Global Research
& Analytics

CRISIL
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Rising to the ESG challenge

Asset managers need to upgrade operational capabilities to meet investor expectations

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Executive summary

Demand from institutional investors for both, sustainable assets, and dedicated environmental, social and governance (ESG) products is expected to grow manifold in the coming decade. The next wave of such demand is likely to be driven by asset owners, millennials and global regulatory push.

However, ESG practices of a large proportion of global asset managers (AMs) remain nascent and underinvested.

CRISIL GR&A conducted a bottom-up study to understand the prevailing ESG practices of 60 global AMs based on their public disclosures. We see operational gaps and insufficient investment in ESG capabilities necessary to achieve integration:

- Only 10% of the AMs have embraced the best-in-class ESG practices across the entire investment value chain. The leaders have a holistic ESG policy backed by senior management; advanced frameworks capturing materiality across asset classes; wide range of ESG metrics covering sustainability; and use a combination of more than 5-6 external data providers and in-house proprietary data. They have large teams of ESG specialists, generally more than 20 members, or 6 specialists per $100 billion in assets under management (AUM), to drive strong stewardship and full integration

- Around 80% of the AMs are catching up on best-in-class integration, but they face multiple operational bottlenecks. Some of the common gaps are underdeveloped material frameworks (integration restricted to few asset classes); inadequate data competencies (high reliance on third-party data providers and limited efforts to address data gaps); and insufficient specialists in ESG teams (generally less than 10 members, or 6 specialists per $100 billion in AUM).

We observe most AMs are re-evaluating their ESG practices to differentiate themselves and deliver active alpha. A successful ESG strategy will encompass a holistic data strategy executed by a team of fundamental research analysts and ESG specialists. It will be underpinned by a savvy investment process focused on sustainability outcomes and continuous monitoring of risks and performance. In this context, AMs have to take the following steps:

- **Build custom-integrated frameworks with focus on financial materiality:** It is likely the standards will be harmonised at a broad level, but regional variations will continue. Investors need to adopt a blended framework of the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) until disclosures improve. The internal integrated framework has to be customised for specific asset classes and sectors. Incorporating forward-looking metrics, the framework should be robust enough to factor in a wide range of themes, including climate risks, decarbonisation, business resilience, board and executive diversity, and community impact

- **Address the missing data challenge with deep domain knowledge and proxy data sources:** Investors need to use the right mix of ESG data supply to avoid biases and address missing data gaps that account for 40-50% of the material data inputs. In addition to third-party data providers, AMs need to overlay domain expertise with proxy sources such as secondary/ alternative data and enhanced due diligence to address the missing data gaps. Active AMs should focus on engagement and contextualisation, and form a forward-looking view of ESG risks and performance to deliver alpha

- **Streamline the investment process to focus on sustainability alignment and real-time monitoring:** ESG integration is not a one-time exercise, and AMs will be required to demonstrate full integration and credibility of their sustainability products. AMs need to adopt systems and processes for real-time monitoring of ESG risks and sources of alpha; alignment of the portfolio with sustainability goals and policies; benchmarking the ESG characteristics of the portfolio; and, impact measurement.

Time to revamp ESG practices

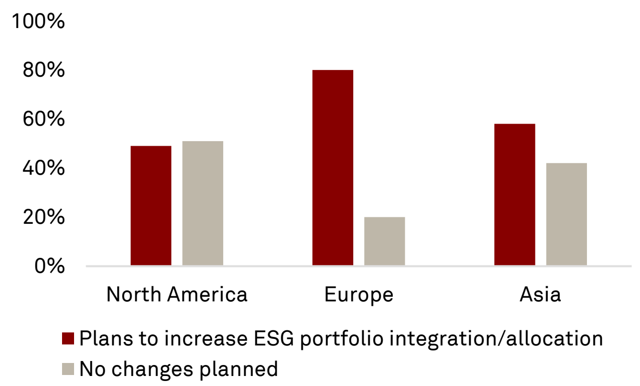
ESG is now mainstream. The momentum is likely to accelerate further with the convergence of favourable investor sentiment and a rising focus on social factors since the Covid-19 pandemic. There has also been a constant flow of ESG-related regulations, especially in Europe. The convergence of reporting standards, taxonomy and labelling at the global level could take years. However, AMs must be ahead of the game and focus on ESG integration and impact measurement to differentiate themselves and avoid losing mandates. AMs should solve operational bottlenecks around data and framework and deliver outcomes to achieve ESG integration. They also need to adopt industry best practices around ESG materiality, tackling missing data and enhancing ESG signals to meet investor expectations. In this context, we look into the drivers, bottlenecks, industry best practices, and the road ahead for AMs.

More sustainable products ahead, Covid-19 pandemic will be a spur

Demand for sustainable products continues to surge: Global sustainable assets grew 34% to $30.7 trillion during 2016-18, according to the Global Sustainable Investment Alliance. The amount invested in ESG assets is expected to increase by another $15-20 trillion over the next two decades, according to BofA Merrill Lynch Global Research. The demand for sustainable funds has also intensified with the surge in demand from millennials and institutional investors: The AUM of ESG mutual funds and exchange-traded funds, which quadrupled to $220 billion over 2014-19, are expected to grow six times to $1.2 trillion by 2029, according to BlackRock.

