisdictions, the question comes to how transparency on the environmental impact of multinational enterprises' transnational activities can be brought into the spotlight. To this end, a handful of policies set out with best practices. The EU's NFRD and, in a more explicit manner, the draft CSRD clarify the reporting obligations of non-EU headquartered companies' subsidiaries.[59] By differentiating between parent companies and subsidiaries, clarity can be brought to jurisdictional boundaries.

In addition, considering the environmental impact of products in terms of lifecycles requires full transparency throughout the supply chain. For this reason, the European Union Guidelines on Reporting Climate-Related Information suggests looking at suppliers both upstream and downstream.[60] Accordingly, it is not simply the activities of a company per se that fall under reporting, but the impact of activities that these companies support should also be considered. To this end, the Environmental Reporting Guidelines set by Japan's Ministry of Environment require disclosure on a Green Procurement Policy suggesting some type of information request for both upstream suppliers and downstream products, services, and activities.[61]

Topic-specific examples tackling the supply chain environmental impact of reporting entities include palm oil certifications and standards,[62] which implicitly suggests a certain degree of information disclosure. Furthermore, admissions to supply chain disruptions due to extreme weather events also surface in policy.[63] Nevertheless, this is generally seen as a risk on the activities and financial standing of a company.[64]

Applying the concept of double materiality can be helpful in assessing both the risks a reporting entity faces in its operations as well as the impact it may have throughout its supply chain. Here, policy makers still have distance to travel.

[59] EU Directive on Non-Financial Reporting (2014/95/EU); EU Draft Directive on Corporate Sustainability Reporting (2021).

[60] European Commission. 2019. *European Union Guidelines on Reporting Climate-Related Information*.

[61] Japanese Ministry of Environment. 2018. *Environmental Reporting Guidelines*. Tokyo.

[62] European Parliament and Council, EU Resolution on Palm Oil and Deforestation (2017).

[63] US Securities and Exchange Commission. 2010. *Guidance Regarding Disclosure Related to Climate Change*. Washington, DC. ***https://www.sec.gov/rules/interp/2010/33-9106.pdf***

[64] President of the United States, Executive Order 14030: Climate-Related Financial Risk (2021).

Biodiversity

Biodiversity loss and ecosystem decline require urgent attention from policy makers and reporting entities alike. Reporting on biodiversity highlights the interconnectedness and complexity of environmental challenges, which point to the urgency to set requirements, disclose, and act in a systematic manner. Our review of policies indicates that explicit mentions to biodiversity in overarching reporting requirements are to-date lax and that when attention is paid to this topic, it is mostly done in jurisdictions in the Global South, suggesting that learnings from best practices can also be adapted by developed economies. We overall foresee this dynamic to change in the future and encourage decision-makers to take an active stance on biodiversity disclosures. This is especially true if high-level initiatives, such as the recent Network for Greening Financial Systems / International Network for Sustainable Financial Policy Insights, Research, and Exchange Joint Study Group on Biodiversity and Financial Stability, start gaining traction and moving the discussion on the data gaps still present on this topic.[65]

Referring to existing and upcoming conventions and frameworks in regulation can assist in grounding disclosure requirements in evidence-based and already existent knowledge. Specific examples of such references include the Bangladesh Bank's reference to the Convention on International Trade in Endangered Species of Wild Fauna and Flora as well as its explicit mention of deep-sea mining as an exclusionary criterion for investment decisions.[66] Similarly, the Japanese Environmental Reporting Guidelines mention biodiversity as a "major environmental issue." The guidelines clarify that indirect supply chain activities may very well link to this topic as a material issue, too.[67] In an even more ambitious attempt, the Securities and Exchange Commission of the Philippines includes a reporting template in their Sustainability Reporting Guidelines for Publicly-Listed Companies, which includes explicit references to biodiversity-linked disclosures and indicators.[68]

Finally, in December 2022, parties to the UN Convention on Biological Diversity will meet to design the post- 2020 global biodiversity framework. We foresee an information need in this post-2020 framework, which can be advanced primarily through stricter disclosure requirements. Considering that policies (particularly in developed economies) do not tend to make explicit references to biodiversity when setting disclosure requirements, policy makers have an opportunity to contribute to the post-2020 framework by setting such requirements.

[65] Network for Greening Financial Systems. 2021. *Biodiversity and Financial Stability: Exploring the Case for Action*. ***https://www.ngfs.net/sites/default/files/medias/documents/biodiversity_and_financial_stability_exploring_the_case_for_action.pdf***

[66] Bangladesh Bank. 2017. *Guidelines on Environmental and Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh*. Dhaka: Bangladesh Bank. ***https://www.bb.org.bd/aboutus/regulationguideline/esrm_guideline_feb2017.pdf***

[67] Japanese Ministry of Environment. 2018. *Environmental Reporting Guidelines*. Tokyo.

[68] Philippines Securities and Exchange Commission. 2019. *Sustainability Reporting Guidelines for Publicly-Listed Companies*. Manila.

Sustainable investment taxonomies

Taxonomies on sustainable investment products have been emerging over the past several years. Such taxonomies are classification or standards systems aimed at assisting actors in financial markets to communicate via a common vocabulary and ultimately to compare various products and services.

Such taxonomies to date include the EU taxonomy,[69] China's National Development and Reform Commission's Green Industry Guiding Catalogue and the PBC Green-Bond Endorsed Project Catalogue,[70] and the Climate Change and Principle-Based Taxonomy developed by the Bank Negara Malaysia.[71] The proliferation of taxonomies is a much welcome development. They contribute to the categorization of financial products in a manner conducive to directing finance toward positive impacts on the planet, and they assist in setting a benchmark for what qualifies as sustainable or green investment products.

