PRI Principles for Responsible Investment

MSCI

# GLOBAL GUIDE TO RESPONSIBLE INVESTMENT REGULATION

In collaboration with UNEP Inquiry: Design of a Sustainable Financial System

# ACKNOWLEDGEMENTS

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We would also like to thank MSCI for supporting this report.

## THE PRI'S SUSTAINABLE FINANCIAL SYSTEM PROGRAMME

The PRI's mission states that a sustainable financial system is necessary for long-term value creation. Our Sustainable Financial System (SFS) programme identifies policymaker influence on markets as one of nine priority conditions to address to uphold this. If policymaking processes don't challenge market norms or practices, or provide conflicting signals, they can undermine a financial system that supports sustainable, equitable economies. The subject of this report naturally interfaces with policymaking processes, but a more systematic analysis of policymaking processes will be a subject for future work under this programme.

# CONTENTS

# FOREWORDS

The way in which private capital supports sustainable economies is a defining challenge for our era. Increasing the flow of long-term investment is fundamental to achieving the EU 2020 goals for smart, inclusive growth, and ensuring that Europe fulfils its international commitments such as the Paris Agreement and the Sustainable Development Goals (SDGs).

Many of Europe's investors are taking action to meet the challenges we face. But as we look forward, we see an increasing need for financial policy to be consistent with these goals. Policy frameworks can enable investors to allocate capital towards well-governed companies, improving investment performance and environmental and social outcomes.

This report demonstrates the breadth of policy initiatives – not just in Europe, but across the globe – which encourage investors to consider environmental, social and governance issues (ESG) in their investment approach. It also highlights a concerning gap. Many governments are not yet making the links clear between their sustainability commitments and capital markets. The European Union is responding to this challenge. In September 2016, we announced the creation of an expert group tasked with developing a strategy to ensure Europe's capital markets support sustainable economic growth and are resilient to emerging risks, particularly those posed by the transition to a low-carbon economy.

This report, part of the PRI's Sustainable Financial System programme, is an important contribution to the debate. Over the coming year, I look forward to working with experts from across civil society and the financial sector to shape an ambitious programme of reforms. The aim is to anchor sustainable goals in Europe's capital market ecosystem, while supporting the efficient funding of European businesses and projects. I am convinced that this work will help to keep Europe in the vanguard of international efforts to meet the planet's pressing sustainability challenges.

## VALDIS DOMBROVSKIS

Vice-President for the Euro and Social Dialogue, also in charge of Financial Stability, Financial Services and Capital Markets Union


## FRANK ELDERSON

Executive Director, Pension Fund Supervision, De Nederlandsche Bank

This report raises important questions about the role and impact of policy action to promote sustainable finance. Investors are increasingly building ESG factors into their investment decisions, but it's clear that policymakers and regulators worldwide can send stronger signals to the finance industry about the importance of ESG issues.

At De Nederlandsche Bank (DNB), we're clear about the link between sustainability and finance. As an independent central bank and supervisory authority, our mission is to ensure financial stability and thereby contribute to sustainable prosperity for current and future generations of Dutch citizens. This long-term perspective requires us to engage on emerging risks, such as the risks associated with an unmanaged transition to a low-carbon economy, and to think seriously about how we finance sustainable economies in the future.

For pension funds, considering long-term value drivers is part of prudent investment decision making. Good quality risk management requires all financially material factors to be considered. ESG issues play an important part in formulating investment policy objectives which reflect stakeholder interests. Finally, transparency is crucial, as investors should be clear on how these issues are incorporated, allowing beneficiaries to know how their lifetime savings are being invested.

This is supported by the law in the Netherlands. All pension funds must be transparent about how ESG issues are factored into the investment policy. DNB reviewed these disclosures for our recent study *Sustainable investment in the Dutch pension sector*, which allowed us to share good practices and identify areas for improvement.

This study was just the first step. Our recently launched cross-sectoral Platform for Sustainable Finance will help us to work with the pension, banking, asset managers and insurance sectors to identify and overcome obstacles to a more sustainable financial system. Working together, we can ensure that the financial system is future-proof.

This report demonstrates how far the industry has come in raising the profile of sustainable and responsible investment among companies, investors and policymakers around the world.

The ways in which investors integrate ESG research have become more sophisticated. For many long-term investors, integrating ESG analysis into their investment process is aimed not only at identifying poor corporate behaviour or gauging management quality. It also increasingly reflects the importance of understanding a fuller set of portfolio-related risks that include large-scale social and environmental trends playing out over longer horizons.

This report applies MSCI ESG Research data to identify a relationship between responsible investment regulation and corporate ESG risk management.
The report finds a need for greater transparency into companies' ESG exposures, including public disclosure of materially relevant information, which can inform and refine public policy and provide institutional investors with greater insight into the long-term ESG risks and opportunities of their investments. We are pleased to support this pioneering research.

**LINDA-ELING LEE**

Global Head of ESG Research, MSCI

# EXECUTIVE SUMMARY

This report is the first global study to analyse the impact of responsible investment-related public policy initiatives. It focusses on the perceptions of the investor community to draw conclusions about the impact of regulation on investment practice. Through quantitative analysis and interviews with investors, stock exchanges, policymakers and regulators, we found that:

### RESPONSIBLE INVESTMENT POLICY IS WIDESPREAD AND THE PACE IS INCREASING

In the largest 50 economies in the world, we identified almost 300 policy instruments which support investors to consider long-term value drivers, including ESG factors. Over half of these were created between 2013 and 2016.

### THERE'S SOME EVIDENCE THAT IT'S DRIVING BETTER ESG PERFORMANCE BY COMPANIES

We found a strong correlation between responsible investment regulation and better ESG risk management by companies. This is encouraging, especially given how recent many of these policies are. However, while some regulations are driving real change in the way investors consider ESG issues, many are not perceived to be impactful.

### POLICY EFFECTIVENESS IS HAMPERED BY WEAK IMPLEMENTATION AND WEAK SIGNALS

Investors are sceptical of the effectiveness of policy because of weaknesses in policy design and monitoring and inconsistency between different government departments and regulators. Added together, these send a signal to investors that sustainability is separate from the core purpose of financial markets.

### DESPITE THE INCREASE IN SUSTAINABLE FINANCE REGULATION, MOST GOVERNMENTS AREN'T CONNECTING SUSTAINABILITY AND CAPITAL MARKETS POLICY – BUT THERE ARE SIGNS THIS IS BEGINNING TO CHANGE

Few of the investors interviewed felt these regulations were clearly embedded in a wider strategy for capital markets and sustainable development. Correspondingly, few of the investment-focussed policy initiatives we analysed were clearly linked to specific sustainability objectives. However, there are signs that this is starting to change, with governments such as those in China and the European Commission announcing initiatives to align capital markets with sustainability goals.

# OUR RECOMMENDATIONS

## POLICYMAKERS SHOULD:

- articulate the role capital markets should play in contributing to a sustainable role for the financial system in society[1], with measurable objectives;
- for investor-related regulation:
  - build the evidence base on investor practice to understand how capital markets currently contribute to, or undermine, sustainable economies;
  - strengthen policy design: tentative drafting and easy opt-outs mean responsible investment policy is often easy to disregard;
  - improve monitoring and communicate the impact. Clarify how Regulators' mandates contribute to sustainable economies.
- introduce mandatory corporate reporting on ESG issues. Corporate reporting is a necessary, but not sufficient condition for supporting responsible investment. Future climate reporting should aim for international consistency and reference the principles, recommendations and guidance of the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD)[2].

## REGULATORS SHOULD:

- communicate how they interpret their mandate in relation to ESG issues;
- build capacity (people and skills) for monitoring responsible investment implementation.

Our recommendations distinguish between policymakers and regulators. Broadly, policymakers set the plan which governments pursue. Regulators deliver a mandate set by policymakers.

Structure varies by country and in some countries these functions overlap.

## INVESTORS

The PRI's *Case for investor engagement in public policy* provides a framework for investors to support effective responsible investment regulation using the five Cs:

- committing resources to public policy engagement;
- constructing a strategic process for policy engagement;
- clarifying public policy positions;
- collaborating on public policy engagement;
- communicating to stakeholders regarding public policy engagement.

1 The PRI defines a sustainable financial system as being a resilient system that contributes to sustainable, equitable economies. For more information, see *Sustainable financial system, principles, impact (supplementary report)* (PRI 2016).

2 The TCFD recommendations focus on the financial aspects of carbon reporting. Investors and other stakeholders may require additional disclosures.

# MAPPING RESPONSIBLE INVESTMENT POLICY

## A RECENT PHENOMENON, GAINING PACE

Over half of all responsible investment policy dates from the last three years.

In the early part of 2016, the PRI mapped out all existing responsible investment policy - almost 300 individual policy tools or market-led initiatives, covering the relationship between finance and ESG issues[3].

We focussed our study on the top 50 economies by GDP. Of these, only Iran has no policy initiatives relating to ESG factors and investment. These initiatives are a recent phenomenon, and the pace is increasing. We found that over half of all responsible investment policy dates from the period 2013-2016 (figure 1).

This demonstrates that responsible investment regulation is on the agenda for policymakers, investors and civil society worldwide. With this report, we want to understand whether these regulations are really changing the way investors, and ultimately companies, behave on ESG issues.

