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SUSTAINABLE INVESTING 2.0

WHAT PART SHOULD SOUTH AFRICAN RETIREMENT FUNDS PLAY?

VOL.11

ALSO IN THIS ISSUE: JSE ESG AND CLIMATE DISCLOSURE GUIDANCE | KEY SUSTAINABLE FINANCE INITIATIVES
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In Sesotho, when you tell someone to "Atleha" you are telling them to prosper.
Our dream for South Africans is for them to prosper through the building blocks of education and technology. By combining "Atleha", and "edu", we want to "speak life" into the dream of prosperity for the majority of South Africans.

The majority of savers in South Africa can be reached through retirement fund trustee and member education, making this the primary focus of our work at Atleha-edu. Please visit our website at www.atleha-edu.org to read our educational publications for retirement fund trustees, principal officers and MANCO members.

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- Investment Fundamentals 1
- Investment Fundamentals 2
- Special Edition: Environmental Stewardship
- Umbrella Funds & Management Committees
- Cultural Practices
- An Introduction to Infrastructure Investments
- Retirement Funds and Risk Management
- Climate-related Financial Disclosure
- Alternative Asset Classes: Understanding Hedge Funds
- An Introduction to POPIA for Retirement Funds

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- Experiential workshops for deep learning experiences;
- Customised FSC-compliant consumer financial education solutions.

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Our collaborators and funders in financial education and dissemination include: Alternative Prosperity Foundation, ASISA Foundation, ASISA Academy and Batseta.

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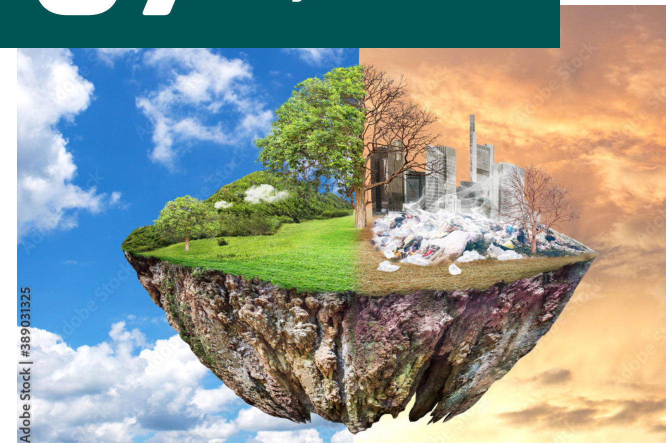

02 Realising sustainable investment in South Africa

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REALISING SUSTAINABLE INVESTMENT IN SOUTH AFRICA

overview

National Treasury's Sustainable Finance Technical Paper (2021) is a foundational step towards encouraging more long-term investments in sustainable economic assets, activities and projects. Where financial institutions would previously only focus on the return on investment of projects, the focus on sustainable finance encourages them to also be cognisant of how their investment decisions impact the environment. The paper encourages voluntary sustainable finance initiatives and further stakeholder engagement to strengthen sustainable finance in South Africa.

National Treasury leading on sustainable finance

National Treasury needs to protect the South African economy by unlocking economic opportunities that will enhance our ability to adapt to the rapidly changing climate. The transition to a lower-carbon, greener economy must also realise socioeconomic benefits and build resilience to create a safer financial sector that will better serve South Africa.

The COP 26 UN Climate Change Conference, which was hosted in Glasgow, Scotland in November 2021, again highlighted the opportunity for South Africa to mobilise international funding partners to assist with transitioning away from current coal-based, carbon-intensive power production.

Accelerating the implementation of the 2015 Paris Climate Agreement requires clear financing strategies that work to mobilise resources from both public and private sectors. By mobilising private sector funding of new and more sustainable projects – such as through the Renewable Energy Independent Power Producer Programme (REIPPP) – government can facilitate the shifting of green infrastructure investment off the national balance sheet via public-private partnerships (PPPs).

Addressing both climate change and South Africa's development agenda will require the reallocation of capital, the mobilisation of new financial resources and the strategic realignment of existing resources (public and private and blended finance options) over the short, medium and long term.

Purpose of Treasury's sustainable finance paper

Treasury's 2021 Sustainable Finance Technical Paper makes recommendations on a process to establish minimum practice and standards with regard to climate change and emerging environmental and social risks.

The paper specifically aims to:

- Define sustainable finance for all parts of the South African financial sector, including banking, retirement funds, insurance, asset management and capital markets.
- Take stock of the global and national financial sector policy, regulatory and industry actions taken to date in dealing with environmental and social (E&S) risks and opportunities.
- Identify market barriers to sustainable finance and the implementation of E&S risk management best practices.
- Identify gaps in the existing regulatory framework and recommend actions required of regulators, financial institutions and industry associations.

This paper sets out the research results and recommendations for a process whereby South Africa's financial sector institutions can establish minimum practice and standards with regard to climate change and emerging E&S risks. It also looks at the approach of international financial regulators and the work of local financial institutions.

"The financial services sector is at the heart of the South African economy and touches the life of each and every citizen. Financial services allow people to make daily economic transactions, save and preserve wealth to meet future aspirations and retirement needs, and insure against personal disaster… At the level of the macroeconomy, the financial sector enables economic growth, job creation, the building of vital infrastructure and sustainable development for South Africa and her people. However, the global financial crisis highlighted the immense costs of a poorly regulated financial services sector… The financial sector needs to do more to support the real economy. The sector has a vital role to play in the ongoing transformation of our society, and our desire to bring a better life to all of our people."