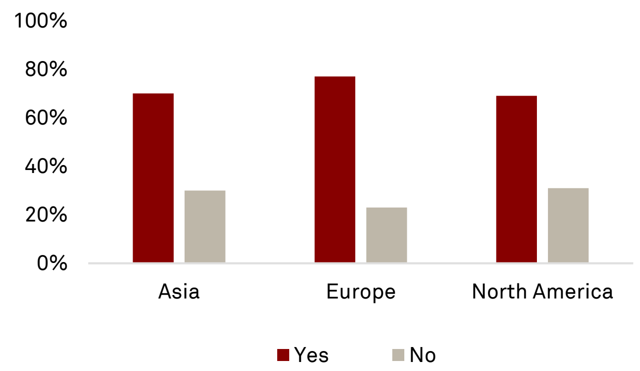
Rising ESG allocation among asset owners to propel sustainable investing: ESG is now a key part of AM selection for awarding mandates or outsourcing fund management activities. Asset owners and allocators are looking for managers who can clearly articulate important investment-level ESG messages, while conveying a sense of firm-wide dedication to ESG principles. Nearly 75% of the investors indicated they could put a mandate out for bid that did not meet their ESG guidelines, according to a recent Greenwich Associates survey.

How do you plan to use ESG in your portfolio over the next three years?



Source: Greenwich Associates 2019 Survey

Would you reject a mandate that did not meet your ESG guidelines?



Source: Greenwich Associates 2019 Survey

Covid-19 could reshape ESG investing and accelerate full integration: While it is too early to make definitive judgments, emerging evidence suggests that sustainable funds with a focus on strong ESG profiles outperformed their peer groups in the first quarter of 2020. The current crisis could be a tipping point for ESG as a source of alpha.

The pandemic crisis has brought the social dimension back to the forefront, while climate change and governance had garnered attention over the past 2-3 years. Several AMs have been upfront on collaborative engagement and provide guidance to companies around payroll benefits, managerial incentives and even dividend cuts. Investors are now looking to assess firms based on multiple social factors that have become financially material, especially related to employee welfare, operational resilience and supply-chain stability. For instance, UK's Schroders has stepped up engagement efforts, collaborating with FTSE 100 companies on employee mental health and support for employees through the crisis. We expect the renewed focus of AMs on social factors to accelerate the momentum towards sustainable investing.

Regulatory push to hasten sustainable investing

Regulation will be a key driver in the ESG wave with the landscape staying affected by inconsistent disclosure, greenwashing and incorrect nomenclature. Regulations have started to take shape in Europe and are likely to follow suite in the US and the Asia-Pacific (APAC). ESG regulations will continue to rise and evolve over the next few years and even vary regionally.

- **European rules could drive global sustainable standards similar to MiFID-II:** Europe has been at the forefront of ESG disclosures, carbon regulations and taxonomy. In particular, the EU sustainable finance action plan proposed in 2018 focuses on critical facets such as standardised EU labelling; enhanced disclosure duties for corporates and AMs; benchmarks for low-carbon investing; and, transparency. Some regulatory aspects, especially around disclosures, have already been adopted in the 1Q20. Aspects related to taxonomy will come into effect by 2021
- **The US has increased ESG scrutiny:** The Securities and Exchange Commission (SEC) has become increasingly active on the ESG front after a group of institutional investors requested to mandate ESG disclosures. In 2019, the SEC sought information related to ESG recommendation, methodologies and stewardship activities from managers. The US ESG disclosure bill was also introduced in Congress. Notably, the SEC chair recently raised scepticism over the usage of a single rating metric to understand multiple ESG factors related to a company
- **ESG regulations in the Asia-Pacific at a nascent stage:** In the Asia-Pacific, the existing initiatives are mostly centred on improving ESG disclosures of corporates. Regulators in developed financial regimes such as Hong Kong, Singapore and Japan have been taking the lead and strengthening their stewardship and disclosure norms. AMs need to proactively integrate best-in-class ESG practices into their investments to meet the needs of global capital. This could also provide a significant head start and provide opportunities to tap alpha in the Asia-Pacific, which has traditionally lagged in ESG performance

The current regulations have a higher focus on environmental factors. While the upcoming regulations could solve a few of the problems, they may not completely address issues around financial materiality and, therefore, will not be a comprehensive solution. The eventual success of the regulations will depend on harmonisation, enforcement and adoption. Asset managers also need to actively collaborate with regulators, standard setters and corporates to drive good sustainability practices across the ecosystem.