Nonetheless, their proliferation also means that the baselines by which investment products are categorized differ across the world. This can lead to potential confusion among investors as well as those who issue financial products labeled "green" and "sustainable." The resulting growth in detailed guidance of what constitutes sustainable financial products has led to what has been referred to by some as a "taxomania."[72] To resolve the potential confusion, a number of initiatives are under way. China and the EU, under the flagship of the International Platform on Sustainable Finance, are working on a "Common Ground Taxonomy." Moreover, CDP is in the process of mapping existing and emerging sustainability taxonomies of economic activities within its disclosure approach, therefore laying the foundation to better integrate these frameworks into CDP's existing platform and to enable efficient disclosure of all ESG impact data on its platform.

Policy makers can ease the potential confusion emerging from over 50 taxonomies differing in focus and scope. First, including digital tagging through Extensible Business Reporting Language (XBRL) tagging has allowed for any type of disclosure to be machine readable, enhancing the accessibility of the data. Digital taxonomies using such technology can allow for a quick and streamlined comparison and assessment of large amounts of data. Second, as already noted, the International Platform on Sustainable Finance has begun the development of a Common Grounds Taxonomy, which aims to assess the commonalities of various taxonomies and lay the ground for a common framework that still respects local and regional specifics.

Policy makers and private sector actors interested in developing taxonomies should consider the following: developing internationally aligned taxonomies, by using a common language but allowing for regional specificities; creating taxonomies in digital form, thus allowing systems to automatically read and work with the information contained; applying the principle of "do no harm" as the basis of any taxonomy; and not limiting taxonomies to climate-related activities but extending them beyond to other environmental issues.

[69] European Parliament and Council, Sustainable finance taxonomy—Regulation (EU) 2020/852.

[70] National Development and Reform Commission and the China Securities Regulatory Commission. 2020. *Green-Bond Endorsed Project Catalogue*. Beijing. **https://www.climatebonds.net/files/files/the-Green-Bond-Endorsed-Project-Catalogue-2021-Edition-110521.pdf**

[71] Central Bank of Malaysia. 2021. *Climate Change and Principle-based Taxonomy*. Kuala Lumpur.

[72] For more information, see Future of Sustainable Data Alliance. n.d. "Taxomania! An International Overview." **https://futureofsustainabledata.com/taxomania/.**

4. Analysis of Activities in Developing Economies and High-level Advice

Our analysis includes policies from developing economies to better understand what the state of play is throughout the world. A number of innovative best practices emerge in these countries and regions, as well. We consider the opportunity for policy innovation relatively high in these regions and for this reason include examples that align with best practices. For ease of use and convenience, this stock taking is structured in line with the five principles outlined previously. In the second part of this section, we outline a set of advice based on our analysis for regulators and policy makers to introduce disclosure requirements. It is worth noting at this stage that a large portion of policies in developing economies still take the form of voluntary guidance documents—something that certainly mirrors the reality that reporting entities face in these regions, but which arguably will change in the coming years with mandatory reporting measures taking precedence.

4.1. Best Practices in Developing Economies

Environmental integrity, addressing sustainability-related financial disclosures as well as impact on people and planet, with a holistic environmental approach

As is the case with policies from developed economies, regulators in developing economies also make linkages to high-level frameworks such as the SDGs. More specifically, it is worth mentioning linkages between the SDGs and specific indicators from reporting frameworks such as the GRI Standards—as in the case of the Abu Dhabi Securities Exchange[73] —as well as the report-or-explain approaches on SDG reporting for listed companies done by the Brazilian Securities and Exchange Commission.[74]

In addition, specifying priority environmental issues with broader goals at a high granularity can also assist any type of entity falling under the jurisdiction of the given policy. An example for this is China's most recent *Guidelines on Environmental Information Disclosure for Financial Institutions*, which outlines a wide range of topics to be disclosed, from environmental impacts of investment decisions made by financial institutions to the environmental risks and opportunities of a given institution.[75] Such an approach ensures from the outset that, through careful reading of a regulatory

[73] United Arab Emirates Securities Exchange. n.d. *ESG Disclosure Guidance for Listed Companies*. Abu Dhabi. ***https://adxservices.adx.ae/WebServices/DataServices/contentDownload.aspx?doc=1704806***

[74] Brazilian Securities and Exchange Commission. 2018. *Report or Explain for Sustainable Development Goals*. Rio de Janeiro, Brazil. ***https://sseinitiative.org/wp-content/uploads/2016/07/BMFBOVESPA-Communication-to-Stakeholders-July2016-1.pdf***

[75] People's Bank of China. 2021. *Guidelines on Environmental Information Disclosure for Financial Institutions*. Beijing. ***https://chinadevelopmentbrief.org/publications/guidelines-on-environmental-information-disclosure-for-financial-institutions/***

requirement, reporting entities are knowledgeable on how to contribute to sustainable development in broader terms.

An example of the adoption of a wider lens, addressing both sustainability-related financial disclosures as well as impact on people and planet, can be found in the Climate and Sustainability/ESG disclosure guidance documents recently published by the Johannesburg Stock Exchange (JSE).[76] The guidance explicitly adopts a double materiality approach, recommending that all ESG issues that can meaningfully affect a company's operational and financial results should be appropriately disclosed in an annual integrated report; and that the organization should also provide disclosure on its significant impacts on the economy, society, and the environment; this disclosure is in addition to its integrated report, and should be in an appropriate format, such as a separate sustainability report or on its website.[77]

Compatibility of disclosure standards

Overall, reference to various reporting frameworks and the requirement to use them appears throughout policies. Frameworks referred to include those issued by GRI, CDP, IIRC, SASB, TCFD, UNGC, Principles for Responsible Investment (PRI), IFRS and the IIRC.[78] As mentioned previously, the requirement to use such established reporting frameworks can substantially enhance the comparability and decision usefulness of disclosed information. Toward this end, certain guidance documents such as the Philippines Securities and Exchange Commission's *Sustainability Reporting Guidelines for Publicly-Listed Companies*, go a step further by providing a brief comparison of the various reporting frameworks they refer to.[79] Such a comparison can assist reporting entities in identifying the most appropriate reporting framework to disclose their material issues. In addition, regulations such as the latest Indian SEBI regulation, outline a broad frame for what is a sufficient report in regulatory eyes. For entities already reporting with various internationally accepted reporting frameworks (GRI, SASB, TCFD, or Integrated Reporting) they allow simple cross-reference and combined use of them to fulfil the requirements.[80]

Enforceability

A number of stock exchanges in developing economies have made it an explicit listing requirement for companies to present disclosure on ESG matters. Notable examples include the Philippines Stock Exchange,[81] the Hanoi Stock Exchange,[82] and the Nigerian Stock Exchange.[83] Setting such requirements is a simple and easily implementable measure, and considering the size and market capitalization of listed firms, it also carries potential for considerable impact.