- National Treasury Red Book 2011: A safer financial sector to serve South Africa better

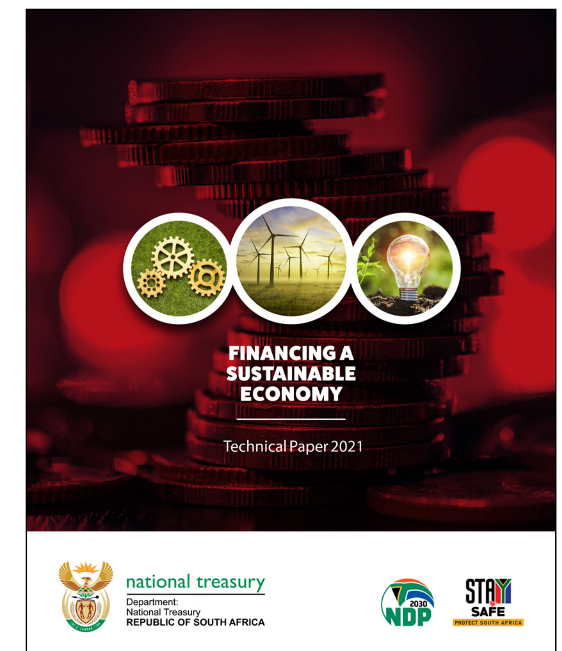
Recommendations of the sustainable finance paper

The following general recommendations from the paper are common to all financial services industries. They are necessary for unlocking access to sustainable finance and the allocation of capital to support a development-focused and climate-resilient economy. The paper's recommendations were identified by key regulatory and industry stakeholders in the dialogue and consultations with Treasury's Sustainable Finance Initiative, which preceded this paper, as well as local and international research. Specific industry sector recommendations are included at the end of each section of the paper.

Highlighted recommendations:

- Adopt the following definition of sustainable finance in South Africa:
  Sustainable finance contributes to the delivery of the sustainable development goals, a just transition to a low-carbon and climate-resilient economy and financial stability. Sustainable finance encompasses financial models, services, products, markets and ethical practices to deliver resilience and long-term value in each of the economic, environmental, social and governance aspects.
- **This is achieved by the financial sector by:**
  - Evaluating portfolio, as well as transaction-level E&S risk exposure and opportunities, using science-based methodologies and best practice norms;
  - Linking these to products, activities and capital allocations.
- Regulators and industry to co-develop or adopt technical guidance, standards and norms for use across all financial sectors in identifying, monitoring and reporting and mitigating their environmental and E&S risks, including climate-related risks, at portfolio and transaction level. These should include E&S risk management frameworks, the use of science-based methodologies, and the incorporation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
- Develop or adopt a taxonomy for green, social and sustainable finance initiatives, consistent with international developments, to build credibility, foster investment and enable effective monitoring and disclosure of performance.
- Include disclosure of progress in E&S risk management, including climate risks, in supervision activities carried out by the Prudential Authority and Financial Services Conduct Authority. Incorporate voluntary codes of principles, or acknowledged benchmarks for good practice, into regulatory regimes.
- Work with Institute of Directors, trustees, professional and industry associations and academic institutes to build governing body capacity and "fit-for-purpose" skills necessary for the identification and management of long-term risks and sustainability challenges.
- Build capacity across the sector and in the implementing arms of government – particularly local government – to ensure E&S risks are addressed within local infrastructure and development planning, capital raising and insurance planning.

It is clear that there is a need for greater policy coherence for the sector, regulatory guidance and oversight. There is also real urgency to rapidly increase local financial sector capability to respond to the prevailing social and environmental challenges, which will increasingly have a major impact on our economic resilience and national well-being.



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RETIREMENT FUNDS AND SUSTAINABILITY

overview

This article is aligned to the October 2021 National Treasury publication: *Financing a Sustainable Economy's* chapter on retirement funds and sustainable finance, and takes an in-depth look at why sustainable investment is relevant to South African retirement funds.

The concept of sustainable finance has gained more prominence in recent years. This is due to an increased understanding among financial sector actors that factors beyond those of a purely financial nature can impact their intended objectives.

For example, because companies are either directly or indirectly reliant on natural ecosystems, disruptions within these ecosystems can affect their profitability. Sustainable finance becomes important because it takes these concerns into account and helps the financial sector make better long-term investment decisions.

As retirement funds are, at their core, long-term investors, they are particularly vulnerable to climate risk, as well as the risk posed by stranded assets. As such, it becomes essential for retirement funds to put measures in place to mitigate these risks, as they can have significant impacts on their members' retirement savings. One such way is for funds to focus their attention on sustainable finance. Resources such as National Treasury's sustainable finance paper, ***Financing a Sustainable Economy***, which was published in October 2021, aims to assist institutions such as retirement funds with understanding why sustainability is relevant to them as well as the role they can play in creating a more sustainable economy in South Africa.

According to National Treasury there are just over 5 000 retirement funds in South Africa (not all of which may be active) that administer funds and protect the long-term savings of more than 16m contributing members and pensioners. Collectively, these assets held by South African retirement funds represent 110% of SA's gross domestic product (GDP). Through the pooled savings of their members, retirement funds have, so far, been able to invest around R4.4bn into various sustainability initiatives – such as renewable energy, township development and affordable housing projects to name a few. However, despite the substantial investment in sustainability initiatives by the retirement fund industry, there is still no consistent methodology for the screening of risk or the establishment of key metrics that retirement funds can use to measure, monitor and communicate on their progress. These factors contribute to some of the obstacles that prevent more focused investment in sustainable finance opportunities by retirement funds. (See diagram alongside for overview.)

Regulatory requirements and voluntary ESG guidance for retirement funds

The updated Regulation 28 under the South African Pension Funds Act (PFA) came into effect in July 2011, and included a new requirement for retirement funds to consider environmental, social and governance (ESG) in assessing factors that may materially affect the sustainable long-term performance of retirement fund assets. Regulation 28 offers broad principles rather than specifying the approach to be taken, with the Financial Sector Conduct Authority (FSCA) supporting the Code for Responsible Investing in South Africa (CRISA) as a means of giving effect to Regulation 28.

