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# FSCA STATEMENT ON SUSTAINABLE FINANCE AND PROGRAMME OF WORK

FSCA
Financial Sector
Conduct Authority

0800 20 3722

# FSCA Statement on Sustainable Finance and Programme of Work

**31 March 2023**

***FSCA Vision***

*To foster a fair, efficient, and resilient financial system that supports inclusive and sustainable economic growth in South Africa.*

*The FSCA has committed to executing its mandate ethically and to establishing and inculcating a culture of ethical behaviour among all employees and stakeholders. It embraces the principles of the King IV Report on Corporate Governance for South Africa 2016, actively promotes transformation in line with the BBBEE Act and has developed codes that commit leadership and employees to best practice governance and ethics and high standards of integrity. In line with South Africa's national climate commitments, the FSCA is committed to contributing towards the country's goal of being carbon neutral by 2050.*

# 1 INTRODUCTION

Individuals, governments and corporates alike are alive to the need – and increasing urgency – to support sustainability in public and private operations that contribute to economic growth and development. Sustainability is broadly understood to refer to growth or development "that meets the needs of the present without compromising the ability of future generations to meet their own needs."[1] Responsible organisations worldwide are adapting their activities and operations to ensure they are not harmful to future generations, and where possible that they meaningfully contribute to greater positive economic, environmental and social outcomes, including the United Nation's Sustainable Development Goals (SDGs).

The Financial Sector Conduct Authority's response to sustainability is twofold:

- As an organisation, we have **adopted sustainability as part of our values**. This means we are intentional in ensuring that sustainability is entrenched in our business operations and translated into behaviour that will shape our organisational culture. We aim to ensure that we are able to meet the needs of the present without compromising the ability of future generations to meet their own needs, by adopting socially responsible practices.

- As a market conduct regulator, one of our strategic objectives is to promote the development of an innovative, inclusive, and sustainable financial system. We seek to play a transformational role in ensuring that **South Africa's financial system best supports the country's sustainability goals**, through our customer protection and market integrity mandates.

Sustainability considerations may also be classed according to the well-known Environment, Social and Governance (ESG) classification. South Africa's history of legislated discrimination and the consequences it still has for our unequal society today, has resulted in many legislated and governance requirements that speak to ESG aspects. For example, the National Development Plan (NDP) seeks to provide an integrated approach for business, government and civil society to address critical issues of income inequality, poverty, and unemployment in South Africa. The Companies Act, 2008, imposes a legal obligation on companies (both listed and unlisted) meeting certain thresholds to appoint a Social and Ethics Committee to report on company performance in respect of non-financial aspects involving social, economic and environmental governance and thus embeds ESG considerations into the legal framework. The legal requirements are augmented by South Africa's voluntary governance code of conduct in the form of the King IV Report on Corporate Governance for South Africa 2016 (King Code), which requires an appreciation of the fact that company strategy, risk, performance and sustainability are inseparable. It makes it a responsibility of boards to consider all stakeholders, not just shareholders, in overseeing company operations; boards must also ensure appropriate systems to assess and manage environmental and social risks. Other legislative frameworks such as the Broad-Based Black Economic Empowerment Act, Labour Relations Act, and Employment Equity Act also seek to ensure fair and full participation in the economy and encourage addressing inequalities where they are found.

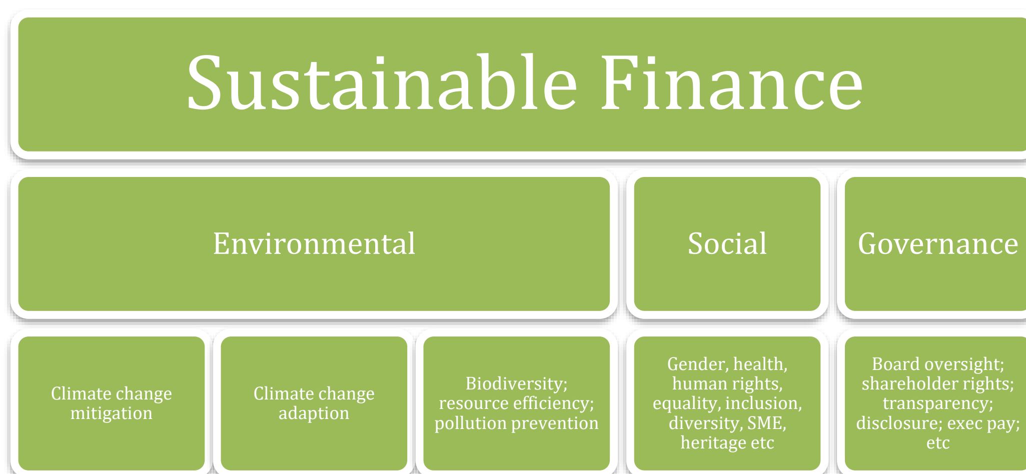
Financial sector policy and regulation has also addressed ESG considerations in the sector. For example, policy and regulation related to retirement reform has sought to consider how this sector could increase social security and reduce vulnerability amongst South Africans. There is also an

[1] As defined in the United Nations Brundtland Commission Report "Our Common Future"

explicit requirement on retirement funds (through Regulation 28 of the Pension Funds Act) to consider ESG elements when devising investment policies.