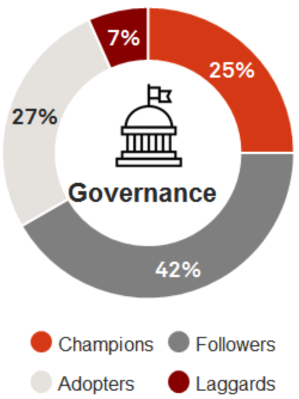
Enhancing capabilities to achieve ESG integration

CRISIL GR&A conducted a bottom-up study to understand the state of ESG practices of 60 global AMs representing $41 trillion of assets under management. The study focuses on three dimensions: (1) the ESG governance set-up; (2) operational capabilities, covering ESG teams, frameworks and data; and (3) commitment to active stewardship. The study highlights operational gaps and insufficient investment in capabilities; these issues have to be tackled to achieve ESG integration and leadership. Only a few firms have truly adopted an integrated ESG approach.

ESG practices of most AMs still nascent and underinvested

We notice a rising commitment to sustainable investing across several AMs, but only a few have adopted integrated ESG practices across the investment management process. Many firms have lagged in execution capability, because of: (1) an underdeveloped framework that fails to reflect material risks across different sectors; (2) poor data competencies that fail to address inadequate and inconsistent disclosures; and (3) insufficient ESG talent to drive stewardship and engagement.

1. Rising interest in sustainable investing, buy-in from senior management gaining traction



Champions

- Comprehensive policy backed by senior management
- Integrated approach across research, construction and stewardship
- Incorporated across all asset classes; focus on the sustainability impact
- A strong ESG product portfolio

Followers/adopters

- A broad policy backed by senior management; annual disclosures
- Moderate integration across equity and fixed income
- Limited ESG funds covering generic sustainability themes

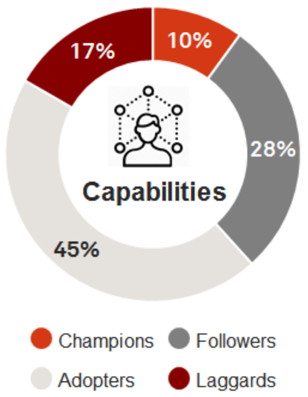
Laggards

- A broad policy with limited oversight from the board; limited disclosures
- Screener- and theme-based approach limited to equities
- Limited ESG funds

Around two-thirds of the AMs have displayed modest to high commitment to sustainable investing backed by their senior management. However, the best-in-class firms (25%) have a comprehensive policy, driving the ESG practice across all asset classes. Furthermore, the head of the ESG team generally reports to the CIO in these firms.

2. AM frameworks underdeveloped; ESG talent and data competencies lacking

Many AMs have adopted a sustainable framework, but only some have a customised integrated framework that enables AMs to effectively quantify material risks and assess sectoral and regional risks in their portfolios. For instance, DWS bank uses the SASB framework as a starting point and adds an overlay of the corresponding analyst's judgement.



Champions

- Custom framework – all asset classes and material risks
- Use more than 5-6 data providers (generalists and specialists)
- Adequate material measures across sectors to bridge the missing data gap through domain expertise , secondary sources and alt-data
- Due diligence for data assurance
- Generally >20 ESG specialists or >6 per $100 billion AUM

Followers/adopters

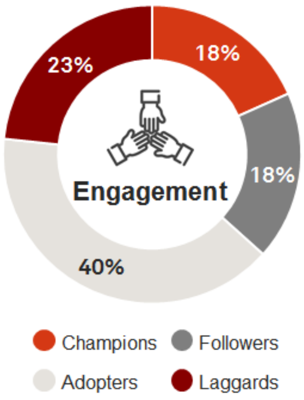
- Custom framework – limited integration of material risks
- Use a mix of 3-4 standards and specialist data providers
- Moderate effort to bridge missing data through proxy-sources
- Generally <10 ESG specialists or <6 per $100 billion AUM

Laggards

- Framework aligned with the SDG Goals – limited integration of 'E' and 'S' factors
- Rely on 3-4 external generic data providers
- No specific strategy to address missing data
- Under-invested ESG team; high reliance on third-party ratings

- **Data sourcing and effective usage have been challenges.** A majority of AMs source ESG data from multiple data providers, including standard and specialised providers. However, only 15% of AMs have displayed best-in-class data-sourcing practices, such as ensuring data quality through internal auditing of data, addressing data gaps through due diligence and channel checks, and exploring alternative data. For instance, Legal & General Investment Management (LGIM) goes beyond traditional realms to address missing-data challenges. It gets ESG data from multiple sources (data providers, sell-side and in-house research) and collates it in a central data repository. The data is used for the preliminary assessment of over 3,000 companies on 30 financially material ESG indicators across 70 sectors. The targeted companies are subsequently scored on over 170 indicators based on various issues, including the articulation of risk and opportunities, level of transparency and how they lobby on climate regulations strategy.
- **Investment in ESG resources remains low:** Only 30% of AMs have large teams with more than 20 dedicated ESG specialists. Some have displayed strong capabilities by leveraging their resources effectively, as the ability to translate ESG information into investment decision remains critical. The Dutch pension capital investor APG Asset Management has an ESG team of 70 associates, who support portfolio managers in responsible investing, assess unlisted investments for ESG risks and engage with all key stakeholders on sustainable-development issues.