In June 2019 the FSCA issued Communication 1 of 2019 PFA, relating to a guidance note on the sustainability of investments and assets in the context of a retirement fund's investment policy statement. Regulation 28(2)(c)(ix) requires that all boards of funds consider ESG factors before investing in any asset. The Guidance Note is intended to provide guidance to boards of funds on how the fund must comply with the regulation, in particular how its investment philosophy and objectives (as reflected in its investment policy statement) seek to ensure the sustainability of its investments and assets.

Beyond these regulations, the South African retirement fund industry looks to voluntary codes of practice, such as CRISA, which provides guidance on how institutional investors should execute investment analysis and activities, as well as promote sound governance. CRISA is summarised in five key principles that were inspired by the UN Principles for Responsible Investment (UN-PRI), which also has a number of signatories in South Africa, most of whom represent investment managers and service providers.

The savings and investment industry

FINANCIAL SECTOR ASSETS UNDER MANAGEMENT

COLLECTIVE INVESTMENT SCHEME INVESTMENTS R2 175bn	LIFE OFFICES R2 816bn	RETIREMENT SAVINGS R1 224bn

SAVINGS AND INVESTMENTS INDUSTRY

Placed with banks R958bn	Government bonds, local government and state-owned enterprises R775bn	Other fixed interest R1 062bn	Equities (listed and unlisted) R3 327bn	Fixed property R93bn

SOURCE: National Treasury Sustainable Finance Paper (October 2021)

Key statistics

- **5 143** retirement funds in SA
- **2 946** privately administered funds
- **2 188** underwritten funds offered by insurers and public sector funds
- **16m** contributing members
- SA's retirement fund industry equates to **110% GDP**
- **R4.4bn** invested in sustainable finance projects

Source: National Treasury Sustainable Finance Paper

Barriers to sustainable finance

Despite South Africa's progress to date to foster more uptake of sustainable finance, there remains a number of challenges to the formal integration of environmental and social risk management by the retirement fund industry.

The following is a list of some of the challenges that have been identified by the Treasury's Sustainable Finance paper:

- Lack of understanding of systemic and long-term ESG risks by board of funds
- Lack of capacity – knowledge, staff and tools
- The short-term return on investment requirements that ignore long-term/systemic risks
- Fund requirements from members for minimum growth each year highlighting the conflict between short-term growth and long-term risk
- Lack of detailed requirements for disclosure on implementing Regulation 28 has resulted in the potential for inconsistency and unlevel playing fields
- Difficulty in identifying appropriate investment vehicles
- Inadequate proof that certain investment vehicles will be in the best interest of the fund and its members without exposing a fund to excessive risk
- The lack of a track record on returns of such investment vehicles or proof that they achieve their stated objectives

To address these challenges, National Treasury recommends certain actions that South Africa's retirement fund industry – with support from regulators and industry bodies – can take to increase the uptake of sustainable finance in the sector:

- Regulators should issue guidance or regulatory instruments on sustainable finance;
- All investment decisions should consider environmental and social factors as well as climate risk, with

Batseta's Responsible Investment and Ownership Guide – A useful resource

Additionally, the Sustainable returns for Pensions and Society project, which was a Batseta initiative launched in 2011, sought to assist retirement funds with complying with the revised Regulation 28 as well as the CRISA code. The outcome of this initiative was the publication of Responsible Investment and Ownership – A Guide for Pension Funds in South Africa. This document provides retirement funds with key actions they can employ to fulfil the requirements of Regulation 28.

The guide assists retirement fund trustees by describing the key practices and outcomes involved in responsible investment and ownership and includes guidance on, among other things, how to use ESG insights to help manage investment risks and returns (particularly over the long term), how to engage with investee companies on ESG issues of concern and how to exercise voting rights conferred by share ownership. This was a crucial first step in changing the way the retirement industry viewed investing sustainably.

Available: https://rioguide.batseta.org.za/

implications for the training of boards, trustees and actuaries as well as investment managers;

- Co-develop or adopt guidance for the identification and monitoring of compliance to the sustainable finance framework and Batseta Responsible Investment and Ownership Guide;
- Amend requirements for annual financial statement and other reports to ensure the disclosure, monitoring and reporting of sustainable finance investments;
- Technical working group, including analysts and academics, to determine or adopt guidelines for Regulation 28 implementation, including making it easier to invest in sustainable finance investment vehicles or projects, green investments, monitoring and disclosure frameworks, and implementation of the guidance note published in 2019;
- Retirement funds and asset managers to develop and disclose E&S risk management policy frameworks and governance systems in line with the recommendations in the guidance note published in 2019;
- Include climate risk management capability in 'Fit-and-Proper' requirements for trustees, directors and executives;
- FSCA to work with National Treasury in developing the strategic framework indicated in the sustainable finance paper and specifically work on the harmonisation of requirements relating to sustainable investments across the financial sector.

Glossary

- **Stranded assets:** assets that have suffered from unanticipated or premature write-downs, devaluation or conversion to liabilities.
- **Sustainable finance** contributes to the delivery of the sustainable development goals, a just transition to a low-carbon and climate-resilient economy and financial stability. Sustainable finance encompasses financial models, services, products, markets and ethical practices to deliver resilience and long-term value in each of the economic, environmental, social and governance aspects.

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HOW RETIREMENT FUNDS CAN ADDRESS CLIMATE CHANGE

overview

Climate change poses a serious financial risk to retirement fund investments. However, given retirement funds' ability to influence capital allocation, it also means that retirement funds are able to play a meaningful role in society's transition to a low-carbon economy.