> **"From my point of view, natural disasters such as the unforgiving earthquake and tsunami that hit in 2011 have influenced financial institutions' mindset in Japan. After witnessing the fragility of our civilized society through this so-called "3.11" incident, we were all asked to revisit the meaning of sustainability."**
>
> Shin Izumi, Deputy Director, Environmental Policy Bureau, Ministry of the Environment, Japan

## ABOUT THE DATABASE

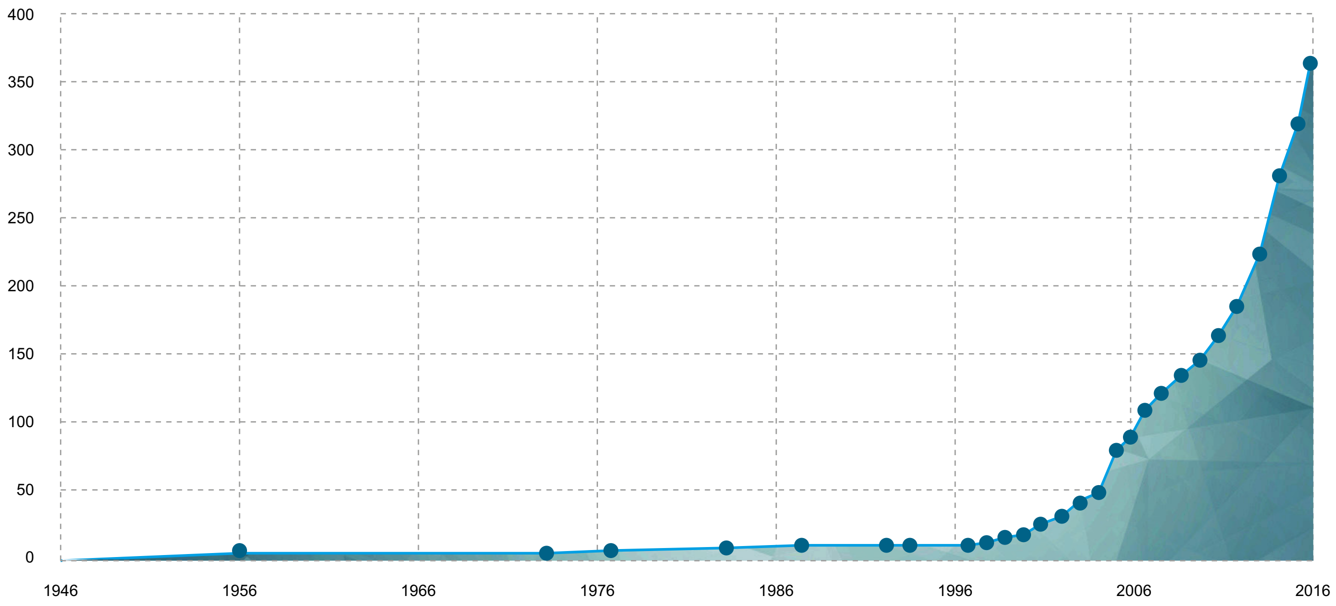
The PRI Regulation Map was developed in early 2016. Its content is derived from a review of existing databases, primary research by the PRI's policy team, and interviews with over 20 market stakeholders including investors, stock exchanges, regulators, and industry associations.

For each measure, it indicates the nature of the rule, the year of implementation, the authority responsible, whether the measure is voluntary or mandatory, and if it addresses ESG issues in isolation or in combination. It also provides commentary on the key clauses relating to ESG factors and investment.

To view the map and download the full methodology, visit the PRI website. For further information, email policy@unpri.org.

3 For this analysis we excluded international investment agreements, though note that UNCTAD's Investment Policy Monitor (November 2016) found that few IAAs refer to sustainable development.

Figure 1: Cumulative number of policy interventions per year (counting individual revisions separately). Source: PRI responsible investment regulation database

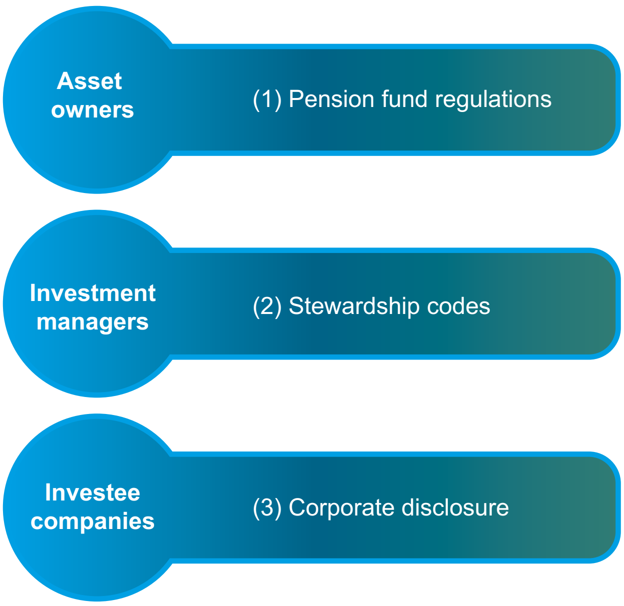



## DEVELOPING OUR TYPOLOGY

We found that almost all of the existing regulations can be grouped into three broad categories which relate to different parts of the investment chain[4]. Some thematic regulation, such as France's Energy Transition Law, traverses several categories.

We opted to include some industry-led stewardship codes in our analysis as these are modelled on government initiatives. When looking at corporate disclosure, we focus on government-led disclosures but also analyse the impact of some stock exchange and industry body-led disclosures.

Figure 2: Typology of different kinds of regulation




4 Our analysis found asset owner ESG regulations mainly focus on pension funds, though we are beginning to see prudential regulators paying attention to climate risk for the insurance market. Stewardship codes and corporate disclosure mainly pertain to the listed equity investment chain.

## MAKING THE CONNECTION: SUSTAINABILITY POLICY AND INVESTMENT POLICY

Few governments articulate the role investors are expected to play in sustainable economies.

As thousands of individual environmental or social protection regulations exist around the world, this analysis focussed on those with an investment component[5]. This meant we excluded most of the highest profile government sustainability commitments because few articulate the role investors are expected to play. Correspondingly, few of the investment-focussed policy instruments we analysed were clearly linked to specific sustainability objectives.

While some of the policymakers we interviewed were clear that the financial system could play a role in sustainable economies, few were more specific. This failure to articulate the role of the financial system in sustainable development has consequences:

- It gives the impression that sustainability and financial markets are unconnected and that ESG issues are financially irrelevant.
- It leads to regulatory confusion, with responsible investment policy unaligned with prudential or securities regulation.
- Financial system actors and governments can't be held to account for whether the financial system is contributing to progress – or undermining it.

There are signs that this is beginning to change.

- In August 2016, China launched [Guidelines on Establishing the Green Financial System]() with the Governor of the People's Bank of China providing a clear articulation of the link between finance and ESG, commenting that "establishing a green finance system has become a national strategy."
- France's Energy Transition Law has identified failure to adapt to climate change as a major market failure. It sets out a broad action plan for transitioning to a low-carbon economy – including a requirement for institutional investors to disclose how they are contributing to national carbon targets.

### EU SUSTAINABLE FINANCE HIGH LEVEL EXPERT GROUP

Launched in 2016 as part of the EU's flagship Capital Markets Union programme, the expert group will develop a policy roadmap to align Europe's capital markets with sustainability objectives, including the COP21 climate agreement and the SDGs. The action plan will identify ways to drive public and private capital towards sustainable investment and action that financial institutions and supervisors should take to protect the stability of the financial system from sustainability risks.

- In September 2016, the European Union announced that it will develop a sustainable finance strategy for European capital markets. Building from a call for evidence on the state of sustainable investment, the strategy will identify policy measures to ensure that the financial system supports growth in a way that is sustainable[6], building on the EU 2020 targets and the EU's commitments to the COP21 agenda and the SDGs.

While it is too early to assess the impact of these initiatives, it shows that some policymakers are strengthening their commitment to supporting sustainable finance.

> **"The Climate Change Law in 2012, which was updated in 2014 to mandate emissions disclosure, has set the government objective of driving renewable energy. The Ministry of the Environment is developing a national environmental investment plan, in which the financial sector will play a role."**
>
> Eduardo Piquero, Director, MÉXICO2, BMV Group

5 By this we mean relating to an investment process or providing disclosure that could reasonably be used by an investor.

6 http://europa.eu/rapid/press-release_IP-16-3001_en.htm

## Much existing regulation takes the fundamental features of the financial system as given.

Even with the massive new capital flows required by domestic and international commitments like the SDGs and COP21 agenda, progress could be undermined by the rest of the market. Capital markets as they currently function have an enormous influence on environmental and social outcomes.

Through provision of capital, investors support industries to operate and grow. Through stewardship and the market signals they send, they influence the time horizon and material issues that boards consider. To paraphrase a finding of the UNEP Inquiry[7], they take the fundamental features of the financial system as a given.

Many regulations fail to send a strong enough signal and position responsible investment as a voluntary activity, or conflate financially material ESG issues with beneficiary preferences. Their key tool is disclosure, an indirect way of achieving any specific outcome[8]. Without the incentives, they won't create the kind of wholesale change needed in market practice.

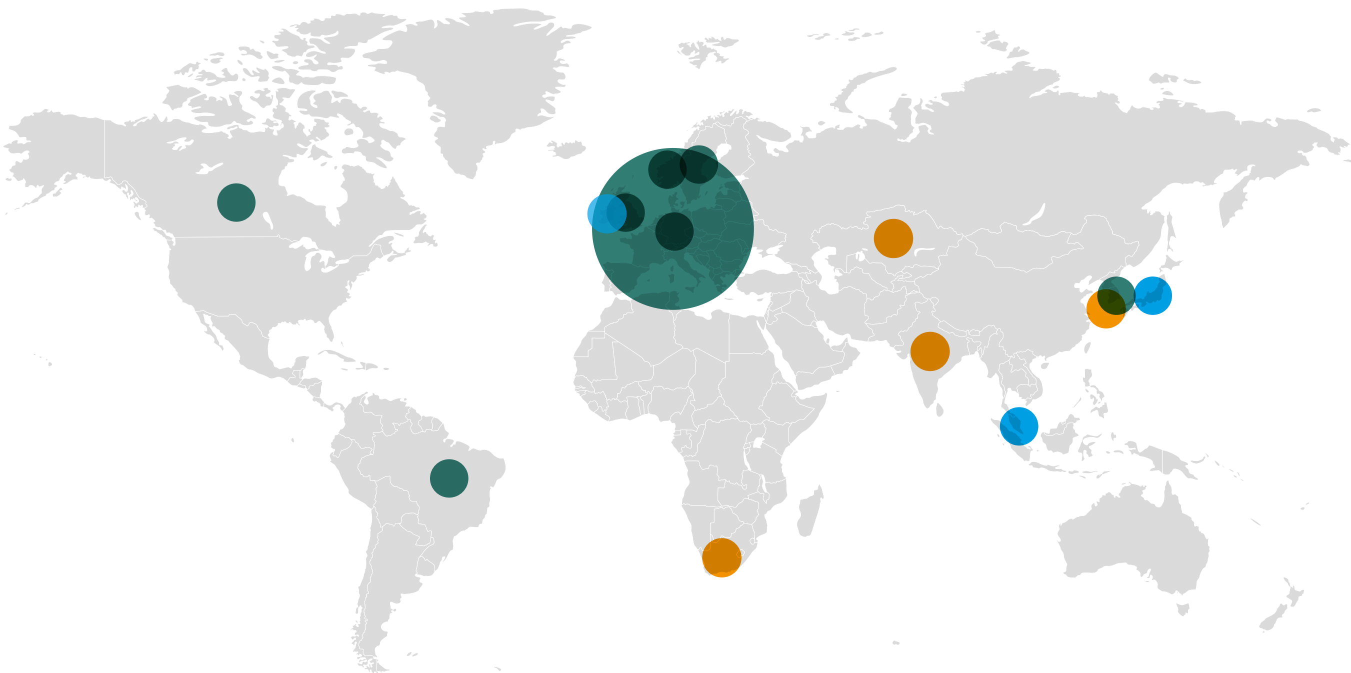
> **"While policymakers have not set broad sustainable development objectives for the financial sector, they have advanced frameworks for specific areas, such as renewable energy. Similarly, the awareness of responsible investment across the market is low, but for specific sectors, like renewables, real estate, ports, roads, etc., it is advanced."**
>
> Dr. Archana Hingorani, CEO & Executive Director, IL&FS Investment Managers Limited

> **"We've seen growth in soft, often self-regulation (i.e. codes, principles and guidance-based regulation). However, in some countries where you have a lack of demand from asset owners calling for ESG investment, you may need additional incentives and perhaps a clarification of the law."**
>
> Hans Christoph Hirt, Executive Director and Board Member, Hermes EOS

7 *Financial reform, institutional investors and sustainable development*, full quote is: "Previous interventions to promote the environmental and social dimension of investment have focused principally on disclosure of policies and formal statements of legal duties. They have largely taken fundamental features of the design and operation of the financial system as a given. The need now is for a more systemic and dynamic approach – an approach that builds institutional investment frameworks, investment institutions and an investment culture with sustainability at their core. Policy interventions that directly address institutional investors also need to be set in the broader context of action relating to the financial system as a whole."