Within the sustainability or ESG landscape, climate change and the associated risks posed are increasingly being addressed as an urgent challenge, and one that can impact all elements of sustainability. A specific UN SDG is to take urgent action to combat climate change and its impacts. The National Treasury in its 2020 *Technical Paper on Financing a Sustainable Economy* emphasises that "climate change […] is also a social and economic issue as it will profoundly affect vulnerable individuals as well as the country's ability to grow the economy, create jobs and ensure food security." Without climate change mitigation and adaptation measures, SA is expected to face not only a decline in economic growth but also rising poverty and inequality.

The graphic below illustrates some of the elements within the sustainable finance landscape.




## 2 ROLE OF THE FSCA

To best support a sustainable financial system, the FSCA will evaluate its regulatory and supervisory frameworks to ensure that they enable the effective spreading of financial risks and opportunities from sustainability, so that these are integrated into mainstream financial decision making, in a way that promotes investor and customer confidence and trust.

The FSCA aims to develop an enabling environment for sustainable finance, where the financial system is able to:

- Evaluate product, portfolio and transaction-level environmental and social risk exposures and opportunities, using science-based methodologies and best practice norms, to inform product development, business activities in general and capital allocations[2];
- Improve transparency by accurate and complete reporting of these risks to a wide stakeholder base, including not only shareholders but also employees, policy makers and impacted communities;
- Effectively and reliably mitigate these risks;

[2] This includes providing suitable opportunity for companies to raise capital for sustainable practices and products on capital markets

- Ensure that customers receive fair outcomes in the design, marketing and sale of financial products and services that are related to sustainability opportunities

The FSCA has identified the following market conduct risks that could affect the efficient operation of a sustainable finance market. Many of these are interrelated:

- **Lack of standardised terminology:** sustainability encompasses a myriad of different topics and is a dynamic and evolving concept. The scientific nature of terms and concepts may add further complexities. In the absence of universal, legislated or standardised terminologies, this may make it difficult to share, understand and compare information on both the borrowing and lending side. There is also a real risk that the players involved do not share a common understanding even of similar terms and concepts.

- **Inaccurate and/or misleading information:** in the absence of standardised terminologies, there is higher risk of potential misleading or inaccurate claims or promises to be made in relation to sustainability objectives. The absence of strong data verification services contributes to this risk. Inaccurate and/or misleading information could be provided intentionally, with the scientific nature of sustainability objectives making it easier to obfuscate claims. However, information may be unintentionally misleading due to immature sustainability approaches and understanding within an organisation, coupled with a lack of consistent guidelines and terminologies.

- **Weak or undeveloped understanding of sustainability concepts**: for financial institutions in particular, unfamiliarity with and uncertainty about sustainable and green projects, which may have a long-term horizon, may contribute to increasing the funding risk for many businesses. Retail customers and those with low levels of literacy may be at risk of being unable to fully participate in the market due to poor understanding.

- **Inconsistent, unreliable (or no) disclosure and reporting requirements:** for corporates in particular, there may be a variety of ways in which they can disclose or report on their performance in relation to sustainability objectives. This may make it difficult for lenders/funders and financial intermediaries to compare across entities and to properly evaluate returns (financial and non-financial) or impacts, and to hold entities accountable. It may also be difficult if sustainability reporting is not appropriately integrated with financial reporting.

  There should also be consistency in disclosures regarding sustainable financial instruments, products and services, so that similar information is disclosed in similar manners, assisting with comparability.

  Data verification and assurance services contribute toward information accuracy but the methods used to verify data also rely on standardisation, common terminology and consistency in terms of verification.

  The complexity of sustainability reporting necessitates fit-for-purpose assurance services, such as accounting, credit rating and audit services. There is currently no common global standard against which such assurance can be evaluated.

- **Lack of suitable products, services and markets:** the manner in which financial instruments, products and services are designed should be suitable to the needs of customers. Markets may need to better design, and make available, appropriate financial instruments and products that offer customers returns from both a financial and non-financial perspective. Consideration could also be given to the extent to which regulation may better support the development of innovative new products and services that contribute toward sustainability objectives.

Conceptually, many of these concerns apply similarly to traditional financial products and services (for example, full and fair disclosure, risks of mis-selling, accurate and comparable information, suitability). This provides the opportunity to include sustainability matters into existing work programmes to promote regulatory alignment. The FSCA's regulatory and supervisory approach already aims to strike an appropriate balance between ensuring its mandate is met while also not stifling market development. However, it is recognised that this balance is particularly important in the context of South Africa's sustainable finance market, to ensure it matures appropriately and allows players to take advantage of opportunities posed while accounting for risks.

The sustainability outcomes that the FSCA would seek to achieve in the financial sector from a conduct perspective include:

- enabling and promoting capital flows in support of sustainability objectives
- making it easier for market players to conduct due diligence, including by accurately assessing risks and opportunities, in order to make suitable sustainability investments
- ensuring that non-prudentially regulated entities take into consideration ESG risks (prudentially regulated entities will be subject to risk management requirements by the Prudential Authority (PA))
- evaluating and adopting/adapting appropriate international frameworks related to ESG and climate, from a conduct perspective
- addressing risks of greenwashing
- implementing effective conduct regulation without constricting growth of sustainable finance markets
- stimulating research and dialogue between investors and issuers/companies on new areas (e.g. transition finance, net zero commitments etc).
- providing relevant tools, training, and guidance to the market to improve understanding
- empowering retail consumers to navigate the sustainable finance market
- supporting the growth of a credible community of ratings providers and external reviewers in South Africa

# 3 PROGRAMME OF WORK

Informed by its conduct mandate, the FSCA has developed a programme of work for sustainable finance, made up of five pillars. Each pillar will be informed and supported by capacity building; research and stakeholder engagements; regulatory and supervisory framework development; and coordination and cooperation with other stakeholders.