3. Engagement with companies remains high, but only some raise sustainability issues with companies



Champions

- Engage with companies on sustainability issues
- Voting decision based on a top-down approach
- Transparent disclosure

Followers/adopters

- Engage with companies only on key ESG issues
- Voting decision driven by the RI team
- Moderate disclosure

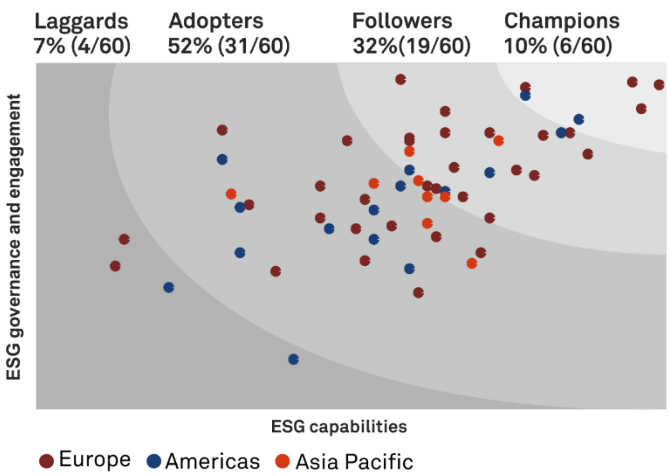
Laggards

- Engagement largely restricted to investment decisions
- Voting decision taken by investment teams
- Limited disclosure

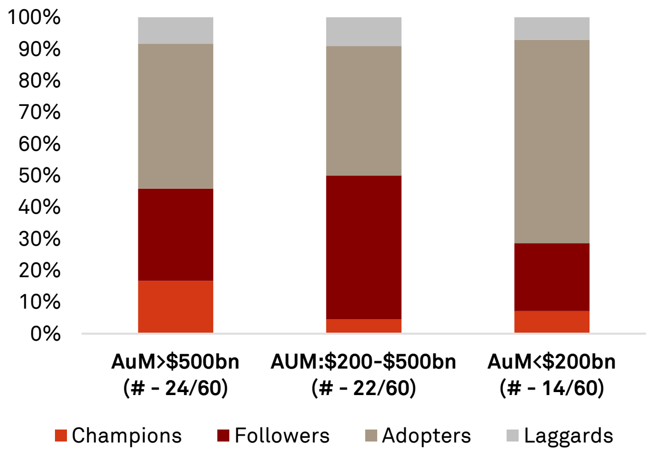
- Most AMs engage with companies as a part of their investment process, but only some have displayed best-in-class practices by being proactive and upfront with companies on sustainability issues. These firms exhibit strong coordination between stewardship and investment team in proxy voting and ESG-related engagements. New York-based Alliance Bernstein (AB) has direct communication with issuers and stakeholders during its investment process and also as a part of continuous monitoring. In the event of an issue not being handled satisfactorily by management, AB escalates the issue to the board of directors. It is also transparent around its voting disclosures.