[76] Johannesburg Stock Exchange. 2021. *Sustainability/ESG Disclosure Guidance*. Johannesburg. ***https://www.jse.co.za/our-business/sustainability***; Johannesburg Stock Exchange. 2021. *Climate Disclosure Guidance*. Johannesburg. ***https://www.jse.co.za/our-business/sustainability***

[77] Ibid., page 12.

[78] Philippines Securities and Exchange Commission. 2019. *Sustainability Reporting Guidelines for Publicly-Listed Companies*. Manila; State Securities Commission of Vietnam. n.d. *Environmental and Social Disclosure Guide*, Hanoi. ***https://sseinitiative.org/wp-content/uploads/2014/08/20161212_ES-Disclosure-Guideline-ENGLISH.pdf***; Brazilian BM&FBOVESPA, Guia Novo Valor—Sustenabilidad Nas Empresas (2012); Colombian Superintendencia de Sociedades, Resolution 200 (2018); South African Department of Environmental Affairs, National Greenhouse Gas Emission Reporting Regulations (within National Environment Management: Air Quality Act (39/2004) (2017); Egyptian Exchange. 2016. *EGX Model Guidance for Reporting on ESG Performance and SGDs*. Cairo. ***https://www.egx.com.eg/getdoc/98b4f610-5544-4f93-a36e-636d3baf8f45/EGX-Model-Guidance-on-ESG_en-11-10-2016.aspx***; United Arab Emirates Securities Exchange. n.d. *ESG Disclosure Guidance for Listed Companies*. Abu Dhabi.

[79] Philippines Securities and Exchange Commission. 2019. *Sustainability Reporting Guidelines for Publicly-Listed Companies*. Manila.

[80] Securities and Exchange Board of India. 2021. *Business Responsibility and Sustainability Reporting by Listed Entities*. ***https://www.sebi.gov.in/legal/circulars/may-2021/business-responsibility-and-sustainability-reporting-by-listed-entities_50096.html***.

[81] Philippines Securities and Exchange Commission. 2019. *Sustainability Reporting Guidelines for Publicly-Listed Companies*. Manila.

[82] Hanoi Stock Exchange. 2015. *Guidelines for Information Disclosure on Securities Market*. Hanoi. ***https://sseinitiative.org/stock-exchange/hnx/***

[83] Nigerian Stock Exchange. 2018. *Sustainability Disclosure Guidelines*. Abuja ***https://www.incsr.org/wp-content/uploads/2018/12/Sustainability-Disclosure-Guidelines.pdf***

Explicit sanctioning is also necessary. The Law on Limited Liability Companies in Indonesia sets out how failure to perform duties in disclosing environmental and social responsibility in annual reports should be sanctioned.[84] Including such a clause in a core piece of regulation can be considered a best practice too. The Bangladesh Bank also spells out reporting obligations for financial institutions both internally (to their management) and externally (to the Bangladesh Bank).[85] Such an approach can assist in not only creating a reporting obligation, but in assisting reporting entities in setting up the appropriate internal processes needed for the collection, collation, and disclosure of large amounts of relatively complex information.

Taxonomies merit a specific mention here. The Bangladesh Bank's *Sustainable Finance Policy for Banks and Financial Institutions* is worth highlighting as a specific example of ambitious regulation.[86] The document defines sustainable finance, differentiates between a sustainable finance taxonomy and green taxonomy, sets out targets as well as ratings and rewards, and outlines inclusion and exclusion lists for products qualifying as sustainable. Other notable policies, which include enforcement mechanisms, include Indonesia's *Law on Limited Liability Companies*,[87] and China's *Environmental Protection Law*,[88] which sets out enforcement measures for the mismanagement of the environment—however, not for failing to report.

Finally, it should be mentioned that to shift away from the perception that sustainability reporting is for market leaders only, penalizing mechanisms should also focus on substandard reporting. This can ensure the broad information availability needed for decision-makers.

Technical quality and content

Certain regulators in developing economies have paved the way for global leadership when it comes to the disclosure of nonfinancial information, specifically when it comes to detailed specifications of reporting through voluntary guidance documents and through building capacity. In the majority of cases, these documents encompass corporate governance codes or stewardship codes and, in some cases, sustainability reporting guidelines. Despite being predominantly voluntary measures, this momentum drives technical quality and content in developing economies.

As previously mentioned, among developing economies, the *King IV Corporate Governance Code* of South Africa paved the way by making ESG considerations an explicit responsibility of the board of directors.[89] In grounding topic-specific issues such as the climate crisis on the agenda of governing bodies, a growing set of guidance documents go beyond outlining good reporting practice. Most notably, the *King IV Guidance Paper on the Responsibilities of Governing Bodies in Responding to Climate Change* outlines a set of actionable principles for boards when it comes to tackling climate change.[90] The direct link to this Paper made in the JSE Sustainability/ESG Disclosure Guidance shows another element that should be considered: that of connecting different requirements and guidance documents in order to create a harmonious system that stakeholders can easily navigate. Connecting disclosure with practice also means connecting information needs with impact, which becomes apparent from such a suite of tools set out by the Institute of Directors in South Africa.

[84] Indonesian House of Representatives, Law on Limited Liability Companies (2007).

[85] Bangladesh Bank. 2017. *Guidelines on Environmental and Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh*. Dhaka: Bangladesh Bank.