These pillars are further outlined in this section. However, the FSCA intends to produce more detailed outputs in relation to each of the pillars of work. Section 4 of this document sets out indicative timelines in this regard. The pillars of work will also consider developments of relevance in the domestic and international arena. Some of these are briefly listed in the Annexure of this document.

**FSCA Programme of Work:**

<table>
<tr><th>1.</th><th>2.</th><th>3.</th><th>4.</th><th>5.</th></tr>
<tr><th>Taxonomy</th><th>Disclosure, reporting and assurance</th><th>Market development</th><th>Active ownership</th><th>Consumer education</th></tr>
<tr><td colspan="5">Capacity building</td></tr>
<tr><td colspan="5">Research and stakeholder engagement</td></tr>
<tr><td colspan="5">Regulatory and supervisory framework development</td></tr>
<tr><td colspan="5">Coordination and cooperation with other stakeholders</td></tr>
</table>

Given the increasing urgency and myriad of emerging developments related to climate change, work may initially emphasise climate matters. However, it should be understood that the FSCA's approach to sustainability encompasses the full scope of the topic.

An immediate priority for the FSCA will be to undertake necessary **capacity building** across the organisation. This includes training and upskilling on what are often complex concepts that lie outside the traditional realm of financial sector regulation. The regulator will leverage relationships with stakeholders locally and internationally to capacitate the organisation. This includes academia, civil society, and donor partners who also focus on sustainability objectives in the South African economy.

### 3.1. Pillar One: Taxonomy

A common taxonomy will contribute significantly toward ensuring common terminology and understanding. Work on this pillar will build on outputs already produced through the National Treasury's Climate Risk Forum.

In April 2022, the National Treasury launched South Africa's first green finance taxonomy. This is a classification or catalogue that defines a minimum set of assets, projects, and sectors that are eligible to be defined as "green" or environmentally friendly. It is intended to support national policy and voluntary private sector initiatives toward sustainable finance – particularly green finance – by reducing the costs and uncertainty in classifying a core set of green activities.

In the immediate term, the FSCA will through endorsement and engagements with supervised entities, actively encourage voluntary adoption and use of the taxonomy in relevant activities. Over the longer term, work will be done to consider the extent that the taxonomy should be mandated. A guide to embedding the taxonomy has been prepared for further FSCA consideration and will form the basis for this project.

Work will be undertaken in close conjunction with the PA, which has its own work programme on green finance. Any regulatory initiatives undertaken in relation to the taxonomy will seek to avoid duplications or inconsistencies between the two authorities.

### 3.2. Pillar Two: Disclosure, reporting and assurance

#### 3.2.1. Alignment of corporate disclosure and reporting requirements

The effective and efficient operation of a market requires that timely and accurate disclosure is made on all material matters regarding a corporation; this includes its financial situation, performance, ownership, and governance. Increasingly investors need to assess environmental, social and governance risks alongside traditional financial information such as sales and cost projections. Reporting on sustainability requires greater transparency and consistency in disclosure by entities, including through integrated reporting. There is much work underway in this regard.

The International Sustainability Standards Board (ISSB), launched by the international Financial Reporting Standards (IFRS) Foundation at COP26, is a collaboration of several ESG reporting standards setters. A key aim is to provide an alignment amongst the various standards dealing with sustainability reporting in various ways. International standard setting bodies like the G20/OECD Corporate Governance Forum, and the IOSCO Committee on Issuer Accounting, Auditing and Disclosure, are some of the agencies that are revising their standards for improved disclosure and reporting on sustainability. It is noted that the strong alignment in many instances with the FSB TCFD recommendations does place an emphasis on climate-related disclosures.

In South Africa, the Disclosure Working Group of the Climate Risk Forum in 2021 published "Principles and Guidance for Minimum Disclosure of Climate Related Risks and Opportunities". This

is a tool that is designed to contribute to a shared understanding between regulators and industry participants on disclosure of the climate-related financial risks and opportunities, at the entity level.

The JSE has developed the JSE Sustainability Disclosure Guidance. These disclosures are not mandatory but provide guidance to listed companies interested in undertaking ESG related disclosures, particularly in the context of multiple guidelines from various organisations. The JSE has also engaged with the ISSB recommendations and is currently undertaking research to assess the potential regulatory burden of sustainability related disclosures on listed companies. The FSCA is planning engagements with market infrastructures and issuers to gauge market readiness for disclosure and reporting requirements and will, following industry engagements, issue a position regarding the endorsement and adoption of international standards.

A key consideration for the FSCA will be to consider how to promote sustainability reporting that is sufficiently comprehensive and reliable to support transparency, while ensuring that there is consistency in the reporting requirements imposed on financial institutions, by financial and non-financial sector regulators. It will also be vital to ensure appropriate alignment in the listed and unlisted environment. This will require a coordinated approach amongst key stakeholders in South Africa, including the National Treasury, Department of Trade, Industry and Competition, the PA, Companies And Intellectual Property Commission, JSE, the Accounting Standards Board, and Independent Regulatory Board for Auditors, amongst others.