Introduction to TCFD

The Task Force on Climate-related Financial Disclosures (TCFD), established by the Financial Stability Board (FSB) in 2015, was created with the purpose of reviewing how the financial sector can incorporate climate-related issues in its decision-making. The main objective of the TCFD is to develop a set of recommendations for more effective climate-related disclosures that will assist organisations in their understanding of climate-related risks. Additionally, it also provides guidance on how organisations can implement measures to protect them from these risks.

The TCFD is committed to market transparency and stability and operates from the position that better information will allow companies to better incorporate climate-related risks and opportunities into their risk management and strategic planning processes. The TCFD helps to increase companies' and investors' understanding of the financial implications associated with climate change, empowering financial markets to channel investment into more sustainable and resilient solutions, opportunities, and business models. The TCFD recommendations are fast becoming global best practice for organisations looking to integrate climate-related risks into their governance, strategic and operational processes.

The TCFD recommendations have broad appeal because the recommendations are structured around four thematic areas: governance; strategy; risk management; and metrics and targets. These themes are applicable to businesses across multiple sectors, and not just for financial institutions. (See diagram on p.8)

Why climate change matters for retirement funds

Retirement funds are influential actors in our financial system due to their ability to influence and drive change through how they decide to allocate their capital. Their decisions have broad impacts on society and, as such, they are bound by strict duties and responsibilities. Regulation 28 of the Pension Funds Act and Guidance Note 1 of 2019 provide guidance to South African retirement fund boards of trustees' as to how they should consider environmental, social and governance (ESG) matters – which would include climate change risks – within their assessment of ESG risks and opportunities. A recent legal opinion commissioned by ClientEarth and Just Share NPC from law firm Fasken, makes it very clear that South African retirement fund boards are legally required to consider climate risks in making investment decisions.

Climate change poses a serious financial risk to retirement fund investments, as it will have significant physical and transition risk impacts over the short, medium and long term. Given that climate change is a systemic issue, it will affect all asset types and sectors. As such, it will impact the portfolio returns, asset valuations and asset allocation processes of asset owners with diversified, global portfolios. →

The TCFD framework's four thematic areas:

Source: Financial Stability Board Website. [Online]. Available: www.fsb-tcfd.org

However, given retirement funds' ability to influence capital allocation, it also means that retirement funds are able to play a meaningful role in society's transition to a low-carbon economy and thereby addressing climate change.

Although climate change presents investment risks, the transition to a low-carbon economy also presents significant investment opportunities, for example: renewable energy, retrofitting technologies and efficiency technologies. These new opportunities can aid in mitigating the broader economic risks posed by climate change and boost retirement funds' long-term returns.

What can and should retirement funds do to address climate risks?

At the very least, retirement fund boards should:

- Ensure that they are "climate competent" by taking appropriate advice, analysing and fully understanding the climate risks and opportunities in relation to their funds;
- Assess the carbon footprint of their fund's portfolio, and identify investments which are vulnerable to climate risk and those which can contribute to a just transition to a low-carbon economy;
- Develop a clear climate policy that explains the fund's understanding of climate risk, and how the board identifies and manages it;
- Communicate this policy to asset managers and consultants who manage the fund's investments on its behalf, and make sure that they are appropriately mandated and incentivised to implement the policy;
- Pursue active stewardship and engagement with companies in high-carbon sectors, including by setting clear voting policies and engagement escalation timelines; and regularly disclose to members how they are managing climate risk; and
- Develop an investment strategy with clear, measurable targets to remove portfolio carbon risk and leverage low-carbon opportunities.

Net zero and retirement funds

Retirement funds are receiving more and more demands from stakeholders to do their "fair share" in the global fight against climate change. Retirement funds are coming under increasing pressure to consider climate change in their investments in terms of both risk management and their contribution towards the move towards a low-carbon economy. Due to increased climate regulation and growing stakeholder pressure, many retirement funds have shown their commitment by joining the UN's Net-Zero Asset Owner Alliance.

Asset Owners Net Zero initiative[1]

The Alliance was initiated by Allianz, Caisse des Dépôts, La Caisse de dépôt et placement du Québec (CDPQ), Folksam Group, PensionDanmark and Swiss Re at the beginning of 2019.

Why the need for the UN's Net-Zero Asset Owner Alliance?

- Asset owners have a unique role in the global economy and financial system and can drive the development of industry best practice through their investment mandates;
- Retirement funds and insurance companies have long-term investment horizons and liabilities. They are not only acutely vulnerable to the systemic disruptions that climate change will unleash on ecosystems, societies, and economies, but also have a key role to play in catalysing decarbonisation of the global economy and investing in climate-resilience;
- Recent years have seen an unprecedented surge in investor concern, rhetoric, and action on climate change, spanning the various spheres of influence that investors have at their disposal: their portfolios, their own transparency, and the regulatory frameworks established by public policy;
- As a result, many investor and asset owner initiatives focusing on climate change exist today. While many of these initiatives are worthwhile and deserve further strengthening and promotion, their respective impacts will benefit from greater alignment and coordination through a joint and lasting Asset Owner-led alliance;
- The Alliance will seek to work with and enhance a range of other existing initiatives including the Science-based Targets Initiative, Climate Action 100+, The Investor Energy & Climate Action Toolkit and The Investor Agenda.

Similar to asset owners, asset managers are urged to prioritise the achievement of real economy emissions reductions by taking account of material portfolio scope 3 emissions (resulting from activities from assets not owned or controlled by the reporting organisation), create investment products aligned with net zero emissions and facilitate increased investment in climate solutions by committing to the Net-Zero Asset Managers initiative.

"Although climate change presents investment risks, the transition to a low-carbon economy also presents significant investment opportunities... These new opportunities can aid in mitigating the broader economic risks posed by climate change and boost retirement funds' long-term returns."

Asset Managers Net Zero initiative[2]

The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner.