[86] Bangladesh Bank. 2020. *Sustainable Finance Policy for Banks and Financial Institutions*. Dhaka: Bangladesh Bank. ***https://www.bb.org.bd/mediaroom/circulars/gbcrd/dec312020sfd05.pdf***

[87] Indonesian House of Representatives, Law on Limited Liability Companies (2007).

[88] Central Government of China, Environmental Protection Law (2014).

[89] Institute of Directors, Southern Africa. 2016. *King IV Report on Corporate Governance for South Africa*. Sandown, Sandton. South Africa.

[90] Institute of Directors, Southern Africa. 2021. "King IV Guidance Paper on the Responsibilities of Governing Bodies in Responding to Climate Change." Sandown, Sandton. South Africa. ***https://cdn.ymaws.com/www.iodsa.co.za/resource/collection/04630F89-33B7-43E7-82B3-87833D1DC2E3/King_Committee_Guidance_paper_on_the_responsib.pdf***

Another example in developing economies is Malaysia, which has recently updated its Corporate Governance Code to reflect ESG considerations in more depth. Its approach is worth quoting verbatim:

> ***"Effective board leadership and oversight also require the integration of sustainability considerations in corporate strategy, governance, and decision-making, as sustainability and its underlying environmental, social as well as governance (ESG) issues become increasingly material to the ability of companies to create durable and sustainable value and maintain confidence of their stakeholders."*** [91]

Similarly, the latest version of Vietnam's Corporate Governance Code sets out board responsibility regarding (1) monitoring of the effectiveness of the company's ESG policies and practices, (2) ensuring that ESG information is disclosed, and (3) ensuring environmental and social aspects are incorporated in contractors' activities.[92]

A further development that underpins technical quality is the differentiation between the types of entity targeted by various codes. Examples where a certain degree of differentiation can be found include codes governing state-owned enterprises,[93] SMEs,[94] and private firms at large.[95] Such an approach can assist in ensuring quality, decision-useful reporting by tailoring the requirements to different types of reporting entities. For example, the code targeting SMEs in Colombia tailors the responsibilities and governance processes of such companies in a manner conducive to active involvement of partners and shareholders. This includes explicit rules on the processes of the top governing body (for example, voting rights, qualified majorities, and the disclosure of information), as well as the responsibilities of administrators within the company (for example, regulatory compliance, statutory audit, and due diligence). Such a code for SMEs is useful as it is grounded in the governance reality that smaller companies face, while ensuring that they are suited to develop processes needed to support eventual operations at a larger scale. This in effect can help ground sustainability in decision-making as well as operational processes of firms at an early stage.

Additionally, as is the case in developed economies, there is a parallel proliferation of both corporate governance and stewardship codes. Notable examples of the latter include the stewardship codes from India[96] and Kenya.[97] As noted earlier, stewardship codes channel financial flows and investment in specific directions. For this reason, the incorporation of ESG factors here carries great potential.

In terms of building capacity, a number of regulators and stock exchanges provide training for listed companies. This helps not only expand skills and expertise but also position reporting in the sustainability agenda, from where it can cascade into managing material environmental issues in a meaningful manner. The key opportunity in providing such trainings—offered by

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[91] Securities Commission Malaysia, Malaysian Code on Corporate Governance (2021).

[92] State Securities Commission of Vietnam, Vietnam Corporate Governance Code of Best Practices (2019). Securities Commission Malaysia, Malaysian Code on Corporate Governance (2021).

[93] Egyptian Institute of Directors, Code of Corporate Governance for State-Owned Enterprises in Egypt (2006).

[94] Center for International Private Enterprise, Framework Code of Good Corporate Governance for Small and Medium-Size Enterprises (2004). ***https://ecgi.global/sites/default/files//codes/documents/framework_cg_code_columbia_31may2004_en.pdf***

[95] Examples include Egyptian Institute of Directors, Code of Corporate Governance for the Private Sector in Egypt (2006); and CONFECAMARAS Colombian Confederation of Chambers of Commerce. 2005. *Colombian Guide of Corporate Governance for Closed Societies and Family Firms*. Bogotá. ***https://ecgi.global/code/colombian-guide-corporate-governance-closed-societies-and-family-firms***

[96] Securities and Exchange Board of India, Stewardship Code for All Mutual Funds and All Categories of AIFs, in Relation to their Investment in Listed Equities (2019).

[97] Private Sector Corporate Governance Trust. 2001. *Principles for Corporate Governance in Kenya*. Nairobi. ***https://ecgi.global/download/file/fid/9295***

exchanges such as the Abu Dhabi Securities Exchange, the Dhaka Stock Exchange, or the Colombo Stock Exchange[98] —is that they can go hand-in-hand with assisting (new) reporters with building the necessary capacity to disclose decision useful information. To this end, international organizations and standard setters are also active in the field. Notably, the IFC has partnered with the UN Sustainable Stock Exchanges initiative and the CDSB to provide free trainings on climate disclosure to interested stock exchanges.[99]

Innovation

Further specific best practices that standout in their innovative nature include the following. First, the Bangladesh Bank requires the monitoring of environmental and social performance of banks' clients by the contracting bank.[100] This creates a reporting obligation between financial institutions, adding to the transparency of the industry at large. Second, an approach growing in popularity (as noted earlier), is the hand-in-hand approach, which is applied neatly by regulators in Vietnam. The reporting guide set out by the State Securities Commission provides guidance on the performance indicators set forth under the circular requiring companies to disclose nonfinancial and sustainability information.[101] Similarly, to ease the work of reporters, the Philippines SEC has introduced a specific reporting template in its guidelines for listed companies.[102] This body has also recently put forward plans to make disclosure requirements mandatory by 2023.[103] Further notable countries that signify this trend in developing economies include Indonesia, Brazil, China, Peru, Malaysia, Vietnam, and Thailand.[104]

As an example, the package of policies aimed at tackling climate change put forward by Chinese regulators has an explicit reporting requirement targeting eight major industries. The policy sets out a Carbon Emission Reporting and Inspection and Emission Monitoring Plan based on this disclosed information, ultimately providing the basis for a carbon emissions quota allocation system.[105] The above mentioned recently released comprehensive policy mandating disclosure from financial institutions by the People's Bank of China can also be mentioned.[106] The granularity with which this policy requires disclosure is worthy of attention.

