



Financial Sector
Conduct Authority

FSCA Sustainable Finance update

13 March 2024





Background

FSCA Programme of Work				
1.	2.	3.	4.	5.
Taxonomy	Disclosure, reporting and assurance	Market development	Active ownership	Consumer education
<i>Capacity building</i>				
<i>Research and stakeholder engagement</i>				
<i>Regulatory and supervisory framework development</i>				
<i>Coordination and cooperation with other stakeholders</i>				

A focus on consumer protection

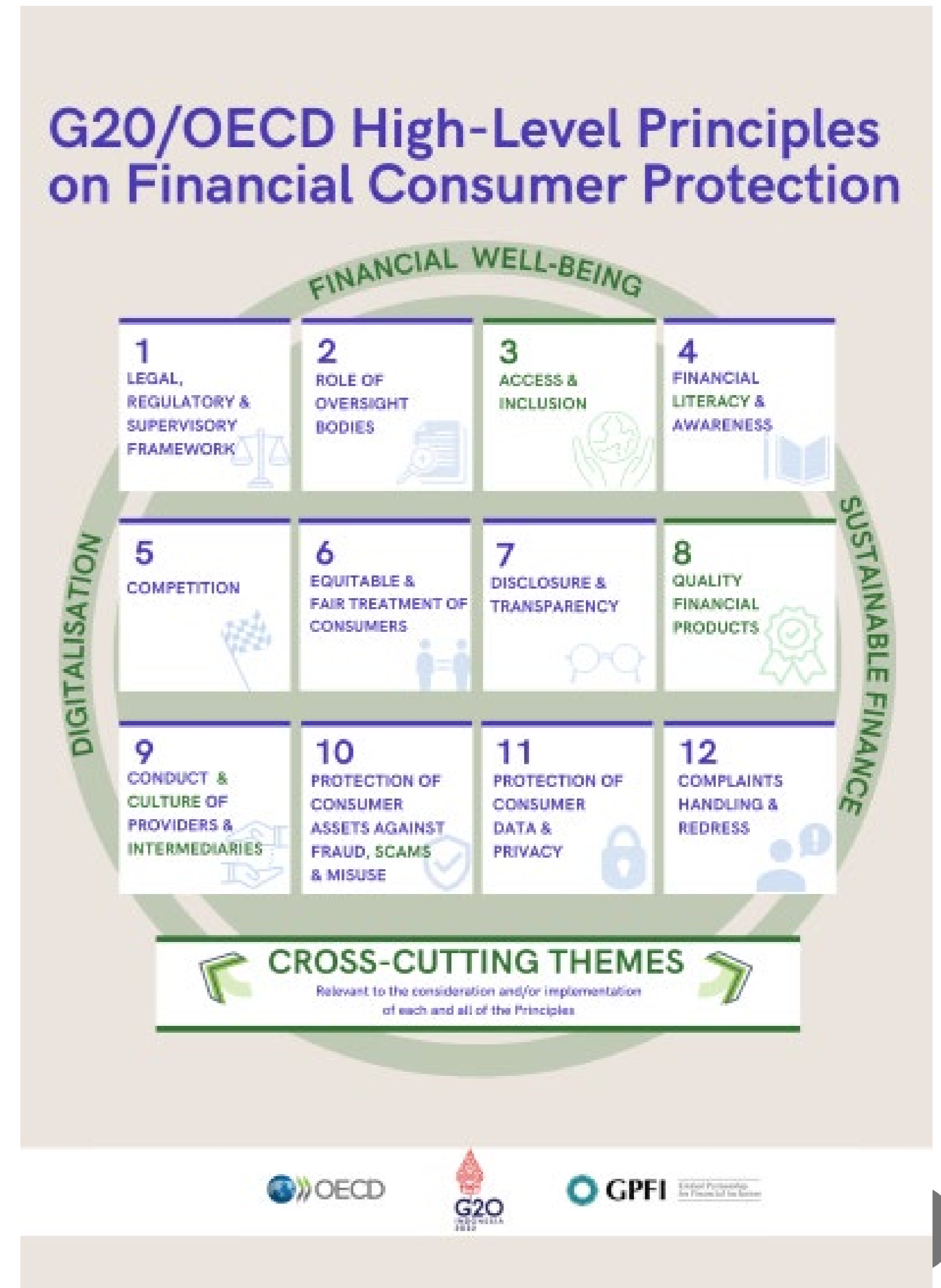
- Risks that are common to *all* financial products, which include sustainable finance products, as highlighted by the OECD (2023):
 - Product design and quality.
 - Inadequate or misleading information disclosure.
 - Market misconduct.
 - Low levels of financial literacy.
 - Consumer biases.
- Risks specific to sustainable finance products:
 - Greenwashing
 - Social washing
 - Impact washing

A focus on consumer protection (cont.)