ESG approaches vary by size and region

European AMs are slightly ahead



Large AMs fare better



Source: CRISIL GR&A

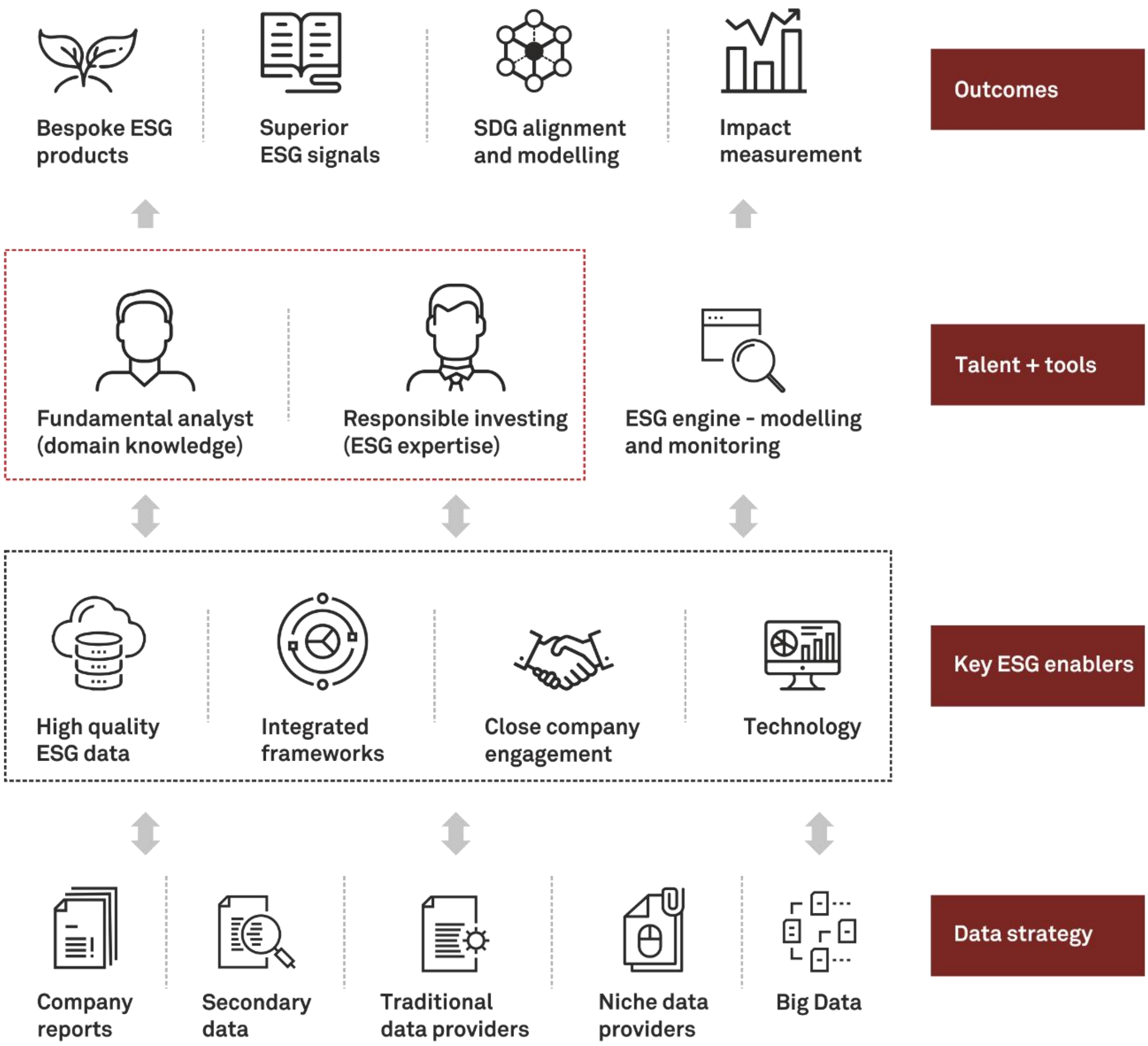
Only 10% of the AMs have embraced best-in-class ESG practices across the entire investment value chain, while ~80% are catching up. European AMs have better ESG practices than their American and APAC counterparts, driven by relatively evolved regulatory environment, and persuaded by large asset owners. Insurance AMs tend to have more integrated ESG practices, driven by more stringent regulation (for example, model catastrophic risks), LDI strategies that warrant long-term holdings, and the need to be portrayed as responsible owners.

Roadmap to best-in-class ESG practices

Investors are increasingly showing the urgency to integrate sustainability across their investment decisions. While the external ESG data and ratings ecosystem has evolved over the past two to three years, investors have continued to face considerable data-quality challenges due to divergent frameworks, lack of reported data and material key performance indicators (KPIs), and underinvestment in ESG expertise.

A successful ESG strategy will encompass a holistic data strategy, executed by a team of fundamental research analysts and ESG specialists, underpinned by a savvy investment process focused on sustainability outcomes and continuous monitoring of risks and performance. This will help drive bespoke ESG products, active ownership and alignment towards sustainability.

Leadership roadmap: bringing it to all together



Source: CRISIL GR&A

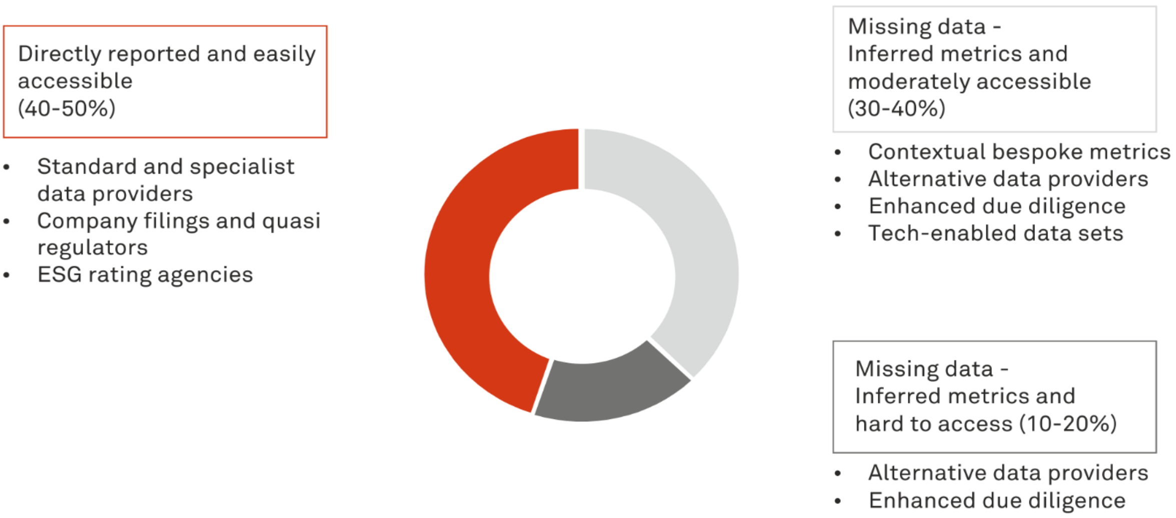
1. Build custom-integrated frameworks with focus on financial materiality