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98 For a complete list of sustainable stock exchanges offering trainings, see Sustainable Stock Exchange Initiative, Stock Exchange Database, ***https://sseinitiative.org/exchanges-filter-search***.

99 For more information, see Sustainable Stock Exchange Initiative. 2021. "UN SSE, CDSB & IFC to Provide Free Climate Disclosure Training to Exchanges and Their Issuers." Press Release. June 10, 2021. ***https://sseinitiative.org/all-news/un-sse-cdsb-ifc-to-provide-free-climate-disclosure-training-to-exchanges-and-their-issuers***

100 Bangladesh Bank. 2017. *Guidelines on Environmental and Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh*. Dhaka: Bangladesh Bank.

101 State Securities Commission of Vietnam. n.d. *Environmental and Social Disclosure Guide*. Hanoi

102 Philippines Securities and Exchange Commission. 2019. *Sustainability Reporting Guidelines for Publicly-Listed Companies*. Manila.

103 For more information, see Dela Cruz, Anne Ruth. 2021. "SEC to Make Sustainability Reporting Mandatory by 2023." Business Mirror, August 30, 2021. ***https://businessmirror.com.ph/2021/08/30/sec-to-make-sustainability-reporting-mandatory-by-2023***.

104 CVM (Brazil), Reference Form (Instruction CVM no. 480/09) (2009); President/Prime Minister Office, Presidential Regulation Republic of Indonesia No. 71/2011 on Green House Gas Inventory (2011); Chinese National Development and Reform Commission, Requirements on Key Enterprises Reporting GHG Emissions (2014); Superintendencia del Mercado de Valores (Peru). 2020. *Report on Corporate Sustainability Law*. Lima. Bursa Malaysia, Main Market Listing Rules (2015); Philippines Securities and Exchange Commission. 2019. *Sustainability Reporting Guidelines for Publicly-Listed Companies*. Manila; Hanoi Stock Exchange. 2015. *Guidelines for Information Disclosure on Securities Market*. Hanoi; Zimbabwe Stock Exchange, Statutory Instrument 134 of 2019.

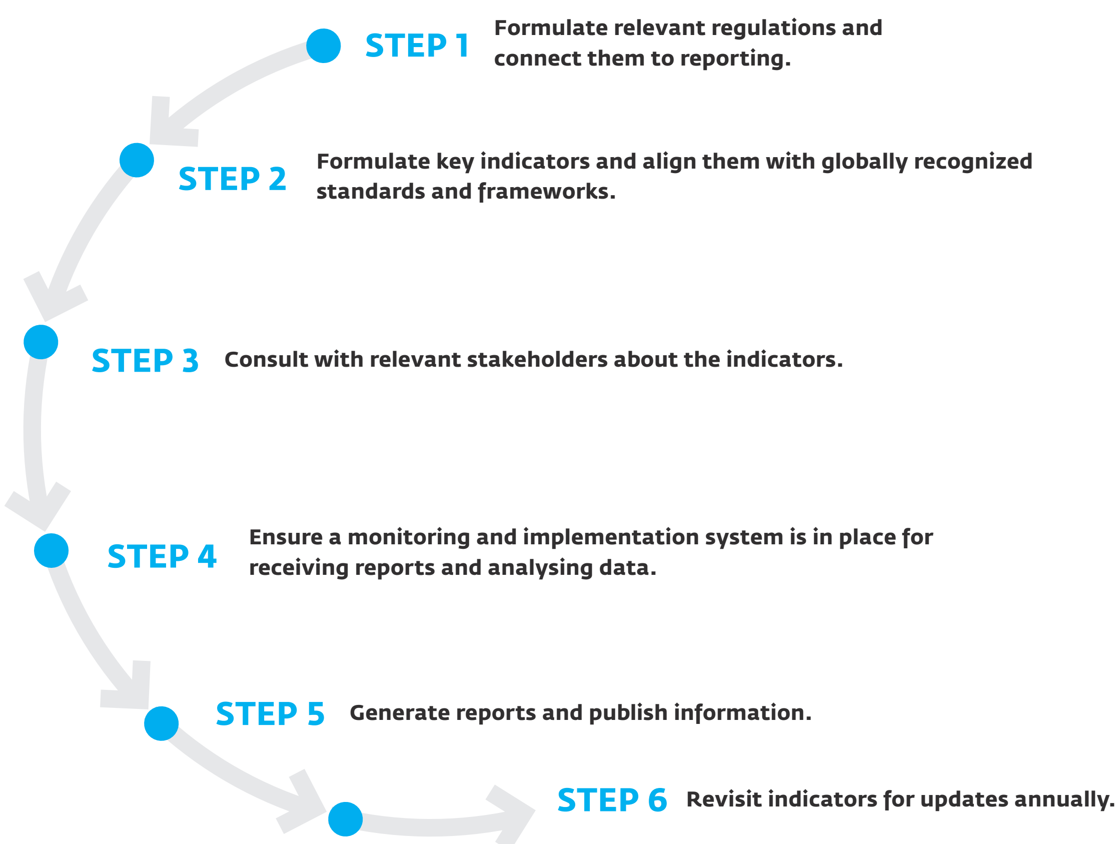
105 Chinese Ministry of Ecology and Environment of the People's Republic of China. 2019. *China's Policies and Actions for Addressing Climate Change*. Beijing. ***https://english.mee.gov.cn/Resources/Reports/reports/201912/P020191204495763994956.pdf***

106 People's Bank of China. 2021. *Guidelines on Environmental Information Disclosure for Financial Institutions*. Beijing.

5. Recommendations on the Process of Developing Policy

While admitting to the fact that there is no one-size-fits-all process to developing policy, the preceding analysis as well as IFC's multi-decade long experience with assisting regulators in formulating policy indicate that a number of key steps can be spelled out, which regulators can follow. These are presented in Figure 5.1.