#### 3.2.2. Financial product disclosure requirements to address green-, social- and impact-washing

A clear and reliable disclosure regime is necessary to build trust and integrity in ESG-labelled instruments, products and the supporting ecosystem. As the availability of sustainable investments grows, so does the risk, as is being recognised and experienced in other jurisdictions, of increased complexity for consumers as standards, terminology, classification and labelling differs. There is also the risk of green-, social- or impact-washing through exaggerated, misleading, unsubstantiated or false sustainability-related claims.

Asset managers in South Africa have already highlighted a number of challenges related to weak disclosure:

- Investors may find challenges in interpreting ESG data in order to assess a sustainable fund. Investors may need to know what they are investing in and be able to quantify the measurable output of their investments.
- Customers may find it difficult find sustainable funds that meets their needs (financial and sustainable investments goals.)
- Customers would want to know how/if asset managers are driving long-term value through engagement with the companies they have invested in.
- Doing too little or waiting too long to address material ESG issues may result in asset managers having to play catch-up to their peers and investors potentially seeing the value of their assets being challenged over time.

The FSCA will consider what disclosure requirements may be suitable for different types of financial products and services, and will also engage with industry to assess its readiness for ESG and sustainability requirements. The engagements will be informed by, amongst others, a survey of investment providers. Future considerations include amending the Code of Conduct for Authorised FSPs (BN 194 of 2017) to include requirements for socially responsible investing and portfolio construction.

As the FSCA prepares to implement the COFI Bill, it has established various thematic workstreams, to develop cross cutting requirements which over time will be supported by industry specific chapters. The workstream on disclosure may further consider best practice regarding sustainable finance, to promote transparency, support effective channelling of credit and savings for good, and reduce the risk of green-, social- and impact-washing.

#### 3.2.3. Credible and consistent assurance

The development of disclosure and reporting requirements must go hand in hand with assurance services that verify that requirements are met. The FSCA will need to work in close collaboration with stakeholders involved in the accounting, credit rating and audit space in this regard. As a first step, the FSCA will work to understand international developments in relation to ESG ratings agencies and data providers and will collect information on current practices in the South African markets, before preparing a position on the appropriateness of a regulatory framework.

### 3.3. Pillar Three: Market development

Across different segments of the financial sector, the FSCA will consider the role it may have in driving the development of markets that support sustainable objectives on both the supply and demand side. This could include for example, carbon credit markets, innovative fintech solutions to address data assurance concerns, and the emergence of securities (listed and unlisted) that are intended to serve the sustainability segment.

***Carbon credit market***

The National Treasury has indicated that it will hold consultations in 2023 on the possibility of a domestic market to trade tax credits created through the carbon tax. The consultations will focus on the building blocks needed to ensure seamless trading, including the legal nature of carbon credits as a financial asset; trading and post-trade market architecture; licences for private carbon credit funds; and carbon credit certification. The FSCA will support this process and will prepare financial markets related research and positions, particularly with respect to a voluntary carbon market

***Insurance***

With increases in weather-related events and natural catastrophes, there is emerging concern in many jurisdictions about the availability and affordability of insurance. Insurer actions that would require heightened scrutiny may include:

- Ceasing cover for specific risk types or customer segments;
- Significant premium increases;
- More stringent claims assessment processes; and
- Benefit exclusions or policy wording changes.

The FSCA will track and monitor how the South African market responds to these issues. Insurers will also be encouraged to promote risk mitigation and risk reduction strategies for impacted policyholders.

Further engagements will also be necessary to explore the role that financial sector regulators can or should play in addressing increasing insurance protection gaps emerging as a result of climate-related risks. The FSCA will also participate actively in international developments around this.

**A focus on fintech**

Policy makers and regulators are increasingly recognising the role that fintechs can play in supporting policy formulations relating to sustainability, such as transitioning to a low-carbon world. A 2021 PWC report on Fintech and Sustainable Finance[3] notes that fintechs can provide solutions that allow tracking of multiple data points through multiple means, as well as advanced analysis of such data. This can then assist financial institutions to identify, assess, manage and disclose risk more efficiently, and contribute toward efficient pricing of products and services through

[3] https://www.pwc.com/mu/en/about-us/press-room/sustainable-finance.html#content-free-1-8735

internalisation of such risks. This is necessary in supporting the creation of new green and sustainable products.

### 3.4. Pillar Four: Active ownership

Active ownership refers to shareholders using their influence in a company they have invested in to drive the company's strategy and actions in the direction of a more sustainable future. It is a method often used in responsible investing to directly influence a company's decisions and when working with corporate social responsibility.[4] Active ownership is generally regarded as an effective mechanism to reduce risks, maximise returns and have a positive impact on society and the environment.

The FSCA already has ongoing initiatives pertaining to active ownership in the retirement fund space, including its endorsement of the Responsible Investment and Ownership Guide as well as the Code for Responsible Investing in South Africa. To further equip fund trustees as active owners, Phase II of the FSCA's Trustee Training Toolkit will include an ESG subsection under the Investments Module.