The ongoing collaboration between setters of standards and regulators will resolve the issue of missing ESG data to some extent. This will also drive acceptance of standardised disclosures, but customised reporting is likely to continue as many companies perceive ESG issues to be endogenous and difficult to standardise. Reporting data harmonisation could take longer, while the full convergence of GRI and SASB is unlikely. In this context, AMs need to:

- **Adopt integrated custom frameworks with focus on materiality:** Investors will have to build custom scorecards based on bespoke metrics to improve the quality of assessment. The internal framework needs to be customised for specific asset classes, sectors and regions. It should cover multiple mega trends, including climate change transition risks and carbon risks. Financial investors need to align their frameworks with established material frameworks such as the SASB framework over the long term. However, they will need to use a blended approach based on the GRI and the SASB frameworks until regulation and disclosures improve. We expect a large proportion of corporates will continue to report based on GRI standards along with other reporting frameworks to cater to a wide range of stakeholders. On balance, larger investors such as BlackRock and State Street have requested firms to disclose in accordance with SASB.
- **Lay emphasis on sector-specific metrics and future performance:** The effectiveness of assessing ESG risks has long been criticised by investors for being backward-looking. To overcome this, investors need to build custom scorecards based on industry-specific metrics and measure the performance based on forward-looking elements.
- **Measure 'social factors' in the light of Covid-19:** For long, the social dimension has lagged the environment and governance factors in ESG practices. According to the SASB's state of disclosure reports, around 60% of social indicators are not directly disclosed. Furthermore, social disclosures, such as employee welfare, operational resilience and supply-chain stability have become financially significant during Covid-19.

2. Address missing data via domain knowledge and proxy sources

ESG data spectrum



Source: CRISIL GR&A, SASB

We believe investors can source 40-50% of the required material ESG data from traditional sources, but they continue to face significant challenges in sourcing the remaining inputs. It is imperative that AMs bridge this gap to enhance the quality of ratings or scores. They need to overlay domain expertise with proxy sources such as secondary or alternative data, and enhanced due-diligence to address the gaps. AMs need to:

- **Refine secondary data with domain knowledge:** Data gaps in emerging markets and private companies can be particularly bridged using alt-data sources, such as websites of sector-relevant regulatory bodies, industry databases, web search, non-government sources and news media websites for the missing ESG data not disclosed by companies. Investors can also use domain experts to identify and create the right data proxies for sectors.

- **Tap alternative data for non-traditional insights:** The current alternative data vendors provide a wide range of data sets covering geo-spatial datasets of physical assets and emissions data to identify industry- or company-specific risks. AMs could also build in-house capabilities to generate alternative datasets including automated news screeners to flag any negative ESG events; historical calamity data; social media sentiment scores for changes in customer or employee perceptions; and, automated algorithms that screen company filings and proxy documents to generate alerts on material changes in the governance framework.

- **Conduct enhanced due diligence to fill ESG data gaps and assure data quality:** AMs should conduct enhanced due-diligence and use ESG questionnaires to access hard-to-access data (such as supply-chain risks, community impact and management quality). It enables AMs to achieve active stewardship and better ESG outcomes.

- **Forward-looking ESG data will need to come from active research:** Fundamental analysts need to quantify and integrate ESG into their forecasting and valuation models under various scenarios. They need to consider how the risk will evolve over the next three to five years within that industry and adjust the financial forecasts, especially on future revenue, costs, and capital expenditure and potential ESG-related liabilities. Analysts need to leverage their domain knowledge to analyse entities on a contextual basis (e.g., aligned by region, sector and size).

3. Streamline investment process, focus on sustainability, monitor real-time

ESG integration is not a one-time exercise, and AMs will be required to demonstrate full integration and ensure the credibility in terms of sustainability of their products on an ongoing basis given rising worries about ‘SDG washing’ and ‘false labelling’. AMs need to build or adopt systems and processes for real-time monitoring of ESG risks and alpha returns; alignment of the portfolio with sustainability goals and policies

- **Portfolio managers need to adopt or build tools to deliver on sustainability alignment**: Firms need to build or adopt tools that: (1) accommodate diverse themes, including low-carbon transition, natural resources, stakeholder management, board quality and corporate culture; and (2) set minimum standards relevant to controversial sectors, international themes, and security-specific (best-in-class equity ratings, green bonds, and sovereign ESG) and climate transition risk ratings. It is essential for funds to optimise their portfolios based on multiple key impact metrics, including net SDG revenue, carbon emissions, contribution to specific themes and target portfolio quality.