Figure 5.1 Steps to Developing Policy



In **STEP 1** of the process, initial regulatory activities should be connected to reporting. This should be done through mandatory requirements to disclose. Following this, **STEP 2** of the process should focus on the formulation of key indicators, and do so by aligning them to globally recognized disclosure standards and frameworks. This will allow for the comparability and quality of disclosed information. In **STEP 3** of the process, regulators should consult with relevant stakeholders on the validity and suitability of the selected indicators. This can allow for the grounding of disclosure in local contexts. In **STEP 4** a monitoring and implementation system should be developed to collate reported information and analyze findings. As part of **STEP 5**, regulators should also make the collated information available to the general public—this can assist stakeholders such as investors in making decisions on where to channel capital for the highest impact. Finally, as part of **STEP 6**, indicators should be revisited annually to ensure the required information is timely and relevant.

6. Conclusion

Considering the analysis presented, a number of actionable points emerge. Regulators should consider these when developing environmental disclosure requirements. **This is a nonexhaustive list of six sets of actions, with further guidance available on what constitutes mature nonfinancial reporting policy.**[107] We furthermore provide this advice with the admission that environmentally focused action alone is insufficient, and broader social and governance aspects should also be considered, primarily to avoid potential negative externalities.

First, we suggest regulators consult broad, global frameworks to better understand the overall trends in the environmental agenda. We recommend assessing how the Paris Agreement, the 2030 Agenda, and the upcoming Global Biodiversity Framework are applicable in various local jurisdictions and how (financial market) regulators can frame policy within these overall frameworks. In addition, we recommend scoping potential linkages to other, already existing regulatory frameworks to see if any type of specific disclosure requirement or data collection process exists. If so, linking this to disclosure requirements ensures quick wins.

Second, to satisfy the appetite for information, double materiality has emerged as a central concept to many policies. This is the best approach to ensure capital is strategically and structurally shifted toward environmentally focused goals. It allows for reporting entities to map the risks of their operations as well as understand what their external impact is. To ensure such a shift, high-quality and timely information is needed, which depends on the capacity of disclosing entities to gather information, disclose it, and manage environmental impacts. Such capacity is gradually being reflected in corporate governance (codes), primarily by ensuring that the structural shifts needed to manage environmental impacts are addressed in a holistic manner. The focus expands beyond disclosure by establishing a comprehensive view from the boardroom of how a company operates at all levels to make operational change.

To this end, the IFC and CDP are active in building the capacity of stock exchanges and market regulators, primarily by training them on how to formulate disclosure requirements suitable for decision-makers. As a further step to this environmentally focused analysis, we foresee the opportunity and need to cascade into social questions. We suggest regulators familiarize themselves with the various reporting frameworks, their purpose, and their use. They should pay specific attention to the various conceptions of materiality, bearing in mind the concept of double materiality, and what this means for the purpose of their policy. Furthermore, we suggest including explicit references to various frameworks and, if multiple are mentioned, making the rationale explicit for why these reporting frameworks are chosen and how best to use them.

Third, questions surrounding compliance are more often on the agenda of decision-makers even when codes and requirements are voluntary. This stems most likely from the realization that mitigating environmental problems is necessary for financial stability. The information need for environmental integrity and financial stability has opened the door to graduate from voluntary measures to mandatory disclosure requirements. For example, the Singapore Stock Exchange and the Philippines SEC plan to graduate their voluntary disclosure measures to mandatory reporting requirements. Such an approach is useful for easing new reporters into reporting practice. The necessity to act rapidly underlines the need for readily available, high-quality, decision-useful information.

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[107] For more information, see CDP. 2021. *Shaping High-Quality Mandatory Disclosure*. London. CDP. ***https://cdn.cdp.net/cdp-production/cms/policy_briefings/documents/000/005/863/original/TCFD_disclosure_report_2021_FINAL.pdf?1631608521***.

For this reason, we recommend incorporating independent nonconflicting enforcement mechanisms into policy. Regulators should ensure that noncompliance with policies carries repercussions and that there are appropriate actors equipped with capacity to monitor noncompliance and implement enforcement measures. We recommend identifying the relevant category of companies to which these rules can apply; starting with the easiest (listed companies and financial institutions) and working outward from that experience is desirable here.

Fourth, the urgency to act on environmental issues has led to an increasingly active and granular approach in the nonfinancial and sustainability reporting policy space. The need to halt biodiversity loss and limit climate change to a 1.5-degree rise have arguably produced a new type of regulatory setting across the world. Financial market regulators are more proactive in drafting targeted regulations and driving the nonfinancial and sustainability disclosure space toward mandatory reporting.

Accordingly, we suggest ensuring that the quality and content of the information disclosed is appropriate for its intended use. To this end, we suggest reflecting on who the target audience is for any type of disclosure (for example, investors, public authorities, direct stakeholders, and so forth). We also recommend balancing the reporting burden for different types of reporting entities (for example, SMEs) and graduating reporting practice over the years (starting simple and targeted, eventually expanding in scope and depth). Ensuring that information is disclosed in a timely manner is also of great value here. We suggest, however, that policy makers innovate and consult broadly where possible by, for example, incorporating digital tagging or connecting metrics to initiatives such as the Science Based Targets.

Fifth, linked to innovation, we suggest ensuring the timely incorporation of developments in reporting frameworks, potentially at the level of metrics and targets. We recommend ensuring reporters have a good understanding of what is best practice reporting (including long-term targets, potential shortcomings, and integral environmental considerations), not only minimum disclosure. This can be done through training on good reporting practice, for example. On the flip side, we also suggest ensuring the information disclosed contributes to the functioning of markets by internalizing potential negative externalities, such as negative environmental impacts.