The FSCA will explore expanding its role in promoting active ownership by institutions and individuals. The FSCA is an active participating member in the OECD Corporate Governance Committee, which is in the process of revising their Principles of Corporate Governance Principles to make stronger reference to sustainability objectives. This includes the following proposed addition to Principle III (Institutional investors, stock markets, and other intermediaries):

> *"Stewardship codes have become a well-established practice in many jurisdictions as a complement to other disclosure requirements for institutional investors on their engagement and voting policies. Most codes on shareholder engagement leave it to institutional investors' discretion whether to apply the code or not. This voluntary and flexible approach has been conceived to allow investors to adapt the codes to their respective investment strategies. Some countries also have established an implementation mechanism for such codes to ensure compliance and to promote best practice reporting. Some jurisdictions also value carrying out periodic updates and monitoring of these codes to ensure their relevance and oversee their effective implementation."*

Final guidance emerging from this committee, and other relevant international standard setting bodies, will be instrumental in further expanding the FSCA's approach to this subject.

### 3.5. Pillar five: Empowering retail investors and consumers through financial education

Ordinary citizens are increasingly asking how their actions may contribute toward the societies they live in, both now and in the longer-term. This is becoming more prevalent as people are experiencing the consequences of threats like climate change more directly. Retail customers, including retail investors, play a key role in the sustainable finance ecosystem, whether by investing in renewables that will speed up the transition to a low-carbon economy or by choosing to support and engage with companies that follow climate change, diversity, equity, and inclusion objectives. Customers can use negative screening, which excludes companies with poor ESG practices, or positive screening, which includes companies with a good ESG score, to inform their investment choices.

The dynamic and fast-evolving nature of sustainable finance does however pose risks to customers. It may be difficult to obtain relevant information from financial institutions to inform customer decisions to invest in a company or take up its products or services. Where information is obtained, it may be difficult to compare between financial institutions, especially in the absence of standardised reporting

[4] https://www.nordea.com/en/news/what-is-active-ownership

obligations. There are also increasing concerns about the accuracy of information and of greenwashing practises, where information provided is misleading or overstated.

As the market for sustainable finance products and services expands in South Africa, a focus on customer education is important in equipping customers to participate meaningfully. The FSCA will drive collaborative efforts to encourage and support customer (and societal) understanding and awareness of risks, opportunities and how meaningful contributions may be made to positive sustainability outcomes through financial decision making. Specific regulatory interventions will be informed by the research undertaken to understand specific customer risks and how best to respond in terms of education campaigns – for example, general awareness campaigns, targeting greenwashing risks, and so on.

### 3.6. Key underpinning activities

Activities under each of the five pillars will include, to differing extents, the following:

- **Research and stakeholder engagement:** in many areas, further research will need to be undertaken to better understand current trends and practises in the South African market, to benchmark against relevant best-practise and developments locally and internationally, and to identify and prioritise various risks.

  This will be coupled with stakeholder engagement, including industry stakeholders. Where useful, stakeholder engagement may also take the form of communicating FSCA endorsement of certain principles or best practises in the market, issuing guidance to industry, and generally signalling the intentions of the regulator in relation to any future frameworks. This with the aim of ensuring that unnecessarily disruptive approaches are avoided.

- **Regulatory framework and supervisory development:** it is well-recognised that regulatory requirements will likely be necessary to ensure level playing fields and consistent outcomes in the field of sustainable finance. Such requirements may include amendments to existing regulation or the introduction of new standards and other regulatory instruments. Where appropriate these will be cross-cutting, but there will also likely be specific requirements developed for certain financial products, services, or financial institutions in future. Frameworks should be appropriately proportionate for different types and sizes of business.

  In addition to regular industry engagement, supervisory priorities and focus areas will need to evolve as the regulatory framework develops. Implementing the regulatory framework will need to be customised to fit the diverse universe of entities the FSCA supervises and this will be facilitated through different supervisory tools and activities.

- **Coordination and cooperation:** the FSCA is a member of the Intergovernmental Sustainable Finance Working Group which comprises relevant other regulators and national government departments. It is also a member of the Climate Risk Forum, to be reconstituted as the Sustainable Finance Initiative, on which industries bodies also serve. Coordination and cooperation will be emphasised in the work of the FSCA on this subject matter. This will include cooperation with the PA, and with regulators and other agencies outside of the financial sector where necessary. Coordination in terms of national responses to the work of international standard setting bodies will also be considered.

  Under the auspices of emerging and evolving national policy, the FSCA's work programme will continue to be informed and shaped by developments in international multilateral organisations like the UN and G20; the various financial sector standard setting bodies like

the FSB, IOSCO and IAIS; and other jurisdiction approaches, especially those taken by financial conduct regulators.

# 4 Way forward

Indicative timelines relating to the FSCA's proposed work programme is detailed in the table below.[5] These are subject to further development and will form the basis of further stakeholder engagements, through public workshops and bilateral engagements, to inform progress on the topics and better understand stakeholder perspectives. An immediate output will include a final Sustainable Finance Roadmap, to be published in 2023.

Mindful of the complexity of these issues, the FSCA then aims to develop outputs for each pillar, such as dedicated position papers with regulatory and supervisory proposals, for further engagement. The work will rely on guidance issued by sustainability experts, as well as international multilateral organisations and standard setting bodies. It will also rely on and be shaped by research undertaken by the FSCA, its fellow financial sector regulators and other relevant government agencies, alongside ongoing supervisory engagements with financial institutions relating to their sustainability approaches and practices.