8 ref: *The Kay review of UK equity markets and long-term decision (2012)*.

# POLICY EXAMPLES



## PENSION FUND REGULATIONS

Set the demand for ESG incorporation into investment decision making. They put ESG on the agenda for trustees as they formulate the fund's investment strategy and internal investment policies. This in turn should be codified into mandates, stewardship and investment decision making. Through mandate setting, asset owners control the incentive structure for fund managers. For this reason, regulating pension funds should have a multiplier effect – this was the key finding of the PRI's report *How asset owners can drive responsible investment: beliefs, strategies and mandates*.

Our analysis includes two kinds of pension fund regulations:

- disclosure requirements as part of the Statement of Investment Principles, or equivalent;
- Regulation targeting key state-owned asset owners.

## STEWARDSHIP CODES

Govern the interactions between investors and investee companies, with a view to promoting long-term value creation strategies. Formalised stewardship codes are a relatively recent invention. The first code was developed in the UK in 2012, but built on a long heritage of industry-led initiatives to promote engagement and voting. For this reason, some of the stewardship codes we've included in this analysis are still industry-led guidelines. All stewardship codes are voluntary, although some governments promote adherence more actively than others. All existing codes comprise a set of flexible, comply-or-explain principles. Key variables include whether the code explicitly references ESG issues and whether collaborative engagement is emphasised.

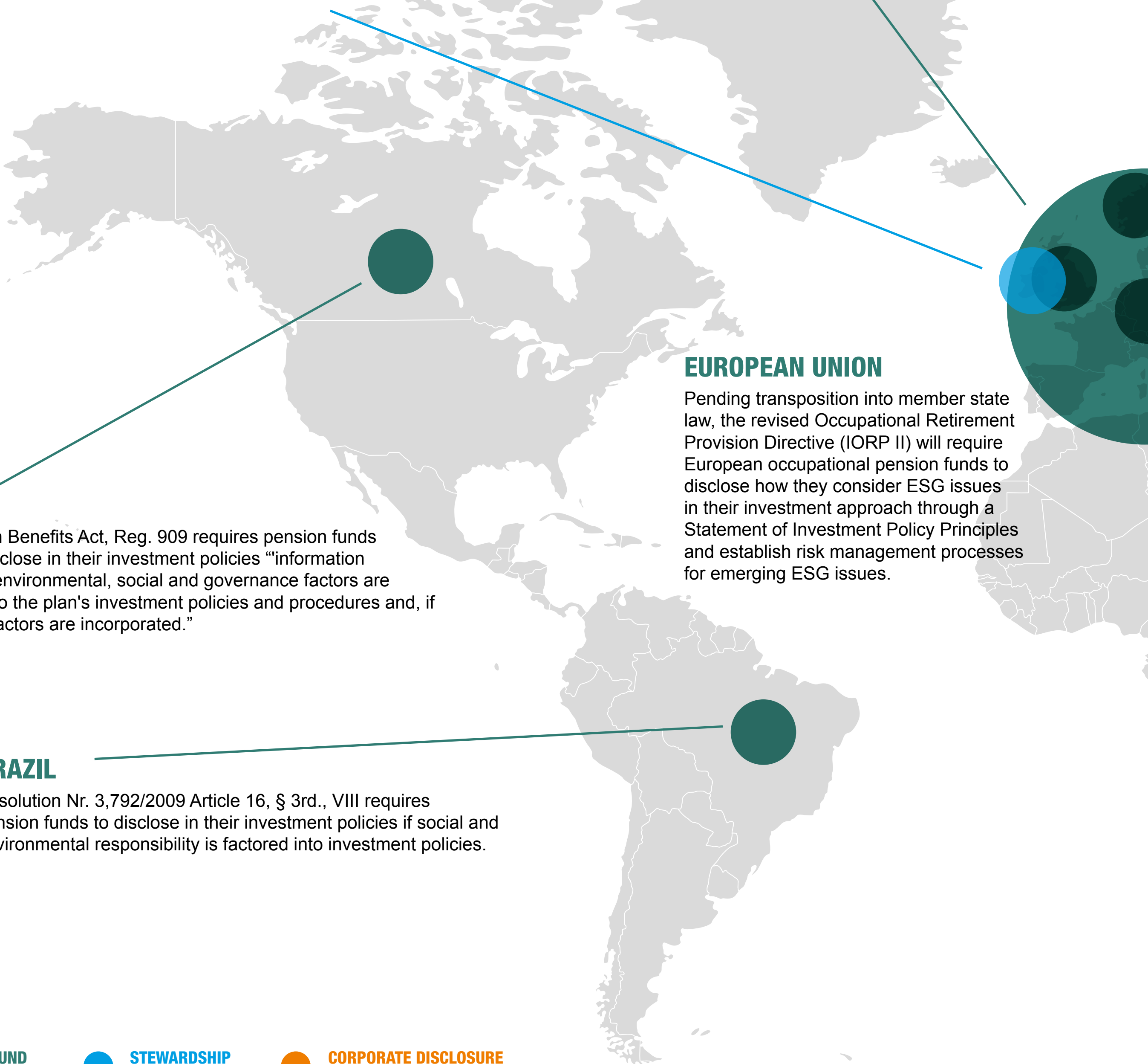
There has been notable growth in stewardship codes in Asia in recent years with Hong Kong, Japan, Malaysia, Singapore and South Korea implementing them since 2014.

## CORPORATE DISCLOSURE GUIDELINES

Help investors access data on ESG risks and opportunities – a precondition for the incorporation of ESG issues. The process of reporting also raises awareness of ESG issues within a company and may result in better management practices. There's considerable variation in corporate disclosure guidelines. They can be:

- issued by governments or non-governmental authorities, such as stock exchanges (with or without formal regulatory power) or industry associations;
- mandatory, comply-or-explain or voluntary (many include a materiality threshold for inclusion of individual ESG issues, though definitions of materiality vary);
- single-issue or comprehensive – covering a specific ESG issue or aiming to provide a comprehensive overview of a firm's activities;
- general principles or specific indicators and calculation methodologies.

# EXAMPLES: IN FOCUS



## UK

The Stewardship Code is overseen by the Financial Reporting Council (FRC). The code is supported by Conduct of Business Rule 2.2.31, which requires funds managed for professional clients to disclose the nature of their relationship to the code, or the alternative strategies in place. The FRC publishes statements of commitment to the code on its website and announced that in 2016 it would begin publicly ranking signatories based on the quality of their disclosures against the code.

## UK

The Occupational Pension Schemes (Investment) Regulation requires local government pension funds' Statement of Investment Principles to cover "the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments; and their policy (if any) in relation to the exercise of the rights (including voting rights) attaching to the investments."

## CANADA

Ontario Pension Benefits Act, Reg. 909 requires pension funds in Ontario to disclose in their investment policies "'information about whether environmental, social and governance factors are incorporated into the plan's investment policies and procedures and, if so, how those factors are incorporated."

## EUROPEAN UNION

Pending transposition into member state law, the revised Occupational Retirement Provision Directive (IORP II) will require European occupational pension funds to disclose how they consider ESG issues in their investment approach through a Statement of Investment Policy Principles and establish risk management processes for emerging ESG issues.