Recommendation of OECD/G20 Task Force on Financial Consumer Protection:

Consider adopting a coordinated and holistic approach towards financial consumer protection relating to sustainable finance

- A combination of measures necessary - disclosure and transparency, financial education, financial product requirements, complaints handling and redress mechanisms, and effective supervision and enforcement
- FSCA considering how to address risks both in terms of:
 - Existing mandate, requirements and powers (e.g. misleading information)
 - New requirements that may need to be developed to address particular risks (e.g. define greenwashing)



Foundation of credible, clear information

- As a market conduct regulator, the FSCA has a vital role to play in improving the availability of credible and consistent information in the South African financial market.
- All pillars of the programme of work remain relevant, but are likely dependent on the **quality of available information** to investors, lenders and financial consumers.
- This in turn depends on the quality and comparability of **public disclosure and reporting in the sustainability space**
- Key developments:
 - Launch of ISSB Standards IFRS S1 and S2
 - PA Draft Guidance on Climate Disclosures





Green Finance Taxonomy

- Presidential Climate Commission (PCC) 2023 report “*South African Climate Finance Landscape*” notes “significant barriers persist in accessing and mobilising climate finance.” One of the recommendations is to encourage better adoption of the GFT.
- FSCA participated in training workshops to improve understanding of green finance taxonomies in general and the South African GFT in particular
- Continue to encourage the voluntary adoption of the GFT as an important tool in South Africa’s just transition. Important for supporting flow of international capital toward green projects.
- Conduct a taxonomy adoption pilot – sandbox exercise, allows industry and regulators to learn about working with data; consider taxonomy readiness / constraints
- Support FSCA work on disclosure that relate to taxonomy alignment: including legal and regulatory analysis.
- Consider a survey or industry-wide (self) assessment to gauge awareness and readiness

Corporate disclosure and reporting

- G20/OECD Principles of Corporate Governance revised to include new and updated recommendations on sustainability and resilience to help companies manage climate-related and other sustainability risks and opportunities
- IFRS S1 and IFRS S2 standards aim to create a common language for disclosing the effect of climate-related risks and opportunities on a company's prospects. Endorsed by IOSCO and fully incorporate the recommendations of the TCFD
- South Africa considering the full application of the ISSB standards, including through sustainability reporting roundtables hosted by Companies and Intellectual Properties Commission (CIPC)
- PA Climate Disclosure Guidance aligned
- FSCA anticipates releasing similar disclosure guidance as the PA for non-bank and non-insurance financial institutions. As noted above, there will need to be close alignment between the work done in relation to the GFT and disclosure requirements
- Initial focus may be on sustainability disclosure requirements for retirement funds



Product and retail disclosures

- Closely related to GFT and corporate-level disclosure.
- Corporate level disclosure is also important as this allows for product providers to collect and use consistent corporate information to feed into underlying product information
- Product disclosures would also need to consider the level of information provided depending on the type of customer to which the product is provided.
- Retail disclosures in relation to sustainability relies on the same principles as traditional disclosures to retail financial customers
- However Draft Application Paper on Market Conduct issued by the IAIS in 2023 notes *“jurisdictions should consider whether new tools, policies, or regulations are required to address greenwashing or whether existing requirements, such as providing fair and not misleading information or preventing misselling, are sufficient to tackle greenwashing in their market”*

Other key focus areas

- FSCA to assess where further research may be required to gauge where **market or regulatory barriers may exist** that compromise this investment flow, especially those barriers that fall within the purview of the FSCA.
- In responding to **insurance protection gap challenges**, the FSCA is collaborating with industry to address contract certainty for exclusions that exacerbate protection gaps.
- Participating in NT led process on developing carbon credit markets
- Clear and accessible educational materials on sustainable finance

END.
THANK YOU.