**INDICATIVE TIMELINES:**

| Pillar | Immediate term (1 – 2 years) | Medium term (2 - 3 years) | Longer term (4 years onwards) |
|---|---|---|---|
| **Immediate output: FSCA Sustainable Finance Roadmap to be produced in 2023** | | | |
| **Pillar 1: Taxonomy** | • FSCA training and upskilling on taxonomy<br>• Assess industry readiness to adopt and implement the taxonomy | • Collaborate with Treasury and other relevant stakeholders in any processes related to updating or expanding the green taxonomy<br>• Develop proposals to drive stronger adoption and use of the green taxonomy<br>• Collect information pertaining to use of taxonomy and effectiveness | • Consider whether legislative requirements are necessary to embed the taxonomy in financial sector regulation as appropriate |
| **Pillar 2: Disclosure, reporting & assurance** | • Support COFI Bill development<br>• Assess industry readiness and | • Evaluate need for specific disclosure requirements for sustainable products and services | • Strengthen and improve reporting<br>• Strengthen and improve |

[5] Notably, the table indicates when the work will be initiated rather than concluded, as many items, like training and upskilling, will continue for multiple years.

| | | | |
|---|---|---|---|
| | implications for ISSB (or other disclosure standards) adoption<br>• Engage relevant stakeholders for purposes of ensuring consistency and coordination regarding sustainability disclosure requirements in South Africa<br>• Conduct research on the current use and presence of ESG ratings agencies and data providers and issue a position paper | offered to retail financial customers<br>• Evaluate need to formal regulatory requirements regarding sustainable product disclosure<br>• Include sustainability disclosures as part of COFI Bill implementation<br>• Monitoring of international developments regarding reporting standards<br>• Develop proposals to build quality assurance relating to reporting and disclosure | product disclosure |
| **Pillar 3: Market development** | • Identify gaps in the sustainable finance market<br>• Conduct research to inform the NT project relating to development of carbon credit market | • Undertake market research and industry engagements to deepen understanding of sustainable finance related securities offerings<br>• Identify gaps in the sustainable finance market<br>• Consider regulatory actions that may support market | • Consider regulatory actions that may support market development in identified areas<br>• Participate in NT project relating to development of carbon credit market |

| | | | |
|---|---|---|---|
| | | development in identified areas<br><br>• Engage the market on and participate in NT project relating to development of carbon credit market | |
| **Pillar 4: Active ownership** | • Undertake market research and industry engagements (including surveys, thematic reviews, bilateral and association engagements) to ascertain levels of active ownership in South Africa | • Undertake market research and industry engagements (including surveys, thematic reviews, bilateral and association engagements) to ascertain levels of active ownership in South Africa<br><br>• Identify weaknesses relating to active ownership (e.g. lack of information) and consider the role of the FSCA in addressing these | • Consider whether formal requirements (similar to regulation 28) may be required for other financial institutions to encourage active ownership in investments |
| **Pillar 5: Financial education** | • Research to understand the customer awareness and understanding in relation to sustainable finance | • Research to understand the customer awareness and understanding in relation to sustainable finance<br><br>• Develop initiatives to promote and provide targeted financial | • Develop initiatives to promote and provide targeted financial education initiatives, including by industry |

| | | | |
|---|---|---|---|
| | | education initiatives, including by industry | |

## Annexure: Developments of relevance to the field of sustainable finance

Some pertinent developments and initiatives are set out in below. They impact on the FSCA to differing extents, but require consideration as the FSCA develops its own approach so that its work is aligned to broader public policy imperatives and to emerging best-practise. This includes alignment to the South African government's commitments in terms of climate change, and other social objectives. The country – and the FSCA – are also signatories to and members of influential international organisations in many instances set requirements affecting what and how information is to be provided. This affects how the country is able to engage in the global economy. For example, many South African entities are compliant with IFRS standards, and are evaluating how sustainability standards currently under development will affect financial reporting. The country is regularly assessed on its financial stability and this is likely to include regular evaluations of how the financial system is responding to climate and other sustainability risks.

It must be noted that the emergence of guidelines, advice and recommendations from multiple stakeholders does pose challenges – including uncertainty as to which initiatives to align to. The FSCA itself is similarly impacted.

Given that this is a rapidly evolving field, this should not be seen as an exhaustive list.

**Domestic**

a) **National Treasury Climate Risk Forum:** this was established in 2020 to take forward the recommendations of the Technical Paper on Financing a Sustainable Economy. Representatives from regulators, government departments and industry serve on the Forum. A number of Working Groups were established on specific themes. Specific outputs produced include[6]:
- Green Finance Taxonomy and embedding guides
- Principles and Guidance for Minimum Disclosure of Climate Related Risks and Opportunities
- Draft Sustainable Finance Handbook for South Africa

These are non-binding, technical outputs developed by government and industry. In 2023, the Climate Risk Forum will be reconstituted as the Sustainable Finance Initiative to reflect its coverage of broader environmental, transition and social risks.

b) **Responsible Investment and Ownership (RIO) Guide:** developed by the retirement fund industry to assist boards of management with integrating ESG factors into investment decisions. It has been endorsed by the FSCA, which is in the process of incorporating the reporting requirements aligned to the RIO Guide into the annual financial statements of funds.

c) **JSE Sustainability Disclosure Guidance and Climate Disclosure Guidance:** issued in 2022, the guidance is intended to assist companies navigate the areas of sustainability thinking and disclosure. Intended primarily to assist JSE-listed companies, this guidance is also of value to institutional investors and the different entities that they invest in (including non-listed companies and debt issuers), as well as a range of stakeholder groups interested in sustainability/ESG disclosure and performance.