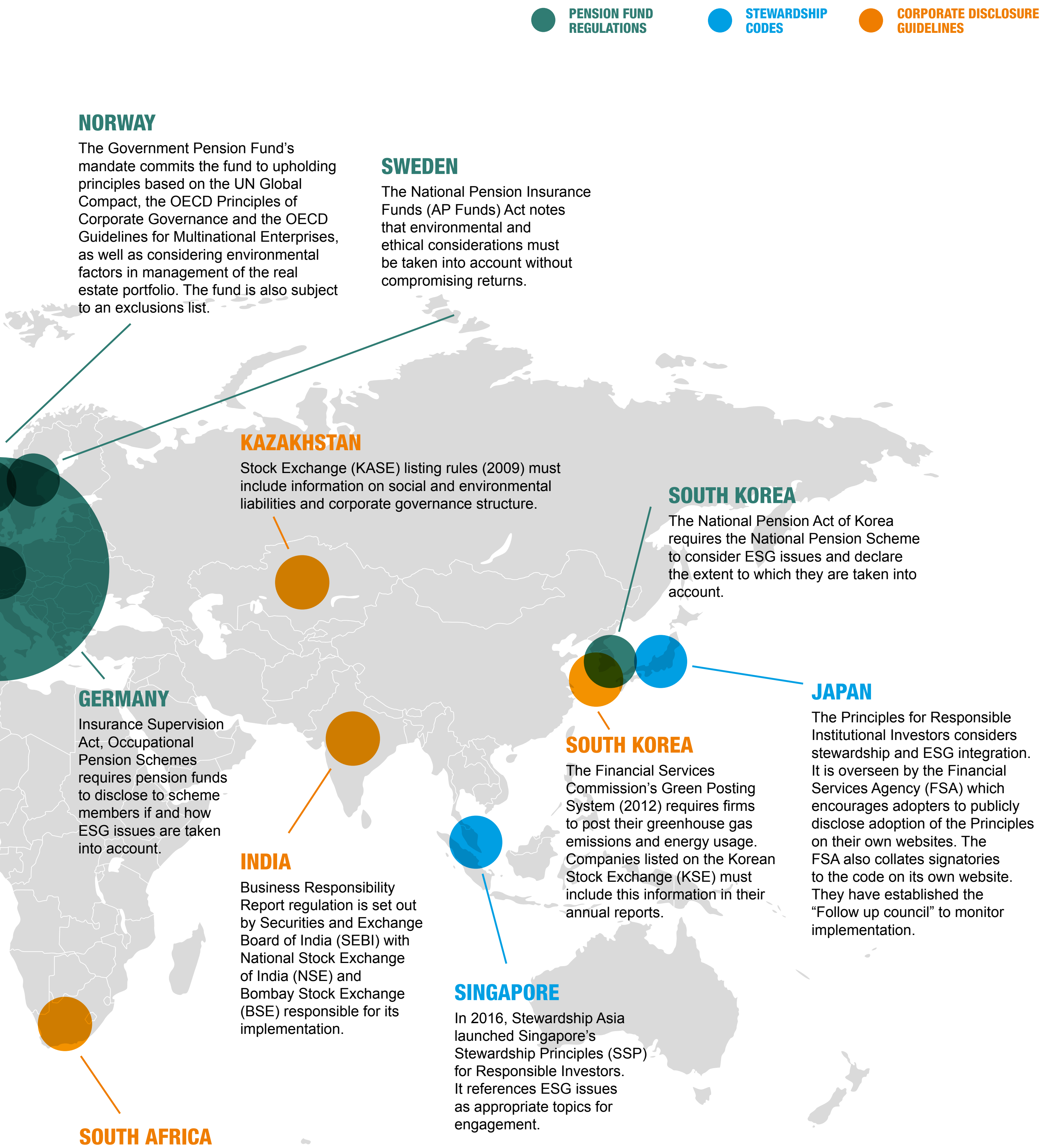
## BRAZIL

Resolution Nr. 3,792/2009 Article 16, § 3rd., VIII requires pension funds to disclose in their investment policies if social and environmental responsibility is factored into investment policies.

PENSION FUND REGULATIONS

STEWARDSHIP CODES

CORPORATE DISCLOSURE GUIDELINES




## NORWAY

The Government Pension Fund's mandate commits the fund to upholding principles based on the UN Global Compact, the OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Enterprises, as well as considering environmental factors in management of the real estate portfolio. The fund is also subject to an exclusions list.

## SWEDEN

The National Pension Insurance Funds (AP Funds) Act notes that environmental and ethical considerations must be taken into account without compromising returns.

## KAZAKHSTAN

Stock Exchange (KASE) listing rules (2009) must include information on social and environmental liabilities and corporate governance structure.

## SOUTH KOREA

The National Pension Act of Korea requires the National Pension Scheme to consider ESG issues and declare the extent to which they are taken into account.

## GERMANY

Insurance Supervision Act, Occupational Pension Schemes requires pension funds to disclose to scheme members if and how ESG issues are taken into account.

## SOUTH KOREA

The Financial Services Commission's Green Posting System (2012) requires firms to post their greenhouse gas emissions and energy usage. Companies listed on the Korean Stock Exchange (KSE) must include this information in their annual reports.

## JAPAN

The Principles for Responsible Institutional Investors considers stewardship and ESG integration. It is overseen by the Financial Services Agency (FSA) which encourages adopters to publicly disclose adoption of the Principles on their own websites. The FSA also collates signatories to the code on its own website. They have established the "Follow up council" to monitor implementation.

## INDIA

Business Responsibility Report regulation is set out by Securities and Exchange Board of India (SEBI) with National Stock Exchange of India (NSE) and Bombay Stock Exchange (BSE) responsible for its implementation.

## SINGAPORE

In 2016, Stewardship Asia launched Singapore's Stewardship Principles (SSP) for Responsible Investors. It references ESG issues as appropriate topics for engagement.

## SOUTH AFRICA

Johannesburg Stock Exchange's (JSE) listing rule mandates the adoption of the Institute of Directors' King Code which requires integrated reporting.

# CORPORATE DISCLOSURE REGULATIONS

Governments of 38 of the largest 50 economies in the world have, or are developing, disclosure requirements for corporations covering environmental, social and governance issues.

The most common initiatives in our database are corporate reporting rules – over 200 relate to this. Some of these relate to a single issue. Examples include Saudi Arabia's corporate governance rules, which require disclosure of management remuneration. South Korea's green posting system requires listed companies to include greenhouse gas data and green technology certification in their annual reports. However, the vast majority of countries we analysed – 38 of the top 50 economies in the world – had, or were developing, some kind of government-led disclosure guidelines for corporations covering ESG issues. Most are voluntary or comply-or-explain, but they still play a role in raising awareness and offer a framework for structuring a disclosure.

The ongoing work of the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures is likely to galvanise environmental disclosure in future years. Though voluntary, the task force recommendations can be seen as an opportunity for governments and accounting standard setters to develop disclosure policy referring to an internationally consistent set of reporting guidelines.

## FSB TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The Task Force on Climate-related Financial Disclosures (TCFD) was set up by the FSB to develop voluntary, consistent climate-related financial risk disclosures. This will enhance market understanding of possible linkages between climate-related risks/opportunities and financial impacts in order to aid the economic decision making of capital markets participants. The work considers the role of lenders, insurers, investors and other stakeholders. The Phase I report delivered in March 2016 reviewed the existing landscape of climate-related disclosures to identify commonalities, gaps, and areas for improvement. Phase II will develop recommendations for voluntary disclosures of climate-related risks and opportunities located in the mainstream financial filings of non-financial and financial companies that are listed and/or issuers of public securities.

## INTRODUCTION TO THE QUANTITATIVE ANALYSIS

We were able to test the influence of regulations on company ESG risk management by using the industry-adjusted MSCI ESG Ratings score. We used the MSCI ACWI index as our starting universe[9] and cross-referenced this with our database of regulation for the largest 50 economies.

We put companies into groups depending on whether they were subject to a particular piece of regulation. We then took a simple average of the MSCI ESG Ratings score for all companies in that group.

## DATA UNIVERSE – MSCI ACWI (ALL COUNTRY WORLD INDEX)

The starting universe for this analysis was the MSCI ACWI index. We chose this index as it provides coverage of large and mid-cap companies in 23 developed and 23 emerging markets.

We also used MSCI's market classification (see Appendix II: MSCI market classification) to distinguish between developed and emerging and frontier markets. Emerging markets typically have fewer responsible investment policy instruments, based on our classification, and companies score lower.

## GOVERNMENT-LED MANDATORY ESG REPORTING IMPROVES CORPORATE RISK MANAGEMENT

As noted earlier, almost every country we analysed has some kind of company disclosure requirement. Only four countries don't have any kind of government-led ESG disclosure and of these, two[10] have no companies in the ACWI index. This meant there wasn't enough data to test the effectiveness of these single-issue rules, so we focussed on rules covering E, S and G issues – designed to provide a broad overview of a company's impact.

## EXPLAINING THE MSCI ESG RATING SCORES

A company's MSCI ESG Rating, or overall MSCI ESG Score, is determined by its exposure to industry-specific ESG risks and its ability to manage or mitigate them relative to peers.

The research aims to identify the issues most relevant to an industry. For each issue, the company's Risk Exposure Score is combined with a Risk Management Score. The weighted average of all Key Issue Scores is aggregated and normalised for the industry to produce the Industry-Adjusted Score.

A company with an overall score equal to or greater than the industry's top benchmark company receives an Industry-Adjusted Score of 10 (rated AAA). A company with a score equal to or lower than the bottom benchmark company receives a 0 (rated CCC) with the remaining companies receiving a score between 0 to 10.

Figure 3: All markets. Average industry-adjusted MSCI ESG Rating score (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016

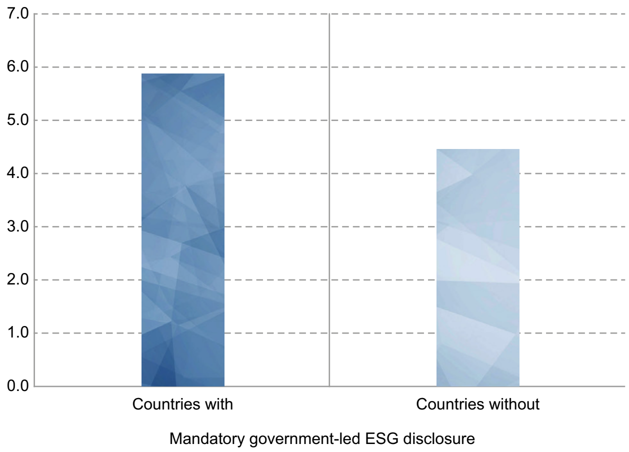
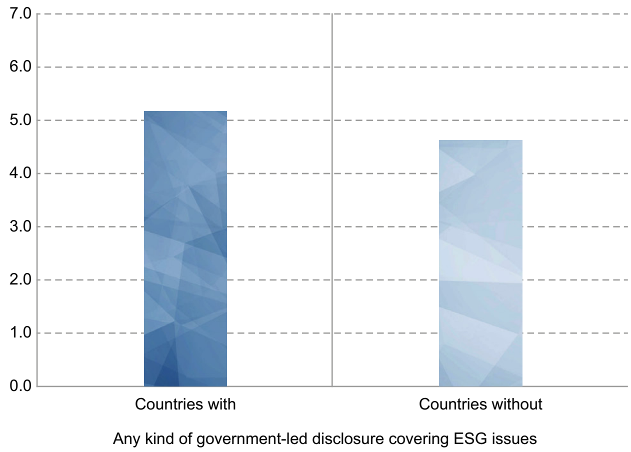



Figure 4: All markets. Average industry-adjusted MSCI ESG Rating score (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016




Our analysis shows that companies in countries with mandatory, government-led[11] comprehensive ESG reporting requirements have, on average, a 33% better MSCI ESG Rating score (figure 3) than those without. This score indicates better ESG risk management practices relative to risk exposure.

We also tested the relationship between voluntary ESG disclosure requirements (figure 4). We found a small positive relationship (+11%), but far less significant than when we looked at mandatory regulations.

10 Iran and Venezuela

11 This analysis includes government-led disclosure rules and rules imposed by stock exchanges with a formal regulatory mandate.

This relationship is stronger in developed markets (figures 5 and 6 – 36% and 24% respectively) compared to emerging markets (figures 7 and 8, respectively 8% and -6%). In both developed and emerging markets, companies subject to mandatory ESG disclosure regulations score better than those who are not.