The Net Zero Asset Managers initiative launched in December 2020. The initiative aims to motivate the asset management industry to commit to a goal of net zero emissions. Through its six network partners, the Asia Investor Group on Climate Change (AIGCC), Ceres, Investor Group on Climate Change (IGCC), Institutional Investors Group on Climate Change (IIGCC), Principles for Responsible Investment (PRI) and CDP it supports signatories in setting credible targets for decarbonisation and implementing their net zero commitment through ancillary guidance and working groups.

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- **TCFD**
- **UNEP FI** https://www.unepfi.org/net-zero-alliance/
- **Net Zero Asset Managers Initiative** https://www.netzeroassetmanagers.org/

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CFA INSTITUTE'S ESG DISCLOSURE STANDARDS FOR INVESTMENT PRODUCTS

overview

In November 2021, the CFA Institute issued the first global standards for disclosing how environmental, social, and governance (ESG) issues are considered in an investment product's objectives, investment process, and stewardship activities. The CFA's Global ESG Disclosure Standards for Investment Products are ethical standards for the fair representation and full disclosure of an investment product's ESG approaches by CFA members and organisations holding to the global CFA standards.

What is the purpose of these standards?

Due to investment product ESG disclosures that are often incomplete, inconsistent, unclear or difficult to access, investors find it difficult to understand, evaluate and compare ESG approaches used across multiple investment products. This has resulted in allegations of "greenwashing", whereby marketing materials intentionally or unintentionally mislead investors (especially investor clients and other stakeholders) about the ESG approaches used in an investment product, the ESG characteristics of an investment product, or the degree of influence that an investment product has on ESG issues.

The CFA's Global ESG Disclosure Standards for Investment Products seeks to assist with improving transparency and disclosure about the ESG approaches used in investment products by standardising the information that is disclosed about an investment product's consideration of ESG issues in its objectives, investment process, and stewardship activities.

Compliance with the CFA's Global ESG Disclosure Standards for Investment Products is voluntary. An investment manager may choose the investment products to which it applies the standards and must take all steps necessary to ensure that it has satisfied all the applicable requirements of the standards before claiming that an ESG disclosure statement complies with the standards.

The standards are "global" in that they have been designed to accommodate:

- All types of investment vehicles – including but not limited to pooled funds, exchange-traded funds (ETFs), →

"The CFA's Global ESG Disclosure Standards for Investment Products seeks to assist with improving transparency and disclosure about the ESG approaches used in investment products by standardising the information that is disclosed about an investment product's consideration of ESG issues in its objectives, investment process, and stewardship activities."

strategies for separately managed accounts, limited partnerships, and insurance-based investment products;
- All asset classes – including but not limited to listed equities, fixed income, private equity, private debt, infrastructure, and real estate;
- All ESG approaches – including but not limited to ESG integration, exclusion, screening, best-in-class, thematic, sustainability themed investing, impact investing, and stewardship;
- Active and passive strategies; and
- All markets.

Procedures for independent assurance of investment product ESG disclosures, a handbook and a template for ESG disclosure statements will be released by the CFA in early 2022.

How do the CFA's standards differ from other regulations and standards that address investment product ESG disclosures?
The disclosure frameworks developed by other organisations prior to the development of the standards, such as the European SRI Transparency Code, the IFC's Operating Principles for Impact Management and the INREV Sustainability Reporting Guidelines address only certain types of investment vehicles, asset classes, and ESG approaches. The CFA's Global ESG Disclosure Standards for Investment Products are designed to accommodate the full range of investment vehicles, asset classes and ESG approaches offered in markets around the world, thus providing a standardised, global approach to investment product ESG disclosures.

GUIDING PRINCIPLES FOR INVESTMENT PRODUCT ESG DISCLOSURES

These CFA standards are rooted in providing investors with information that is complete, reliable, consistent, clear and accessible:
- **Completeness** through full disclosure.
- **Reliability** by ESG disclosures that fairly represent the investment product's ESG approaches and are not false or misleading.
- **Consistency** by ensuring ESG disclosures agree with regulatory disclosures and marketing materials.
- **Clarity** from ESG disclosures being sufficiently specific and precise, effectively communicating to investors the investment product's ESG approaches.

Lastly, all investment product ESG disclosures are to guarantee accessibility and be readily available to investors.

Fundamentals for compliance with CFA's standards
The CFA Institute outlines ten required fundamentals and one recommended fundamental of compliance.

The requirements are as follows:
1. Investment managers must comply with any laws and regulations related to ESG disclosures;
2. Investment managers must comply with the standards if they state that their ESG disclosures are in compliance with the standards;
3. Investment managers must not make any statement of partial compliance with the standards;
4. Investment managers must not present false or misleading information, omit significant information about an investment product's ESG approaches, nor contradict disclosures made in regulatory documents in their ESG disclosures;
5. ESG disclosures must cover at least one year (or the period since inception if an investment product is less than one year old);
6. Investment managers must document policies and procedures for establishing and maintaining compliance with the standards and for monitoring changes and additions to the Standards and related documents;
7. Investment managers must gather and maintain any records and documents required to support information included in ESG disclosures;
8. Investment managers must notify the CFA Institute of their use of the standards by submitting the ESG Standards Compliance Notification Form;
9. If investment managers apply the standards to a specific investment product, the ESG disclosures for that specific investment product must be made available to investors; and
10. Investment managers must update ESG disclosures when changes are made to the requirements or interpretive guidance of the standards, when the investment manager makes changes to information affecting the ESG disclosures, or when a significant error is found in ESG disclosures after being made available to investors.

In addition, a further recommendation has been made, specifically that investment managers obtain independent assurance on their ESG disclosure statements.

REFERENCES

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JSE REPORTING GUIDANCE

overview

This article provides a high-level overview of the December 2021 announcement by the JSE on their proposed Sustainability and Climate Change Disclosure Guidance documents primarily intended to assist JSE-listed companies, but also likely to be of value to institutional investors, as well as a range of stakeholder groups interested in improved sustainability/ESG disclosures and performance.