Finally, to operate efficiently, the private sector works with assessments of risks and opportunities. Ample studies and reports have shown that the opportunities arising from mitigating environmental problems outweigh the risks of nonaction. As CDP's previous reports also indicate, there are plenty of opportunities in greening finance and effective water governance.[108] These opportunities are arguably abundant in further domains, and early adapter and leader positions amplify these opportunities. With (1) a deeper understanding of what the information needs of decision-makers and investors are, (2) the drafting of stricter and more granular mandatory reporting requirements, and (3) the adoption of a holistic view on the environmental integrity of private sector actors, it becomes a question of willingness to allocate resources that will drive positive change toward mitigating environmental problems.

To this end we recommend that policy makers ground the need for mandatory disclosure requirements by introducing regulation requiring the disclosure of nonfinancial and sustainability information. To ease reporters into regular and high-quality reporting practice, we call for regulators to provide appropriate support and guidance, primarily by ensuring that the details of such a requirement are readily accessible. While doing so, we suggest taking sectoral differences into account. In addition to the guidance provided here, regulators can access the UN SSE's Securities Regulators Database which provides a list of examples of how securities regulators are contributing to the achievement of the SDGs and enhancing ESG management in their markets.

[108] For more information on greening finance, see CDP. 2020. *The Time to Green Finance: CDP Financial Services Disclosure Report 2020*. London: CDP. ***https://www.cdp.net/en/research/global-reports/financial-services-disclosure-report-2020***. For more information on CDP's Global Water Report, see CDP. 2020. *A Wave of Change: The Role of Companies in Building a Water-Secure World*. London: CDP. ***https://cdn.cdp.net/cdp-production/cms/reports/documents/000/005/577/original/CDP_Water_analysis_report_2020.pdf?1617987510***.

Appendix 1. List of Analyzed Policies

Country or Region	Issuer	Year of issuance	Name
DEVELOPED ECONOMIES			
Australia	Australian Securities Exchange Corporate Governance Council	2019	Corporate Governance Principles and Recommendations, 4th Edition
	Financial Services Council and Australian Council of Superannuation Investors	2015	ESG Reporting Guide for Australian Companies (2015)
	Australian Government	2007	National Greenhouse and Energy Reporting Act
European Union	European Parliament and Council	2014	Directive on Non-Financial Reporting (2014/95/EU)
	European Commission	2022	Corporate Sustainability Reporting Directive
	European Parliament and Council	2019	Capital Requirements Directive CRD V 2019/878/EU amending CRD 2013/36/EU
	European Securities and Market Authority	2019	Guidelines on Disclosure Requirements Applicable to Credit Ratings Include Environmental, Social, and Governance (ESG) Considerations
	European Commission	2019	European Union Guidelines on Reporting Climate-Related Information
	European Parliament and Council	2019	Regulation (EU) 2019/2088—Sustainability-Related Disclosures in the Financial Services Sector
	European Parliament and Council	2019	Regulation (EU) 2019/2089—Low Carbon Benchmark Regulation
	European Parliament and Council	2017	EU Resolution on Palm Oil and Deforestation
	European Parliament and Council	2017	EU Shareholder Rights Directive ii
Hong Kong	Hong Kong Stock Exchange	2020	Leadership Role and Accountability in ESG
	Hong Kong Securities and Futures Commission	2019	Circular to Management Companies of SFC-Authorized Unit Trusts and Mutual Funds on Green or Environmental, Social, and Governance (ESG) Funds
	Hong Kong Securities and Futures Commission	2021	Circular to Management Companies of SFC-Authorized Unit Trusts and Mutual Funds—ESG Funds
	Hong Kong Stock Exchange	2020	Environmental, Social, and Governance (ESG) Reporting Guide—Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong

Country or Region	Issuer	Year of issuance	Name
Japan	Ministry of Environment	2018	Environmental Reporting Guidelines
	Ministry of Trade, Economy and Industry	2017	Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation
	Tokyo Stock Exchange	2021	Revised Japanese Corporate Governance Code
New Zealand	Government of New Zealand	2021	Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill
Singapore	Monetary Authority of Singapore	2018	Code of Corporate Governance
	Monetary Authority of Singapore	2020	Practice Guidance
	Singapore Stock Exchange	2016	Listing Rule 711A
United Kingdom	Parliament of the United Kingdom	2019	The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (2019)
	Financial Reporting Council	2018	The UK Corporate Governance Code (2018)
	Financial Reporting Council	2020	The UK Stewardship Code (2020)
	Parliament of the United Kingdom	2013	The Companies Act 2006 (Strategic Report and Directors' Report) Regulations (2013)
United States	Senate of California	2018	California Senate Bill No. 964: Climate-Related Financial Risk
	State of California	2015	California Transparency in Supply Chains Act
	NASDAQ	2019	ESG Reporting Guide 2.0—A Support Resource for Companies
	Securities and Exchange Commission	2010	Guidance Regarding Disclosure Related to Climate Change
	President of the United States	2021	Executive Order 14030 of May 20, 2021—Climate-Related Financial Risk
	United States House of Representatives	2021	Corporate Governance Improvement and Investor Protection Act
	Securities and Exchange Commission	2000	Regulation S-K

Country or Region	Issuer	Year of issuance	Name
DEVELOPING ECONOMIES			
Armenia	Ministry of Trade and Economic Development of the Republic of Armenia	2010	Code of Corporate Governance
Azerbaijan	Azerbaijan Economic Development Ministry	2010	Azerbaijan Corporate Governance Standards
Bahrain	Kingdom of Bahrain, Ministry of Industry and Commerce	2020	Corporate Governance Code
Bangladesh	Bangladesh Securities and Exchange Commission	2018	Corporate Governance Code
	Bangladesh Bank	2020	Sustainable Finance Policy for Banks and Financial Institutions
	Bangladesh Bank	2017	Guidelines on Environmental and Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh
	Bangladesh Bank	2016	Integrated Risk Management Guidelines for Financial Institutions
Brazil	Brazilian Securities and Exchange Commission	2018	Report or Explain for Sustainable Development Goals (SDG)
	Brazilian Securities and Exchange Commission	2009	Instruction No. 480/2009
	Comitê de Orientação para Divulgação de Informações ao Mercado	2018	CODIM, Pronouncement no. 13, 2012.
	Securities and Exchange Commission Brazil (CVM)	2014	CVM Instruction 552, item 7.8
	Guia Novo Valor—Sustenabilidad Nas Empresas	2012	BM&FBOVESPA
	Environmental State Agency Sao Paulo (CETESB)	2012	Resolution no. 254/2012/V/I
	Central Bank of Brazil	2014	Resolution on Socioenvironmental Responsibility Policy No. 4.327
CVM (Financial Regulator)	Reference Form (Instruction CVM no. 480/09)	2009	