Figure 5: Developed markets. Average industry-adjusted MSCI ESG Rating score (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016

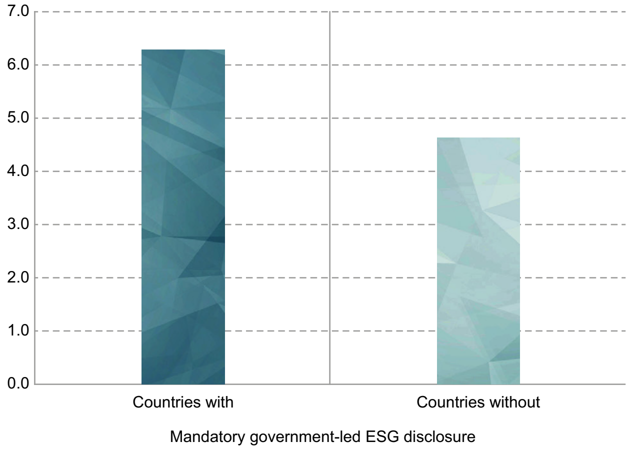



Figure 6: Developed markets. Average industry-adjusted MSCI ESG Rating score (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016

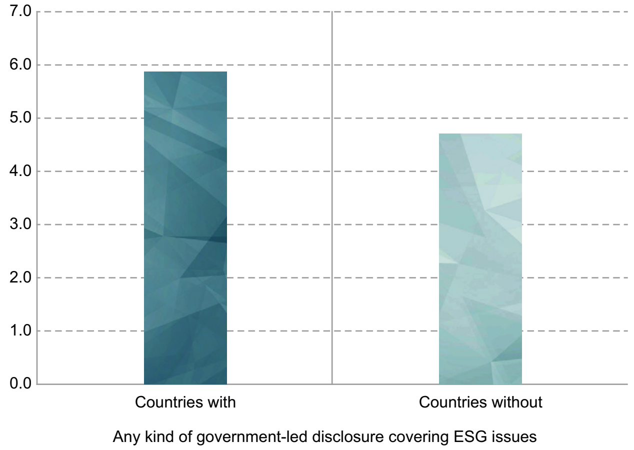



Figure 7: Emerging & frontier markets. Average industry-adjusted MSCI ESG Rating score (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016

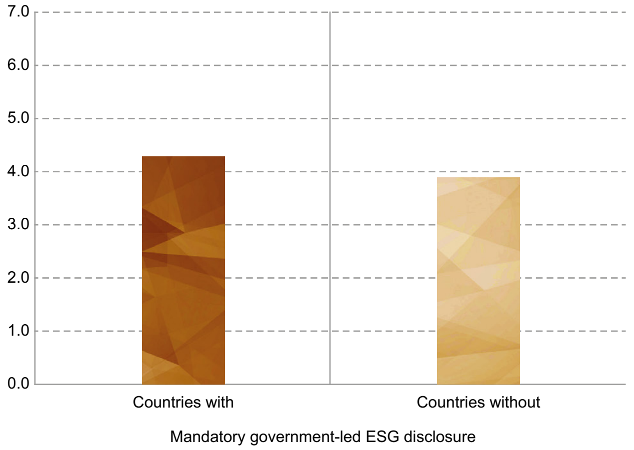
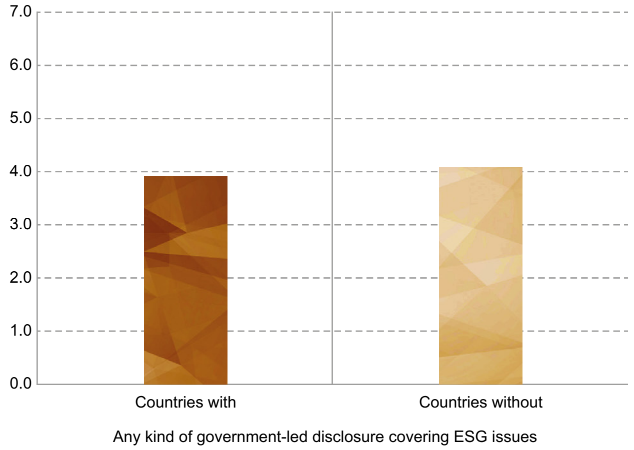



Figure 8: Emerging & frontier markets. Average industry-adjusted MSCI ESG Rating score (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016




## IS BETTER CORPORATE DISCLOSURE ENABLING RESPONSIBLE INVESTMENT?

Several factors could be contributing to these results[12]:

- **The impact of regulation on corporate behaviour.** Asking the right questions can enhance internal risk management processes and reduce a company's overall exposure to risk.
- **Government attitude to regulation.** Governments willing to regulate corporate disclosure may also take a more interventionist approach to ESG regulation in general. This could result in lower ESG risk exposure in that country.
- **Regulation formalising a tradition of corporate sustainability.** Regulations sometimes follow, rather than lead, market practice. In practical terms,

12 We discounted the possibility that better disclosure was leading to better scores. Some scoring systems penalise companies for poor disclosure. However, MSCI ESG Ratings scores correct for this possibility and are not solely based on public disclosures.

introducing a new disclosure rule is much harder without industry buy-in, and a body of voluntary market practice makes this process considerably easier. For example, the introduction of Article 173 of the French Energy Transition Law built on the existing strength of the SRI market and previous regulations[13].

- **Better data enabling investors to implement ESG incorporation and stewardship.** Good quality disclosures enable investors to better analyse ESG-related risks and opportunities and engage with companies around long-term value creation strategies.

Through the interviews, we found that while disclosure is a good first step, to fundamentally change behaviour, incentives need to be aligned. Investors provide a significant part of those incentives through their investment decision making and stewardship activities.

## STOCK EXCHANGE AND INDUSTRY-LED DISCLOSURE

In addition to government-led disclosures, 26 countries have or are developing reporting guidance led by stock exchanges or industry associations. One of the key drivers for new developments in stock exchanges is the Sustainable Stock Exchange initiative's (SSE) Close the Guidance Gap campaign.

### SUSTAINABLE STOCK EXCHANGES (SSE) INITIATIVE

The SSE is a global multi-stakeholder initiative exploring how exchanges, in collaboration with investors, regulators, and companies, can enhance corporate transparency – and ultimately performance – on ESG issues. The SSE is organised by the UN Conference on Trade and Development (UNCTAD), the UN Global Compact, the UN Environment Program Finance Initiative (UNEP FI), and the PRI.

This is not the first analysis of stock exchange reporting. Analysis released in 2014 by Corporate Knights found that leading exchanges can contribute to better corporate reporting outcomes – but corporate reporting still regularly falls short of investor expectations. Stock exchanges with formal regulatory powers were included in the government analysis – the remainder are analysed here. Within this sample, only three stock exchanges –Toronto Stock Exchange (TSX)[14], Kazakhstan Stock Exchange (KASE)[15] and Pakistan Stock Exchange (PSX)[16] – have mandatory ESG reporting requirements. Our sample size was therefore not large enough to replicate the analysis of the last section. Instead, we focussed on exchanges with ESG disclosure guidelines, irrespective of whether they are mandatory, voluntary or comply-or-explain.

### CAMPAIGN TO CLOSE THE GUIDANCE GAP

In 2014, only 15 stock exchanges around the world provided guidance to issuers on reporting ESG information. In response, the SSE created the *Model Guidance on Reporting ESG Information to Investors*, a tool that assists exchanges by providing a template that can be customised to meet the unique needs of a specific market. To increase uptake the SSE's investor working group convened a coalition of investors and companies representing US$10tn in AUM and US$400bn in market capitalisation.

As a result, 23 additional exchanges committed to producing guidance by 2017.

13 See the PRI's *investor briefing on the energy transition law*.

14 TSX listing rules timely disclosure policy requires immediate disclosure of any material environmental or social issues. In 2014, this was supplemented by the exchange's primer on ESG reporting referencing international disclosure best practice standards.

15 KASE listing rules require annual reports to provide information on environmental and social liabilities and governance structure. This will shortly be supplemented by additional voluntary ESG reporting guidance, due to be issued in 2016.

16 PSX listing rules requires the Board of Directors to prepare and disclose policies relating to environmental, safety and governance and corporate social responsibility issues.

We found a negligible difference (+0.6%) in the MSCI ESG Rating scores of companies with stock exchange ESG reporting guidelines and without (figure 9). There is a very slight positive association in developed markets (figure 10, + 6%) and a very slight negative association in emerging and frontier markets (figure 11, -3%).

## Voluntary disclosure as a stepping stone.

This analysis comes at an early stage of stock exchange reporting. The Close the Guidance Gap campaign has commitments from 23 exchanges, but comprehensive disclosure guidelines are relatively recent and still developing.

When we analysed government-led reporting rules, we found that mandatory requirements were associated with considerably better ESG scores. This suggests that formal enforcement mechanisms strengthen implementation. Although the exchanges analysed here don't have a formal regulatory mandate, they still have enforcement mechanisms. ESG disclosure requirements could be strengthened by systematically integrating them into listing rules – the key enforcement mechanism available to exchanges.

Voluntary disclosures are a useful stepping stone towards more formal rules and help to raise awareness in the market. Increasingly, we find exchanges are publishing voluntary guidance alongside a timetable for comply-or-explain or mandatory reporting.