Sustainability and the JSE
The JSE has long been recognised for its pioneering role in promoting strong governance and sustainability disclosure globally, through such initiatives as its listings requirements incorporating the King Governance Codes; its development of the JSE's Socially Responsible Investment Index (SRI Index) in 2004, the first such "ESG" index owned by an exchange and the first of its kind in emerging markets; and its activities as a founding partner of the Sustainable Stock Exchanges (SSE) initiative.

In 2015, the SSE and in 2018, the World Federation of Exchanges (WFE) produced model ESG guidance for exchanges to adapt to their context. Currently, 60 stock exchanges around the world have issued their own ESG Disclosure Guidance, informed by these SSE and WFE guidance documents and adapted to local context, to help local issuers improve their disclosure. While the JSE is considered as having existing requirements for sustainability/ESG disclosure through its links to the King Codes on corporate governance, no detailed guidance to assist listed companies on sustainability/ESG reporting has been issued by the JSE until now.

Why the need for additional JSE guidance?
The awareness of sustainability issues has grown rapidly in the global landscape, given the impact on climate change and economies. In light of the continuously evolving space in global sustainability standards and initiatives, as well as the significant recent increase in investor interest in sustainability and climate-related issues, the JSE is developing Sustainability Disclosure Guidance, along with a Climate Change Disclosure Guidance specifically tailored to the South African context.

The JSE's Sustainability Disclosure Guidance is intended to serve as an umbrella for topic-related guidance as needed, with the first such guidance on Climate Disclosure to be released at the same time. The JSE has committed itself to providing guidance on topics that are essential to the proper functioning of capital markets. Therefore, with Climate Change identified as a mega-trend impacting all sectors of the economy, the Climate Disclosure Guidance seeks to assist both issuers and investors on understanding the climate crisis and how disclosure can be used not only to anticipate risk, but also to identify opportunities.

The JSE guidance specifically seeks to achieve the following benefits:
- Help listed company issuers to navigate the rapidly evolving landscape of sustainability reporting;
- Link sustainability disclosures to the fundamental drivers of value creation;

"Securities exchanges are uniquely placed to facilitate more efficient capital markets by properly pricing social and environmental risks through effective, consistent, and comparable sustainability and climate-related disclosure." - JSE

- Outline the business case for disclosing sustainability data;
- Stimulate interest in innovation opportunities in the context of sustainability challenges;
- Support the convergence of global reporting standards; and
- Assist in contributing to the achievement of national and international sustainable development commitments and priorities, such as the United Nations' Sustainable Development Goals (SDGs)

JSE Guidance vs JSE Requirements: Understanding the distinction
These two JSE guidance (consultation) papers are intended to serve as guidance tools that may be used by listed company issuers on a voluntary basis to:
- Assist local companies to navigate the global sustainability and ESG landscape;
- Provide for South Africa's specific sustainability challenges;
- Improve the quality of sustainability and ESG information available to enable more informed investment decisions; and
- Drive improved sustainability performance, accountability, and business leadership.

The guidance papers do not constitute disclosure or reporting obligations for issuers pursuant to the provisions of the JSE Listings Requirements.

JSE consultation phase for public comment
The JSE invites public comment on both the Sustainability and Climate Change Disclosure Guidance documents by 28 February 2022.

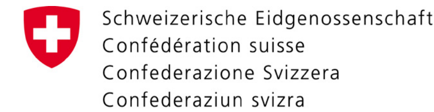
Need more info?

- **JSE *Sustainability Disclosure Guidance* document, available:** tinyurl.com/2p86btkz
- **JSE *Climate Change Disclosure Guidance* document, available:** tinyurl.com/2p83n6c9

NATIONAL TREASURY'S SUSTAINABLE FINANCE INITIATIVE

In January 2017, South Africa's National Treasury convened a working group of financial sector regulatory agencies and industry associations to develop a framework document on sustainable finance.

The Sustainable Finance Initiative is hosted by Banking Association South Africa (BASA) under the Climate Risk Steering Group, and is chaired by National Treasury. The initiative is also supported by IFC, part of the World Bank Group, in partnership with SECO (Swiss State Secretariat for Economic Affairs) and Sida (Swedish International Development Cooperation Agency).



On 15 October 2021, South Africa's National Treasury announced the publication of the *Updated Technical Paper on Financing a Sustainable Economy.*

"The paper serves as a foundational step towards encouraging more long-term investments in sustainable economic assets, activities and projects. Where previously financial institutions would only focus on the return on investment of projects, the focus on sustainable finance encourages them to also be cognisant of how their investment decisions impact the environment. It is envisaged that this will assist in reducing pressures on the environment, including supporting the transition to a low-carbon economy by phasing out greenhouse gas emissions and optimising the use of natural resources."

National Treasury, Media statement:
Publication of updated technical paper and comments matrix:
Financing a Sustainable Economy [October 2021]

National Treasury's definition of Sustainable Finance proposed for the purposes of South African policy making is as follows:

"Sustainable finance contributes to the delivery of the sustainable development goals, and a just transition to a low carbon and climate resilient economy and financial stability. Sustainable finance encompasses financial models, services, products, markets and ethical practices to deliver resilience and long-term value in each of the economic, environmental, social and governance aspects.

This is achieved when the financial sector: Evaluates portfolio and transaction-level environmental and social risk exposure and opportunities, using science-based methodologies and best practice norms; discloses and mitigates these risks and links these to products, activities and capital allocations.

Sustainable finance should therefore comprise the collective set of actions, processes, policy, regulations, goods and services that actors in the financial service sector give effect to in the enablement of the global Sustainable Development Goals or the closely-correlated National Development Plan 2030 (NDP), with consideration for the short, medium and long-term interests of South African citizens. In line with global definitions, Sustainable Finance incorporates climate finance, green finance, and social finance."