- **Robust risk and return attribution crucial, as investors begin to probe alpha linked to ESG:** Institutional investors and consultants are increasingly requesting AMs to demonstrate and report the risk-return characteristics of the portfolio from an ESG perspective. AMs, therefore, require a good understanding of what drives the returns on sustainability funds on a real-time basis. They need to: (1) track portfolio quality in relation to benchmarks and competing funds; (2) perform the attribution of portfolio risk and returns to ESG factors, alongside traditional factors; and (3) understand the sources of unique ESG risks and opportunities corresponding to each industry, region or country.

- **AMs need to monitor ESG signals on a real-time basis:** The portfolio managers need to build a robust alert system that tracks and monitors ESG news related to their portfolios and sensitive sectors. The system will need to provide ESG teams with the ability to analyse information at a granular level – ranging from the company to the portfolio – to identify potential ESG risks.

CRISIL’s observations of ESG practices

We see a number of our AM clients taking steps to align their ESG practices to address issues related to frameworks, data availability and engagement. We highlight a few of these measures:

Focus areas	Approach of our clients	Impact
Integrating positive impact in ESG evaluation	Negative screening of the portfolio based on sustainability themes, appended with the screening of companies for their exposure to the set of sustainability themes	Effectively demonstrate commitment to sustainability themes during client request for proposal (RFP) processes and investor groups
Conducting materiality ESG assessment for EM stocks	Adopted the SASB materiality map to identify and compare disclosure topics. Identified key social risks that were not reported by the company	Identify hidden opportunities and risks linked to material ESG issues
Converting ESG metrics to industry-specific measurable metrics	Modified the individual sample reporting metric within the SASB to introduce industry specificity. Helped assess the direct and indirect sector exposures to specific issues, including the impact of greenhouse gas emissions on supply chains	Evaluate ESG exposures linked to evolving industry dynamics, focusing on significant sector metrics that may not be available in company-reported data
Integrating multiple ratings for ESG assessment	Developed a proprietary ESG assessment scorecard, combining scores from three data providers. PMs carried out due diligence of red flags based on the combined score to ascertain any false positives	Avoid the delineation of ESG assessment from fundamental company assessment, enabling PMs to highlight inherent biases in third-party ESG ratings
Leveraging standardised taxonomy to enable peer comparison	Integrated ESG peer assessment into company research notes. Leveraged SMART – CRISIL’s modelling and data platform – to record and archive ESG data. The platform adopts a standardised definition of ESG metrics across companies and enables auditability with source filing	Reduce the cost of ESG data acquisition, while streamlining peer analysis of ESG metrics
Driving industry-best practices in ESG engagement	Adopted a consistent approach to company engagement on ESG across multiple investment teams. Developed sector-specific and region-specific ‘ESG tear-sheets’ comprising material ESG issues to be probed during management interactions	Help demonstrate commitment to active company engagement on ESG issues during client RFPs and investor groups
Conducting real-time ESG news surveillance	Integrated real-time ESG risk flags based on the analysis of news developments and social-media feeds	Early recognition of hidden risk flags helps AMs to take decisive portfolio management decisions

Source: CRISIL GR&A

Appendix

ESG benchmarking approach

CRISIL GR&A has conducted a bottom-up study to understand the state of the ESG practices of 60 global AMs based on their public disclosures. The study focuses on three dimensions: (1) ESG governance set-up; (2) operational capabilities covering ESG teams, assessment frameworks and access to data; and (3) commitment to active stewardship. These 60 AMs represent a reasonable mix of AMs across various regions (Europe [57%], the Americas [27%] and APAC [16%]). The broad parameters considered under each sub-criteria are given below.

ESG governance and integration

- **Holistic approach to ESG (20% weight)**: For this sub-criterion, we focus on the firms' ESG policy and commitment displayed by senior management. We also evaluate sustainability reporting adopted by the firms. Our assessment also includes the United Nations-backed Principles of Responsible Investing (UNPRI) rating of firms.
- **Embedding ESG (20% weight):** The assessment of this criterion includes the level of ESG integration in the firm. For this, we evaluate how the firm integrates ESG in its portfolio construction (screening/thematic) and whether it has been used across asset classes.

ESG capabilities

- **Deployment of custom framework (11% weight):** We examine the ESG framework and standards adopted by the firm and assess whether they cover the risks related to climate change, carbon, fossil fuels and biodiversity sufficiently. It is also critical for firms to measure the contribution to SDG goals.
- **Specialised ESG team (11% weight)**: For this sub-criterion, we assess the in-house ESG capabilities of the firm. This includes team size, responsibilities of the team and role of the team in portfolio construction.
- **ESG data sourcing and integration' (13% weight):** We assess the firms' data sourcing strategy in this sub-criterion. The ability of the firms to source data from third parties and integrate it into their proprietary models is critical for successful ESG integration. We also assess the firm's strategies (such as domain expertise, secondary data, alt-data and enhanced due diligence) adopted to address missing-data challenges.