**"HKEX issued its ESG Reporting Guide in 2012, compliance with which was voluntary, but simultaneously announced that, subject to consultation, it would be updated to comply-or-explain in 2015. We put out a consultation in 2015, which received strong support from the market as well as from institutional investors."**

Ellie Pang, Vice President, Hong Kong Exchanges and Clearing Ltd (HKEX)

Figure 9: All markets. Average industry-adjusted MSCI ESG Rating score (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016

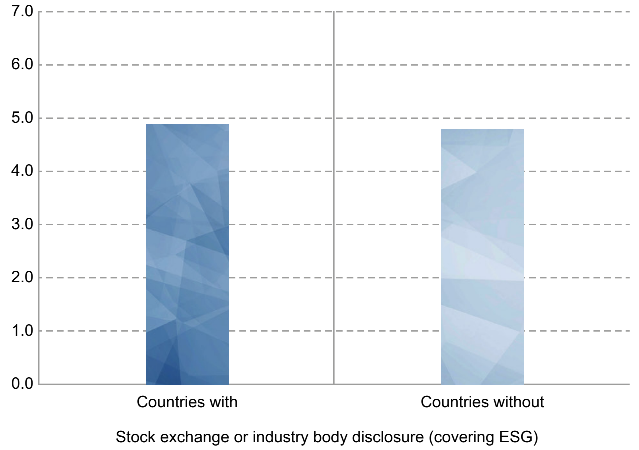



Figure 10: Developed markets. Average industry-adjusted MSCI ESG Rating score (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016

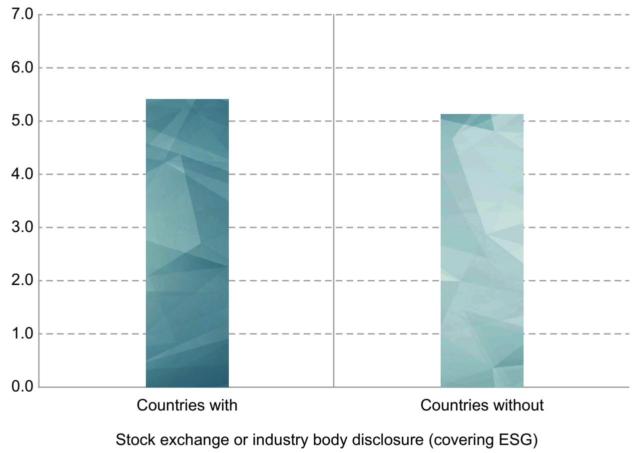
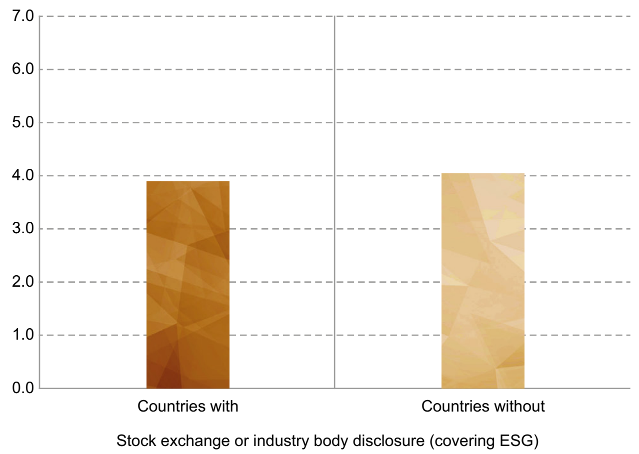



Figure 11: Emerging & frontier markets. Average industry-adjusted MSCI ESG Rating score (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016



# INVESTOR REGULATION

## PENSION FUND REGULATION AND STEWARDSHIP CODES

Pension fund regulation and stewardship codes are correlated to better company ESG risk management – but we can't prove that regulation is responsible for the result.

We also compared company ESG scores to pension fund regulation and stewardship codes, using the same technique as our corporate disclosure analysis. The theory of change – that investors considering ESG issues in investment decision making and stewardship will ultimately impact corporate behaviour – is fundamental to the PRI's mission. In this analysis, we are aiming to test whether regulation is encouraging better investor action, ultimately resulting in better ESG scores of investee companies.

We found that pension fund regulation and stewardship codes are correlated to better company ESG risk management (figures 12 and 13). Pension fund regulations show a 32% increase in score compared to 13% for stewardship codes.

This finding holds true across developed and emerging markets, although the relationship is stronger between pension fund regulation and ESG scores in developed markets. In developed markets (figures 14 and 15), countries with pension fund regulation have 36% higher scores than those without, and countries with stewardship codes have 8% higher scores. In emerging and frontier markets (figures 16 and 17), the relationship is more even – a 27% increase where pension fund regulation is present and a 26% increase where stewardship codes are in place.

### PENSION FUND REGULATION

Almost half – 23 of the 50 countries analysed – have, or are developing, some kind of rules regarding pension funds and ESG criteria.
The single biggest movement is the European Union's revised Institutions for Occupational Retirement Provision (IORP II) Directive, applicable in all member states within two years of the November 2016 vote. The Directive is likely to require European pension funds to disclose how they consider ESG issues in their investment approach, as part of a drive to improve governance and transparency to scheme members and beneficiaries. For more information, see the PRI's briefing.

### STEWARDSHIP CODES

A quarter - 14 of the 50 countries - have, or are developing, guidelines on investor stewardship – the exercise of ownership rights in the pursuit of long-term, sustainable growth. These codes vary in the extent to which they prioritise ESG issues, but all are focussed on creating a more long-term relationship between companies and investors. Formalised stewardship codes are a relatively recent invention. The first code was developed in the UK in 2012, but built on a long heritage of industry-led initiatives to promote engagement and voting. For this reason, some of the stewardship codes we've included in this analysis are still industry-led guidelines.

Figure 12: All market. Average industry-adjusted MSCI ESG Rating score (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016

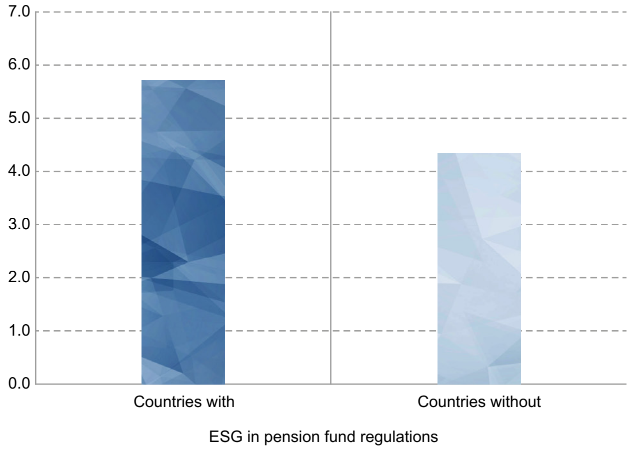



Figure 13: All market. Average industry-adjusted MSCI ESG Rating score (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016

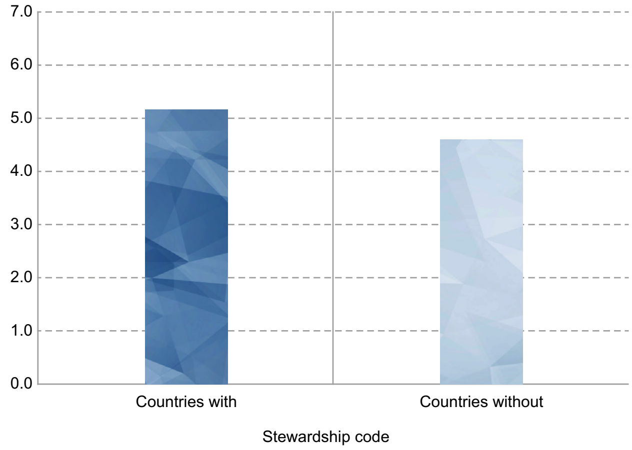



Figure 14: Developed markets. Average industry-adjusted MSCI ESG Rating score (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016

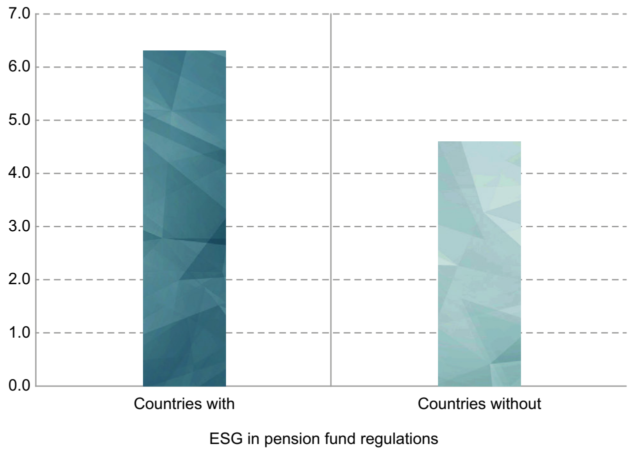



Figure 15: Developed markets. Average industry-adjusted MSCI ESG Rating score (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016

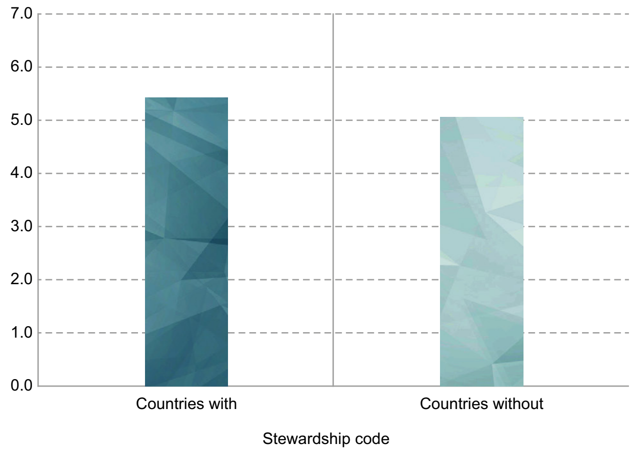



Figure 16: Emerging and frontier markets. Average industry-adjusted MSCI ESG Rating score (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016

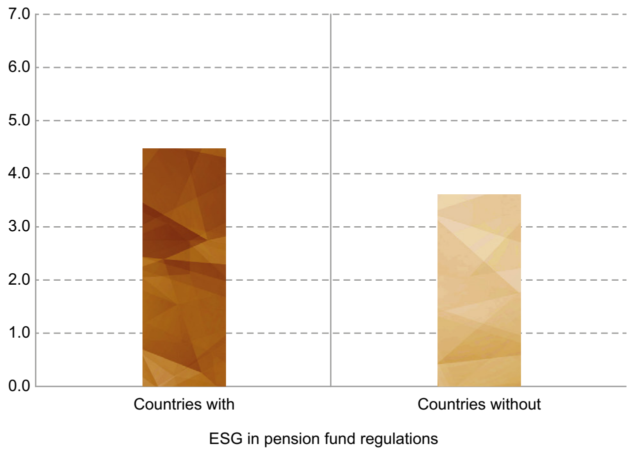
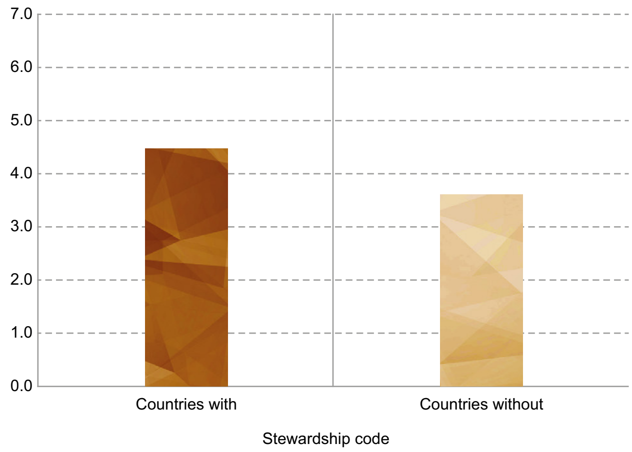