The guidance draws on, amongst others:
- The Sustainable Stock Exchanges Initiative (SSE) Model Guidance on Reporting ESG Information to Investors.
- The World Federation of Exchanges ESG Guidance and Metrics.
- The WEF's Measuring Stakeholder Capitalism metrics.
- The ESG metrics developed by various peer exchanges globally.
- The IFRS International Sustainability Standards Board (ISSB) Exposure Drafts for disclosure standards related to climate and sustainability.

[6] These are available on https://sustainablefinanceinitiative.org.za/

These are all non-binding guidance to stakeholders. The JSE will undertake a benchmarking and cost-benefit analysis to assess the implications of making the guidance mandatory for the South African market.

d) **The King Code and King Committee on Corporate Governance:** this aims to promote corporate governance in South Africa and establishes recommended standards of conduct for boards and directors of listed companies, banks, and certain state-owned enterprises. It encourages the practice of good financial, social, ethical, and environmental practice. The King Code extends the responsibilities of boards to consider all stakeholders, not just shareholders, and to ensure that appropriate systems are in place in a company to assess and manage environmental and social risks. It also introduces the concept of Integrated Reporting, which is aligned with global best practice. It is mandatory reporting for listed companies in South Africa.

e) **Code for Responsible Investing in South Africa (CRISA):** CRISA was first launched in 2011 with CRISA 2 launched in September 2022. It aims to encourage institutional investors and service providers to integrate environmental, social and governance (ESG) issues into their investment decisions. It contains five voluntary principles for stewardship and responsible investment. It is endorsed by ASISA, Batseta, FSCA, GEPF and IoDSA.

f) **Financial Sector Code (FS Code):** the outcome of interaction and negotiations between financial sector trade associations, the Association of Black Securities and Investment Professionals (ABSIP), Organized Labor, Community and Government. It commits all participants to actively promoting a transformed, vibrant and globally competitive financial sector that reflects the demographics of South Africa, which contributes to the establishment of an equitable society by providing accessible financial services to black people and by directing investment into targeted sectors of the economy.

The FSCA is set, through provisions of the Conduct of Financial Institutions (COFI) Bill, to play a stronger role in relation to transformation in the near future, including having oversight of the transformation plans of financial institutions.

**International**

a) **UN Sustainable Development Goals:** many companies use the SDGs to assess the impact of their operations and investors use the SDGs as a matrix to structure their ESG approach. Sustainable Development Goal Disclosure (SDGD) Recommendations have been developed and are promoted by the Association of Chartered Certified Accountants (ACCA), Chartered Accountants ANZ, the Institute of Chartered Accountants of Scotland (ICAS), the International Federation of Accountants (IFAC), the International Integrated Reporting Council (IIRC) and the World Benchmarking Alliance (WBA).

b) **The UN Principles for Responsible Investment (PRI):** an international organization that works to promote the incorporation of environmental, social, and corporate governance factors (ESG) into investment decision-making. Launched in April 2006 with support from the UN, the PRI has over 4,900 participating financial institutions, as of March 2021. These institutions participate by becoming signatories to the PRI's six key principles and then filing regular reports on their progress. Around 80 South African organisations are listed as PRI signatories, including the Government Employees Pension Fund.

c) **Global Reporting Initiative (GRI) Sustainability Reporting Standards:** released in 2021, these standards are developed to "enable an organisation to publicly disclose its most significant impacts on the economy, environment, and people, including impacts on their human rights, and how the organisation manages these impacts"

d) **International Sustainability Standards Board (ISSB):** The ISSB will develop, in the public interest, IFRS Sustainability Disclosure Standards that provide a global baseline of disclosure requirements designed to give investors high quality, globally comparable sustainability information that can be used by jurisdictions on a standalone basis or incorporated into requirements to meet broader, multi-stakeholder or public policy needs. The ISSB will work in close cooperation with the International Accounting Standards Board (IASB) to ensure connectivity and compatibility between IFRS Accounting Standards and IFRS Sustainability Disclosure Standards. Proposals have been developed in response to requests from G20 leaders, the International Organization of Securities Commissions (IOSCO) and others for enhanced information from companies on sustainability-related risks and opportunities.

e) **G20 Sustainable Finance Roadmap:** in 2021, the G20 leadership re-established the Sustainable Finance Working Group (SFWG). The SFWG was mandated by Finance Ministers and Central Bank Governors to develop a G20 Sustainable Finance Roadmap to help focus the attention of the G20, international organizations and other stakeholders to key priorities of the sustainable finance agenda and form consensus on key actions to be taken. The Roadmap is a multi-year document with a voluntary set of recommendations that will help inform the broader G20 agenda on climate and sustainability, future workplans of the SFWG, and other relevant international work.