Country or Region	Issuer	Year of issuance	Name
China	China Securities Regulatory Commission	2018	Guidelines for Corporate Governance of Listed Companies in China
	Central Government	2014	Environmental Protection Law
	Ministry of Ecology and Environment of the People's Republic of China	2019	China's Policies and Actions for Addressing Climate Change (2019)
	Shenzhen Municipality	2020	Green Finance Development Regulations
	People's Bank of China	2021	Guidelines on Environmental Information Disclosure for Financial Institutions
	Chinese National Development and Reform Commission	2014	Requirements on Key Enterprises Reporting GHG Emissions
Colombia	Ministry of Commerce and Superintendence of Societies	2018	Law 1901 for the Creation of BIC societies
	Ministry of Commerce and Superintendence of Societies	2019	Decree that regulates the creation of BIC societies
	Superintendencia de Sociedades	2018	Resolution 200
	Center for International Private Enterprise	2004	Framework Code of Good Corporate Governance for Small and Medium-Size Enterprises
	Colombian Confederation of Chambers of Commerce	2009	Colombian Guide of Corporate Governance for Closed Societies and Family Firms
Egypt	Egyptian Exchange (EGX)	2016	EGX Model Guidance for Reporting on ESG Performance and SGDs
	Egyptian Institute of Directors	2006	Code of Corporate Governance for State Owned Enterprises in Egypt
	Egyptian Institute of Directors	2006	Code of Corporate Governance for Private Sector in Egypt
Georgia	Association of Banks of Georgia	2009	Corporate Governance Code for Commercial Banks
India	Securities and Exchange Board of India	2017	Disclosure Requirements for Issuance and Listing of Green Debt Securities (CIR/IMD/DF/51/2017)
	Parliament of India	2013	The Companies Act 2013
	Securities and Exchange Board of India	2018	Listing Obligations and Disclosure Requirements Regulations
	Securities and Exchange Board of India	2019	Stewardship Code for all Mutual Funds and All Categories of AIFs, in Relation to Their Investment in Listed Equities
	Securities and Exchange Board of India	2021	Business responsibility and sustainability reporting by listed entities

Country or Region	Issuer	Year of issuance	Name
Indonesia	House of Representatives	2007	Law on Limited Liability Companies
	President/Prime Minister Office	2011	Presidential Regulation Republic of Indonesia No. 71/2011 on Green House Gas Inventory
Jamaica	Private Sector Organisation of Jamaica, Corporate Governance Committee	2016	Corporate Governance Code For Micro, Small, or Medium-Sized Enterprises
Jordan	Companies Control Department	2012	Jordanian Corporate Governance Code
Kenya	Capital Markets Authority	2015	The Code of Corporate Governance Practices for Issuers of Securities to the Public 2015
	Private Sector Corporate Governance Trust	2001	Principles for Corporate Governance in Kenya
Lebanon	The Lebanese Transparency Association	2009	Corporate Governance Code for Listed Companies
Malawi	National Corporate Governance Review Committee	2010	The Malawi Code II
Malaysia	Securities Commission Malaysia	2021	Malaysian Code on Corporate Governance
	Bursa Malaysia	2015	Main Market Listing Rules Amendment
Maldives	Maldives Capital Market Development Authority	2014	Corporate Governance Code
Mongolia	Financial Regulatory Commission of Mongolia	2006	Corporate Governance Code of Mongolia
Nigeria	Financial Reporting Council of Nigeria	2019	Code of Corporate Governance (2018)
	The Nigerian Stock Exchange	2018	Sustainability Disclosure Guidelines
Oman	Sultanate of Oman, Capital market Authority	2016	Code of Corporate Governance
Pakistan	Securities and Exchange Commission of Pakistan	2013	Public Sector Companies (Corporate Governance) Rules
Peru	Capital Markets Superintendency (SMV)	2015	Resolution (SMV Nº 033-2015-SMV/01)
	Peruvian Capital Markets Superintendency	2013	Code of Good Corporate Governance for Peruvian Societies
	SMV	2020	Report on Corporate Sustainability Law

Country or Region	Issuer	Year of issuance	Name
Philippines	Central Bank of the Philippines	2020	Sustainable Finance Framework
	Philippines Securities and Exchange Commission	2019	Revised Corporation Code of the Philippines (2019)
	Philippines Securities and Exchange Commission	2019	Sustainability Reporting Guidelines for Publicly-Listed Companies
South Africa	Department of Environmental Affairs	2017	National Greenhouse Gas Emission Reporting regulations (within National Environment Management: Air Quality Act (39/2004)
	Institute of Directors, Southern Africa	2016	King IV Report on Corporate Governance for South Africa
	Johannesburg Stock Exchange	2021	Sustainability/ESG Disclosure Guidance
	Johannesburg Stock Exchange	2021	Climate Disclosure Guidance
Thailand	Stock Exchange of Thailand	2012	The Principles of Good Corporate Governance for Listed Companies
United Arab Emirates	Abu Dhabi Securities Exchange	n.d.	ESG Disclosure Guidance for Listed Companies
Vietnam	Hanoi Stock Exchange	2015	Guidelines for Information Disclosure on Securities Market
	State Securities Commission of Vietnam	n.d.	Environmental and Social Disclosure Guide
	State Securities Commission of Vietnam (SSC)	2019	Vietnam Corporate Governance Code of Best Practices
Zimbabwe	Zimbabwe Stock Exchange	2019	Statutory Instrument 134 of 2019

Source: IFC and CDP, January 2022.

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