ESG engagement

- **Active ownership (20% weight):** The level of engagement with various companies on sustainability sues is assessed in this sub-criterion. We also study the role of the dedicated responsible-investing team in active ownership activities.
- **Collaboration (5% weight)**: In this sub-criterion, we look for a firm's collaboration efforts with external stakeholders, such as academia and advocacy organisations, on sustainability issues.

We have sourced the data from companies' sustainability reports/policies, the latest UNPRI transparency reports, industry reports and press articles. As a general practice, we have assigned a lower rank for lack of disclosures of the above-mentioned sub-criteria.

Snapshot of key sustainability standards, frameworks and taxonomy

The sustainability landscape is crowded by multiple reporting frameworks. Each framework lays emphasis on different aspects – GRI, International Integrated Reporting Council (IIRC) and SASB are holistic frameworks, while Task Force on Climate-related Financial Disclosures (TCFD) and Carbon Disclosure Project (CDP) lay more focus on climate risks.

	Scope and target audience	Key elements
Global Reporting Initiative (GRI)	• Formed in 1997. Broader in scope. Outward-looking, facilitates reporting on economic, environmental and social performance and impact • Caters to a wide variety of global stakeholders • 4000+ global companies report based on GRI	• Qualitative and quantitative ESG disclosures • General and specific for some sectors • Covers multiple SDGs
The Sustainability Accounting Standards Board (SASB)	• The SASB was set up in 2011. Inward-looking, facilitates disclosures of significant sustainability information • Easy for investors to understand the impact of ESG risk on financial performance • The SASB's Investor Advisory Group represents $30 trillion in AUM • ~140 firms have adopted SASB, expected to rise to 300 by end 2021	• Quantitative metrics for material ESG topics • SASB standards, available for 77 industries • Covers multiple SDGs
Task Force on Climate-related Financial Disclosures (TCFD)	• Established in 2015 by the Financial Stability Board (FSB). A market-driven initiative to develop voluntary climate-related financial risk disclosures • Aimed at guiding investors, lenders and public stakeholders through mainstream filings • 1,000+ firms have supported TCFD • Studies indicate that nearly 80% of the TCFD's 50 illustrative metrics are fully or reasonably covered by CDP, GRI and SASB indicators	• Financial impact of climate-related risks • Physical, liability and transition risks linked to climate change
Climate Disclosure Standards Board (CDSB)	• The CDSB was founded in 2007 by an international consortium of business and environmental NGOs to set a framework to report environmental and climate change • 300+ firms have adopted the CDSB framework	• Environmental information with the same rigour as financial information
Carbon Disclosure Project (CDP)	• The CDP is a UK organisation set up in 2000. It supports disclosure of environmental impact by corporates	• The CDP focuses on climate change, water security and deforestation
Sustainable Development Goals (SDG)	• The goals of the SDG, launched in 2015, comprise a broad set of development goals and targets to be achieved by the whole world by 2030	• Climate-change mitigation and adaptation • Sustainable use of water and resources
International Integrated Reporting Council (IIRC)	• Formed in 2010 to create a global framework for companies to communicate their value creation • Global coalition of regulators, investors, companies, standard setters, accountants, academia and NGOs	• Strategic focus and future orientation • Materiality that affects organisations' ability to create value

Source: CRISIL GR&A

ESG Regulatory landscape across US and Europe

The ongoing regulatory push will require institutional investors and AMs to completely overhaul their disclosures, policies and procedures to comply with evolving rules across regions and jurisdictions.

	Taxonomy regulation/ Green bond standards	Disclosures and investment selection	Benchmark regulation
Regional regulation	**Europe** • EU Sustainability Taxonomy (2020); implemented by 2021-end • EU Green Bond Standard (2019)	**Europe** • EU Regulation on Sustainability Disclosures (2018)	**Europe** • New EU Climate Transition and Paris-Aligned Benchmarks and Adaption (2019) – Alignment by December 2021
	US • The Loan Syndications and Trading Association published its Green Loan Principles (2020)	**US** • The proposed rules will require corporates to align climate change disclosures as per the Financial Stability Board (FSB)'s Task Force on Climate-related Financial Disclosures; disclosure by 2022	**US** • Governments can use benchmarking programmes – Guidelines produced by the US Environmental Protection Agency
Implications	• Streamlines the green portfolio construction process; enables asset allocators to assess different sustainable funds	• Disclosure of sustainable investments and sustainability risks in pre-contractual disclosures and post sustainability policies	• Ask/provide reporting on ESG and climate for funds and indices
Challenges	• Inadequate disclosures specifically in non-EU companies • Granular standardisation could hinder innovation and restrict choices of asset owners	• The timeline (January 2022) of disclosure regulations seems challenging for AMs with investee companies set to report only in 2023	• The regulatory environment for pension funds (a fixed proportion in fixed income, investing in illiquid assets) makes it difficult to move towards Paris-aligned benchmarks • Listed AMs and insurance firms are exposed to short-term performance pressures

Source: CRISIL GR&A

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