In addition to the Sustainable Finance Technical Paper, various working groups have been convened by National Treasury to take forward the recommendations of the Technical Paper:

Taxonomy

The **Taxonomy Working Group** will develop an initial green finance taxonomy and governance framework for South Africa. (A taxonomy is a classification system identifying activities, assets, and/or project categories that deliver on key green objectives with reference to identified thresholds and/or targets. It should incentivise capital to flow towards green activities.)

Financial instruments

The **Financial Instruments Working Group** will map the universe of sustainable instruments and understand applicability and appetite to South Africa. It will recommend an enabling environment for sustainable finance to grow.

Disclosure as per the Task force on Climate-related Financial Disclosures (TCFD)

The **TCFD Working Group** will establish a baseline; develop minimum disclosure requirements; engage regulators; identify relevant guidance for the South African context; and monitor adoption and application.

Benchmarking climate risk

The **Climate Risk Working Group** will develop a benchmark climate risk scenario for use in stress tests by the sector. It will start with the insurance and banking sectors.

Building sector capacity

The **Capacity Working Group** will partner/collaborate/facilitate development of training, and will raise awareness and provide training on materials developed by the various working groups.

National Treasury's Sustainable Finance Paper was developed by a working group consisting of representatives from the following organisations:

- **National Treasury (Chair)**
- **South African Reserve Bank**
- **Financial Sector Conduct Authority (FSCA)**
- **Prudential Authority (PA)**
- **The Department of Forestry, Fisheries and the Environment**
- **The South African Insurance Association (SAIA)**
- **The Banking Association of South Africa (BASA)**
- **The Association for Saving and Investment South Africa (ASISA)**
- **The Johannesburg Stock Exchange (JSE)**
- **Batseta – Council of Retirement Funds for South Africa**

Need more info?

- **The Sustainable Finance Initiative website is available:** tinyurl.com/4ehasbbs
- **2021 Sustainable Finance Paper available:** tinyurl.com/y3r9b376
- **2020 Draft Sustainable Finance Technical Paper available:** tinyurl.com/ydc4d9rd

IFRS-SETTING THE GLOBAL STANDARD

overview

The IFRS Foundation recently announced the formation of a new International Sustainability Standards Board (ISSB). This article provides an overview of how this board will develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs.

On 3 November 2021, the International Financial Reporting Standards (IFRS) Foundation's trustees announced a new standard-setting board, the International Sustainability Standards Board (ISSB). The IFRS Foundation is a not-for-profit international organisation responsible for developing a single set of high-quality global accounting (and now also sustainability disclosure standards), known as IFRS Standards. Their mission is to develop standards that bring transparency, accountability and efficiency to financial markets around the world. This was first done with the establishment of the IFRS Accounting Standards under the International Accounting Standards Board (IASB) and will now expand to include the soon-to-be-developed IFRS Sustainability Disclosure Standards under the ISSB.

The decision to form the ISSB was informed by the feedback the IFRS Foundation's trustees received during their two public IFRS consultations, discussions with advisory groups, engagements with the IFRS Foundation Monitoring Board and with support from the International Organization of Securities Commissions (IOSCO) and others.

The creation of this board is in response to the increase in demand for better reporting by companies on climate, and other environmental, social and governance (ESG) factors – investors require a streamlined and formal method for corporate sustainability disclosures. Where financial reporting is concerned, investors are able to obtain high-quality, assured and globally comparable financial information which they can use when making their investment decisions. The demand for this level of reporting on the side of sustainability issues by investors has been steadily increasing without being uniformly met.

As such, the ISSB aims to provide a comprehensive baseline of disclosure standards related to sustainability issues. The intended outcome is for these standards to provide investors and other stakeholders with the necessary information about companies' sustainability related risks that will enable them to make informed decisions.

Additionally, there is work underway by leading investor-focused sustainability disclosure organisations to merge into the ISSB. The IFRS Foundation aims to complete consolidation of the Climate Disclosure Standards Board (CDSB), which is an initiative of CDP (formerly known as Carbon Disclosure Project), and the Value Reporting Foundation (VRF), which includes the Integrated Reporting Framework and the Sustainability Accounting Standards Board (SASB) into the ISSB.

The implementation of the ISSB's standards will begin with the publication of prototype climate and general disclosure requirements. These disclosure requirements were developed by the Technical Readiness Working Group (TRWG), which is a group formed by the IFRS Foundation trustees to begin the preliminary work for the ISSB. The TRWG was designed to integrate and build on the work of relevant initiatives focused on meeting investors' information needs, with the purpose of providing technical recommendations for consideration by the ISSB.

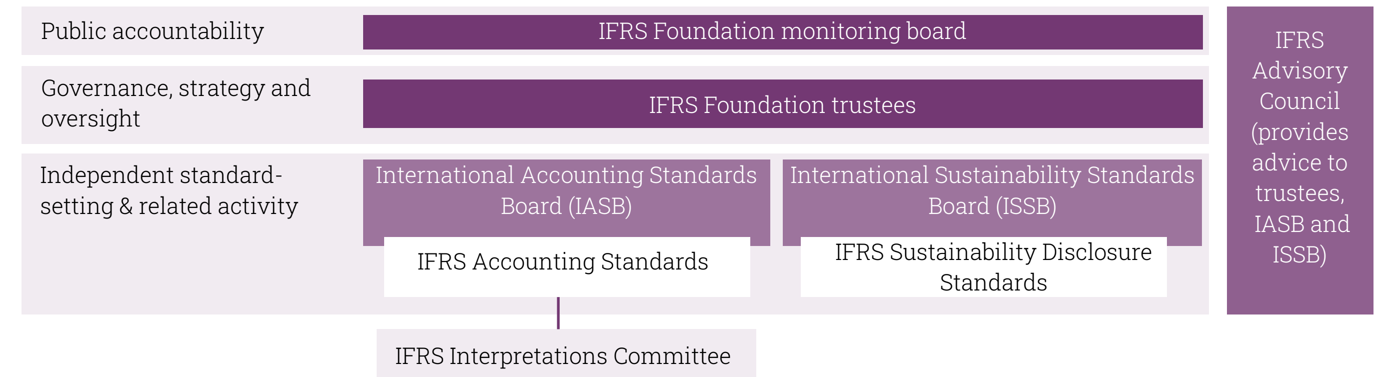
The combination of the creation of the ISSB, the consolidation of the major sustainability disclosure organisations, and the development of the prototype disclosure requirements is intended to be the crucial foundation for a global sustainability disclosure standard-setter for financial markets.