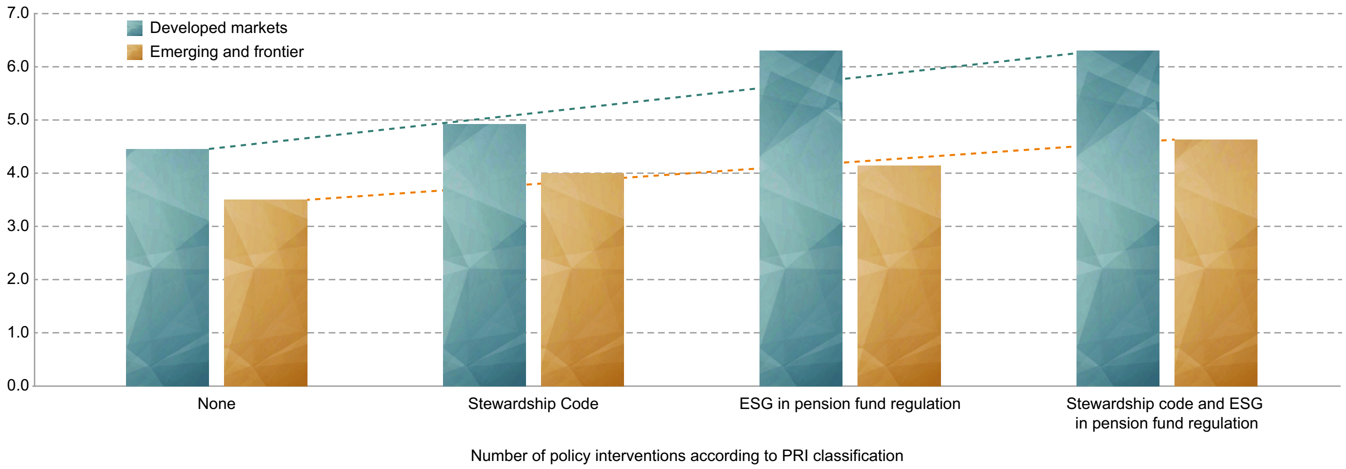

Figure 17: Emerging and frontier markets. Average industry-adjusted MSCI ESG Rating score (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016



We sought to build confidence in these results by identifying whether the effect of one kind of regulation persists, even when controlling for the other. We found that companies in countries with both kinds of regulation score best on average, and markets with none of our types of regulation score worst. This holds true in developed markets (which show a 43% average score increase for all kinds of regulation compared to none) and emerging markets which show a 32% increase (figure 18).

> **"A piece of regulation in isolation is a matter of compliance. We need to look at the ecosystem and how regulations coordinate. In a well-functioning market, there should be positive reinforcement that enables responsible investment."**
>
> Christine Chow, Associate Director, Hermes Investment Management

Figure 18: Average industry-adjusted MSCI ESG Rating score and investor-targeted policy instruments, split by market type (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016

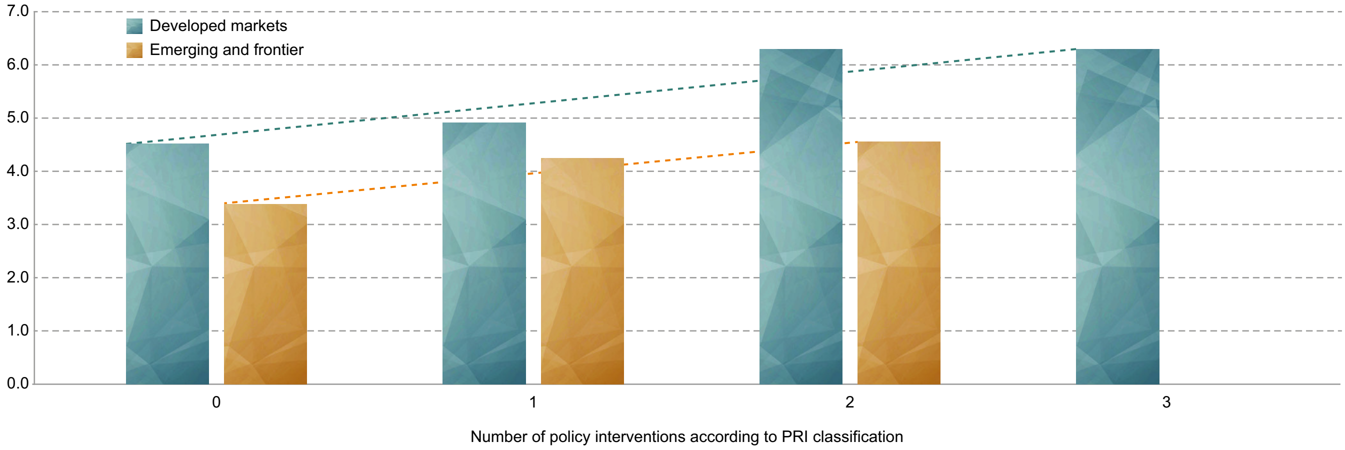


## COMPREHENSIVE POLICY FRAMEWORKS

Finally, we combined the results to identify whether countries with more comprehensive responsible investment policy frameworks were associated with better corporate ESG scores. We grouped countries based on whether they had zero, one, two or three of our types of regulation. At the time of writing, no emerging markets had all three types of regulation.

The results show that in developed and emerging markets, more comprehensive policy frameworks are correlated to better corporate ESG risk management. Developed markets show a 43% increase in score where all three kinds of regulation are in place, compared to where no regulation is in place. However, we still can't prove this is a causal link without a better understanding of investor practice.

Figure 19: Average industry-adjusted MSCI ESG Rating score and all policy instruments, split by market type (out of 10). Source: PRI responsible investment regulation database and MSCI ESG Research 2016




There is no existing data set that can give the market-wide overview of investor practice that we need.

There are several ways policymakers have begun to analyse the scale and depth of sustainable finance in their markets:

- Calls for evidence, including:
  - The European Commission's call for evidence on long-term, sustainable investment, which sought to understand the state of the market and barriers to market development[17].
  - California's Insurance Commissioner's data call on carbon-intensive investments by insurance companies[18] and the Bank of England Prudential Regulatory Authority's survey on climate resilience in the insurance industry[19].
- Convening industry experts. For example – in preparation for establishing the stewardship code, Japan's Financial Services Agency established an expert group.
- Analysing existing disclosures, such as those required by pension fund regulations. For example, the recent analysis of sustainable finance in pension funds conducted by the DNB.

These studies provide insight to inform policymaking. However, as few result in a transparent or public data set and little quantifiable data is collected, there are no formal surveillance mechanisms for the flow of capital towards sustainable outcomes. There's no existing dataset that can give a global overview of investor practice that we need for this kind of study.

17 http://ec.europa.eu/justice/newsroom/civil/opinion/151211_en.htm
18 https://www.insurance.ca.gov/0400-news/0100-press-releases/2016/statement010-16.cfm
19 http://www.bankofengland.co.uk/pra/Documents/supervision/activities/pradefra0915.pdf

The PRI's Reporting Framework[20] is the most comprehensive description of responsible investment practices in the market. The responses we receive from this are a valuable source of insight into how practice is developing. However, the data we collect describes the activities of investors already committed to responsible investment. We therefore were unable to use the PRI Reporting Framework data to analyse regional differences in investor practices for this study. We continue to use our data set to provide insights to policymakers and regulators on the progress and activity of the responsible investment community. To form a global overview we need to understand whether, and how, non-signatory investors are considering ESG issues, and so would encourage policymakers to seek this information from the wider market.

## IS REGULATION PERCEIVED AS IMPACTFUL?

### Investors perceive some regulation as impactful – but not as much as our quantitative results suggest.

We interviewed policymakers and investors across the globe to get their perception of the impact of these regulations. It's clear that some responsible investment regulation is impactful.

Governments often set objectives for large, state-owned funds. This kind of regulation is a powerful way to influence investment culture and norms – difficult to regulate for – and has outsized influence. This was a key finding of the PRI's recent report *Investor obligations and duties in six Asian markets*. Our interviews for this report found this is also relevant in Europe, Africa and the Americas. It allows governments to lead by example and develop tools that the rest of the market can benefit from.

We also found that some issue-specific regulations are widely perceived as impactful – an example being Mexico's energy transformation framework.

There is also some documented evidence that well-established stewardship codes are increasing dialogue between companies and investors[21], although it's less clear that this is driving adherence to long-term business models – on the contrary, evidence points to an increase in the short-term pressures on many companies[22].

### Bringing ESG onto the agenda.

These regulations can also influence more subtly.

Introducing new rules, or even voluntary initiatives, can raise awareness of ESG issues, bring them onto the agenda for investors and normalise ESG incorporation. It can also result in advisors updating the advice they provide to their clients. While this isn't an overnight revolution, it can be the beginning of more meaningful engagement with ESG issues.

It can also result in better documentation and disclosure. While some criticise this as turning ESG into a 'box-ticking' exercise, this nonetheless creates a data set that allows clients, regulators and beneficiaries to hold investors to account on their ESG incorporation and stewardship activities.

> **"Most regulation, while starting as a 'tick-the-box' exercise, once absorbed into the system, becomes more meaningful and ultimately de jure."**
>
> Dr. Archana Hingorani, CEO & Executive Director, IL&FS Investment Managers Limited

20 https://www.unpri.org/report

## Weak policy design and limited monitoring of regulation are undermining the impact.

Beyond this, we found a widespread view that implementation of responsible investment policy is often weak.

When producing our policy map, we noted the lack of coherent policy frameworks supporting sustainable finance. Existing regulation is currently limited by weak design and implementation. When added together, this sends a signal – that ESG and stewardship are optional, not important enough to monitor, and separate to the core purpose of financial markets.

### POLICY DESIGN

- Responsible investment policy tools have unclear objectives, or the objectives are not specific enough to provide an accountability framework for stakeholders. They don't match the level of ambition of international agreements like COP21 or the SDGs.
- They aren't aligned with wider policy frameworks, meaning that action encouraged under these policies isn't supported, and may even be undermined by other pressures.
- All stewardship codes are voluntary and much pension fund regulation operates on a 'disclose if you consider ESG' basis. This gives the impression that stewardship and ESG integration are optional. The PRI's previous work shows that these are a requirement of a fund's fiduciary duty[23].
- Financially material ESG issues are conflated with the ethical preference of members. While it's right that regulations give flexibility to funds to respond to their members' ethical preferences, this is separate and distinct from the requirement to consider financially material ESG issues.
- The drafting may give easy opt-outs to investors – using poorly defined terms, or phrases like "give consideration to" without guidance on what appropriate consideration looks like. For comply-or-explain frameworks, it's often not clear what level of justification is required when explaining non-compliance.