f) **G20/OECD High-level Principles on Financial Consumer Protection:** the international standard for effective and comprehensive financial consumer protection frameworks. Over the course of 2021/22, the Principles were updated to ensure they reflect global best practices and are forward-looking. The updated Principles were endorsed by G20 Leaders and adopted by OECD Governments in 2022. The update includes three new cross-cutting themes that are relevant to the consideration and implementation of each and all of the Principles, namely “Digitalisation”, “Financial Well-being” and “Sustainable Finance.” References throughout the Principles illustrate the cross-cutting themes.

g) **Task Force on Climate-related Financial Disclosures (TCFD):** established in 2015 by G20 Finance Ministers and Central Bank Governors within the Financial Stability Board (FSB). Has issued climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocation. The disclosure recommendations are structured around four thematic areas that represent core elements of how companies operate: governance, strategy, risk management, and metrics and targets. Around 1,700 organizations worldwide, in the public and private sectors, as well as government entities, support the TCFD.

New Zealand and the UK are mandating climate risk disclosures in line with the TCFD by 2023 and 2025 respectively.

h) **FSB Roadmap for Addressing Climate-related Financial Risks:** published in 2021 and prepared in consultation with standard-setting bodies and other relevant international bodies. It supports international coordination and focuses on work to assess and address financial risks of climate change through four main, interrelated areas: firm-level disclosures; data; vulnerabilities analysis and regulatory and supervisory tools.

i) **IOSCO Sustainability Task Force (STF):** Further to the publication of its report titled Sustainable Finance and the Role of Securities Regulators and IOSCO in April 2020, IOSCO established a Board-level Sustainability Task Force to carry out work in three areas:

- Workstream 1 - sustainability-related issuer disclosures
- Workstream 2 - sustainability-related practices, policies, procedures, and disclosures for asset managers
- Workstream 3 - ESG ratings and ESG data providers

In June 2021 the STF published Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management. If ISSB standards are endorsed by IOSCO, IOSCO will consider creating guidance so that adoption of ISSB standards can proceed in a comparable manner across jurisdictions. In parallel, IOSCO is working with relevant stakeholders on complementary aspects of its vision to strengthen the ecosystem of corporate sustainability reporting.

j) **IAIS climate risk steering committee:** while the IAIS considers that the ICPs are sufficiently broad to cover climate risks, they will make a limited number of changes to Insurance Core Principles (ICP) guidance to make it even more explicit that insurance supervisors should require insurers to incorporate climate-related risks into their day-to-day operations, including in governance, enterprise risk management and disclosures.

k) **IOPS Supervisory guidelines on the integration of ESG factors in the investment and risk management of pension funds**: published in 2019, this highlights a range of challenges to be met by pension funds governing bodies, asset managers and pension supervisors on the topic of ESG .

l) **OECD Guidance on Transition Finance**: sets out elements of credible corporate climate transition plans, which aim to align with the temperature goal of the Paris Agreement. Such plans are needed to address the growing risk of greenwashing in transition finance and facilitate a global, whole-of-economy climate transition. Based on extensive stakeholder consultations, including an industry

survey, the guidance provides market actors, policy makers, and regulators with a comprehensive overview of existing transition finance approaches, identifying the main challenges and solutions.

m) **Sustainable Banking and Network (SBFN):** SBFN is a platform for knowledge sharing and capacity building on sustainable finance for financial sector regulators and industry associations across emerging markets. SBFN helps mobilize information, resources, and practical support for members to design and implement national initiatives that advance sustainable finance at national, regional, and global levels. Members are committed to moving their financial sectors towards sustainability, with the twin goals to:

- Improve the management of environmental, social, and governance (ESG) risks – including climate risks – across the financial sector.
- Increase capital flows to activities with positive environmental and social impacts, including climate change mitigation and adaptation.

74 institutions from 62 countries have joined SBFN since 2012 and have collectively developed a common framework for aligning their markets with sustainable finance principles. Members include ministries of finance and environment, central banks, capital market regulators, and banking associations.

n) **European Union initiatives:**

- **EU Taxonomy regulation:** The Taxonomy Regulation was published in June 2020 and entered into force on 12 July 2020. It establishes the basis for the EU taxonomy by setting out 4 overarching conditions that an economic activity has to meet in order to qualify as environmentally sustainable.

- **Sustainable Finance Disclosure Regulation (SFDR):** implemented to ensure equal competition and legal certainty for all companies operating within the EU. The main provisions of the SFDR have been applicable as of 10 March 2021, with a statutory instrument known as a Delegated Act containing more precise disclosure standards yet to be adopted by the European Commission.

- **Corporate Sustainability Reporting:** Directive 2014/95 – also called the Non-Financial Reporting Directive (NFRD) – lays down the rules on disclosure of non-financial and diversity information by certain large companies.

  In June 2017 the European Commission published its guidelines to help companies disclose environmental and social information. In June 2019 the European Commission published guidelines on reporting climate-related information. On 21 April 2021, the Commission adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD)

- **The European green bond standard (EUGBS):** a voluntary standard to help scale up and raise the environmental ambitions of the green bond market. Once it is adopted by co-legislators, this proposed Regulation will set a gold standard for how companies and public authorities can use green bonds to raise funds on capital markets to finance such ambitious large-scale investments, while meeting tough sustainability requirements and protecting investors.