The ISSB will partner with the IASB, which is the ISSB's sister board, to ensure that the IFRS Accounting Standards and ISSB's standards are compatible with each other, and thus forming the IFRS Sustainability Disclosure Standards. To ensure credibility, both these boards will be overseen by the IFRS Foundation's trustees. The trustees will, in turn, report to a monitoring board of capital market authorities who are responsible for reporting in their own jurisdictions.

Why is the ISSB needed?

There are risks and opportunities arising from ESG factors that affect the value of individual companies' and financial markets need to be able to assess them. Investors and other providers of capital want a set of global sustainability disclosure standards which they can use to get the relevant ESG and/or sustainability information from their potential investee companies.

There are already a number of voluntary disclosure frameworks that focus on sustainability and ESG themes for companies, but they cover a variety of aspects, making it harder for investors to compare information from different companies. Furthermore, the expansiveness of these frameworks results in increased costs and complexity for investors, companies and regulators alike.



Having a single, comprehensive set of sustainability reporting standards would make a big difference in addressing the challenges presented by the abundance of sustainability disclosure frameworks. As such, the IFRS Foundation is well placed to develop these standards – they have experience in creating accounting standards that are used in more than 140 jurisdictions.

How will the IFRS Sustainability Disclosure Standards work?

The ISSB will incorporate the work of existing investor-focused reporting initiatives into its own standards in order to become the global standard-setter for sustainability disclosures for financial markets. The bulk of the technical work of the ISSB will be based on the technical standards and frameworks of the Value Reporting Foundation, along with those of the TCFD and the World Economic Forum's Stakeholder Capitalism Metrics Initiative.

The TRWG has published two prototype documents – one that expands on the Task Force for Climate-related Financial Disclosures (TCFD's) recommended disclosures and provides industry-specific disclosures, and one that requires disclosures on more general sustainability issues. These two documents will form part of the foundation for the board's own standards.

The IFRS Sustainability Disclosure Standards will enable investors to better assess enterprise value and make more informed decisions by including disclosure requirements that address companies' impacts on material sustainability matters. They will likewise enable companies to provide detailed sustainability information for global financial markets.

The ISSB will have a global presence covering all major regions: the Americas (North & South), Asia-Oceania and EMEA (Europe, Middle-East and Africa), where engagement with emerging economies will be prioritised. The standards will be customisable allowing companies to meet region-specific requirements.

Due to the fact that the ISSB will be based on already existing sustainability disclosure initiatives with proven track records, it is expected that the board, once formed, will have a running start once the chairperson and vice-chairperson of the board have been appointed. In addition, the ISSB will benefit from a range of expert advice from organisations such as the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the World Bank to name a few.

Glossary of acronyms

IFRS	International Financial Reporting Standards
ISSB	International Sustainability Standards Board
IASB	International Accounting Standards Board
IOSCO	International Organization of Securities Commissions
CDSB	Climate Disclosure Standards Board
VRF	Value Reporting Foundation
SASB	Sustainability Accounting Standards Board
TRWG	Technical Readiness Working Group
TCFD	Task Force for Climate-related Financial Disclosures
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development

REFERENCES

Ifrs.org:
- *IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements.* Available at: https://tinyurl.com/344hfyun
- *Global sustainability disclosure standards for the financial markets.* Available at: https://tinyurl.com/29jhksrm
- *International Sustainability Standards Board.* Available at: https://tinyurl.com/5n6sw6sx

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Example question: Please choose the correct answer.

True or false? The Task Force on Climate-related Financial Disclosures (TCFD) was established in 2015.

- [x] True
- [ ] False

1. Fill in the missing words. National Treasury's *Technical Paper on Financing a Sustainable Economy* sets out the research results and recommendations for a process by South Africa's ______________________ institutions to establish minimum practice and standards with regard to climate change and emerging environmental and social risks.

2. Provide the answer to the definition. Assets that have suffered from unanticipated or premature write-downs, devaluation or conversion to liabilities are known as ________________________.

3. What are the four thematic areas of the TCFD framework?

____

____

____

____

4. Choose the correct answer. According to National Treasury, how much has been invested in sustainable finance projects by retirement funds in South Africa to date?

- [ ] 3.5bn
- [ ] R4bn
- [ ] R4.4bn
- [ ] R5.4bn

5.True or false? The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2040 or sooner.

- [ ] True
- [ ] False

6. True or false? Compliance with the CFA's Global ESG Disclosure Standards for Investment Products is voluntary.

- [ ] True
- [ ] False

7. The CFA's Global ESG Disclosure Standards for Investment Products are rooted in, among others, completeness, reliability, _______________ and _______________.

8. What does ISSB stand for?

____

9. Choose the correct answer. Which of the following is not a working group that has been convened by National Treasury to take forward the recommendations of its sustainable finance technical paper?

- [ ] Taxonomy
- [ ] Financial instruments
- [ ] Climate risk
- [ ] Reporting

10. Fill in the missing word. The IFRS Advisory Council provides advice to _________________ IASB and ISSB.