### POLICY MONITORING

- There is inconsistency between policymakers and regulators. Governments may discuss ESG issues but financial services regulators rarely do. However, regulators often have flexibility within their mandates and may be able to respond far more quickly to emerging issues, without waiting for policy processes to run their course.
- Very few of the policy initiatives we analysed were actively monitored. In some cases this is by design – the French Energy Transition Law has a two-year development phase before monitoring commences. In some cases, it reflects the fact that the objectives set for the policy instrument simply aren't ambitious enough to require monitoring. However, more commonly we heard that capacity constrained regulators deprioritise ESG considerations, and in some cases don't sufficiently understand them well enough to engage. In some cases, regulation of stewardship codes falls to industry bodies with no formal regulatory mandate and no ability to sanction non-compliance.
- Existing monitoring is not transparent. Some regulators shared the thoughtful and considered methods they use for tracking the implementation and impact of their initiatives. However, this rarely extends to holding individual investors to account for implementation. And even in these markets, investors remained extremely sceptical of the impact – they didn't feel they'd seen their peers and competitors change behaviour. Interviewees openly questioned whether ESG issues were a priority for the government, suggesting that ESG clauses were introduced just to respond to pressure from civil society – or even debated whether the clause in question existed.
- Finally, the design of regulation may make it difficult to hold investors to account. Many pension fund regulations require funds to disclose their ESG policy only if they have one – it is therefore near impossible for a regulator to identify non-compliance.

23 http://www.fiduciaryduty21.org/

> **"Momentum for the stewardship code needs support. Transparency around signatories would increase its power. Signatories should have to disclose if and how they comply with the code. We also need strong institutional investors to lead."**
>
> Christine Chow, Associate Director, Hermes Investment Management

> **"Article 173 of the Energy Transition Law and the other laws in France are effective because many actors are quite advanced, but also because there were formal laws before. France is having an iterative process and scaling up over time: regulation, market practice, regulation, market practice…"**
>
> Grégoire Cousté, Head, French SIF

# NEXT STEPS

This report – the first global study of its kind – demonstrates the breadth and scale of responsible investment and analyses its impact. We found hints that regulation is contributing to better ESG outcomes, but the data isn't available yet to prove that regulating investors is the main driver of change. Investors aren't yet convinced that regulation is changing investor behaviour and weak policy design and monitoring lead them to believe that policymakers and regulators don't take these issues seriously. This lack of monitoring, in turn, perpetuates the lack of data. Better monitoring would help regulators to understand the factors driving better ESG outcomes, and provide the outline of an accountability framework.

This naturally interfaces with policymaking processes. Volumes have been written about effective financial services regulation, much in the aftermath of the global financial crisis. We were informed by many of these publications while defining the research approach for this report, but a systematic review of policymaking processes was not within the scope. These issues will be considered further by the PRI's Sustainable Financial System programme.

## FURTHER ANALYSIS

### INVESTOR DATA

- This report was informed by analysis of good policymaking processes (see bibliography) but a systematic evaluation of them was out of scope. We plan further analysis as part of the SFS programme.
- We weren't able to find a global, comparable data set to analyse whether investors were allocating capital to more or less sustainable companies or pursuing stewardship.

### CORPORATE DISCLOSURE

- Our focus was on interviewing investors on their perceptions of regulation – more analysis of company attitudes would also help to demonstrate causality on ESG disclosure rules.
- Almost all countries, and all emerging markets, have some kind of government-led disclosure regulation in place covering one or more ESG issues – so we weren't able to do a simple test of the relationship between government intervention and ESG score. Looking outside the top 50 economies might allow this relationship to be examined further, as could looking at older data sets.

**"The financial regulators have been regulating the market in isolation, but they cannot bake-in sustainability objectives without the participation of environmental regulators and civil society organisations that deal with environmental and social issues. This dialogue, still rare, is more than necessary and should happen more often and go deeper than it has happened so far, since there are many convergent interests to be managed together by the financial community and the society as a whole."**

Luciane Moessa de Souza, PhD, Post-Doctoral candidate, Legal Counsel at Central Bank of Brazil

# APPENDIX I: REGULATION MAP SUMMARY

## KEY

N = No regulation of this kind in place
V = Voluntary
M = Mandatory
C/E = Comply-or-explain
C+E = Comply-and-explain
ESG = Regulation that addresses ESG issues comprehensively
E = Environmental regulation
S = Social regulation
G = Governance regulation
*Only applies to certain institutions, sectors or regions

| COUNTRY | RANKING IN TOP 50 LARGEST ECONOMIES | PENSION FUND REGULATION | STEWARDSHIP CODE | GOVERNMENT IMPOSED CORPORATE ESG DISCLOSURE | NON-GOVERNMENT IMPOSED CORPORATE ESG DISCLOSURE |
|---|---|---|---|---|---|
| Argentina | 21 | N | N | M*ESG | N |
| Australia | 12 | MESG | VESG | MESG, M*S, ME | VESG, MG |
| Austria | 29 | M*ESG | N | ME, MESG in progress, M*S in progress | MG, VG |
| Bangladesh | 47 | N | N | MG | VESG |
| Belgium | 25 | MESG | VG | ME, MS, MESG in progress, M*S in progress | C/EG |
| Brazil | 9 | MESG | VESG | ME | C/EESG, VESG |
| Canada | 10 | M*ESG, V*ESG | N | ME, MESG, VESG, C/ES, MG | MESG,VESG |
| Chile | 42 | N | N | MS, MG, VESG | VESG in progress |
| China | 2 | N | N | VE, VESG, MG | VESG |
| Colombia | 39 | MG | N | VG | C/EG |
| Denmark | 37 | M*ESG in progress | C/EESG in progress | ME, C/EESG, MESG in progress, M*S in progress | VESG in progress |
| Egypt | 32 | N | N | VESG | VESG in progress |
| Finland | 44 | M*ESG in progress | N | ME, VE, MESG in progress, M*ESG, MG, M*S in progress | VESG in progress |
| France | 6 | MESG | N | ME, MESG, M*S | VESG |
| Germany | 4 | MESG | C/EG | ME, MESG in progress, M*S in progress, C/EG | VESG |

| COUNTRY | RANKING IN TOP 50 LARGEST ECONOMIES | PENSION FUND REGULATION | STEWARDSHIP CODE | GOVERNMENT IMPOSED CORPORATE ESG DISCLOSURE | NON-GOVERNMENT IMPOSED CORPORATE ESG DISCLOSURE |
|---|---|---|---|---|---|
| Greece | 46 | M*ESG in progress | N | ME, MESG, M*S | N |
| Hong Kong | 34 | N | VESG | N | C/EE, VS, C/EG |
| India | 7 | N | N | M*ESG, VESG | N |
| Indonesia | 16 | N | N | MESG | VESG |
| Iran | 26 | N | N | N | N |
| Ireland | 43 | M*ESG in progress | N | ME, MESG in progress, M*S in progress | N |
| Israel | 36 | N | N | M*E | N |
| Italy | 8 | MESG | C/EESG | ME, C/E*ESG in progess, MESG, M*S in progress | VESG |
| Japan | 3 | N | VESG | M*E, VE | C/EESG |
| Kazakhstan | 50 | N | N | VESG | VESG in progess, MESG |
| Malaysia | 35 | N | VESG | C/EESG, MESG, VESG, MG | N |
| Mexico | 15 | MS | N | ME | VESG in progress |
| Netherlands | 17 | C/EESG, MESG | N | ME, MESG, M*S in progress | C/EG |
| Nigeria | 23 | N | N | M*ESG | VESG in progress, MESG in progress |
| Norway | 28 | M*ESG | N | ME, MESG | VESG, VG |
| Pakistan | 41 | N | N | MESG | MESG |
| Peru | 49 | N | N | C/EESG, VG | C/EG |
| Philippines | 40 | N | N | M*ESG | VESG |
| Poland | 24 | M*ESG in progress | N | ME, MESG in progress, M*S in progress | VG |
| Portugal | 45 | M*ESG in progress | N | ME, MESG in progress, M*S, VESG, MG | N |
| Russia | 13 | N | N | MG, C/EESG, VESG | N |
| Saudi Arabia | 20 | N | N | VG | N |
| Singapore | 38 | N | VESG | VESG | VESG, C/EESG |
| South Africa | 33 | MESG, VESG | VESG | C&EESG, M*ESG | VESG |
| South Korea | 11 | M*ESG | VESG | M*E | N |

| COUNTRY | RANKING IN TOP 50 LARGEST ECONOMIES | PENSION FUND REGULATION | STEWARDSHIP CODE | GOVERNMENT IMPOSED CORPORATE ESG DISCLOSURE | NON-GOVERNMENT IMPOSED CORPORATE ESG DISCLOSURE |
|---|---|---|---|---|---|
| Spain | 14 | M*ESG in progress | N | ME, C/EESG, MESG in progress, VESG, M*S in progress | VESG |
| Sweden | 22 | M*ESG | N | ME, MESG in progress, C/E*G, M*S in progress | VESG in progress |
| Switzerland | 19 | N | VESG | N | VG, C/EG |
| Thailand | 27 | N | N | MESG, VESG | VESG |
| Turkey | 18 | N | N | M*E, C/EESG | VESG |
| United Arab Emirates | 31 | N | N | MG | N |
| United Kingdom | 5 | MESG | VESG | ME, MESG, C/EG, M*S, VS | VESG in progress |
| United States of America | 1 | N | N | ME | M*G, VG |
| Venezuela | 30 | N | N | N | C/EG |
| Vietnam | 48 | N | N | MESG | VESG in progress |

# APPENDIX II: MSCI MARKET CLASSIFICATION

Source: MSCI[25]. Accessed June 2016. Two countries in the top 50 economies – Iran and Venezuela – are not classified by MSCI.

| DEVELOPED | EMERGING & FRONTIER |
|---|---|
| Australia | Argentina |
| Austria | Bangladesh |
| Belgium | Brazil |
| Canada | Chile |
| Denmark | China |
| Finland | Colombia |
| France | Egypt |
| Germany | Greece |
| Hong Kong | India |
| Ireland | Indonesia |
| Israel | Kazakhstan |
| Japan | Malaysia |
| Netherlands | Mexico |
| Norway | Nigeria |
| Portugal | Pakistan |
| Singapore | Peru |
| Spain | Philippines |
| Sweden | Poland |
| Switzerland | Russia |
| United Kingdom | Saudi Arabia |
| United States of America | South Africa |
| | South Korea |
| | Thailand |
| | Turkey |
| | United Arab Emirates |
| | Vietnam |

25 https://www.msci.com/market-classification

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