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Regulations Simplified

Sustainability-Related APAC Regulations

A look across regulatory developments in the region

Yu (Ben) Meng PhD, Chairman of Asia Pacific and Executive Sponsor of Sustainability, Franklin Templeton

Prash Odhavji, Vice President Impact Investment, Franklin Templeton

Lorraine Spradley Wilson, Chief Sustainability Officer, Novata

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Introduction

Over the past few years, we have seen rapid development toward a global reporting baseline on environmental, social, and governance (ESG) issues. As in other parts of the world, Asia Pacific (APAC) is seeing a rise in mandatory disclosure requirements, with regional specificity determining which companies are in scope for regulations and the level to which they must comply. Global regulators have leveraged the work of standard-setters, in particular, the International Sustainability Standards Board (ISSB) , an independent standard-setting body within the IFRS Foundation.

We see convergence around the adoption of the Task Force on Climate-related Financial Disclosures (TCFD) which is now managed by the ISSB. Recognizing that companies reporting on material ESG information are often managing competing requests, this overview highlights key disclosure developments throughout the region with implications for private markets, where both Novata and Franklin Templeton have a particular interest.

Ongoing maturity and clarity from regional regulators will likely accelerate GP requirements for their portfolio companies. Doing so ensures GPs have a more robust process that better informs their investment decisions, allows for the measurement and tracking of meaningful environmental and social factors, and positions their portfolio companies for ongoing growth and successful exit - whether to a values-aligned strategic buyer or by IPO.

Different countries and jurisdictions are of course at different stages of maturity in terms of engaging businesses and setting required disclosures. When done in consultation with business, disclosure requirements can reduce the reporting burden on companies. This communication usually takes the form of comment letters. Standardized disclosures serve to help investors access decision-useful information about companies, improving transparency, and strengthening the capital markets.

Evaluation requirements for sustainability teams will be sizable and ongoing as data accessibility improves and climate requirements become more stringent, impacting investment managers at the fund and asset level. The evolution of climate disclosure practices, whilst currently fragmented, is overwhelmingly positive for capital markets and will enhance transparency and support ongoing growth for private equity climate investments.

Selected Examples

Australia

Australia's Commonwealth Climate Disclosure Policy is underpinned by a modified version of the ISSB Climate Standard to meet Australian standards. While most other geographies have targeted listed entities, the Australian approach is based on meeting certain revenue, asset base, and employee thresholds - in essence targeting larger and medium sized companies. In the first year, reporting requirements will require the evaluation of governance, strategy, risk management, and metrics and targets factors - such as Scope 1 and Scope 2 greenhouse gas emissions. [1]

From 1 January 2025, large companies[2] will be required to report against this framework, whilst reporting for medium sized companies[3] and large asset owners[4] will commence 1 July 2026.

China

Sustainability disclosures have progressively improved across A-share companies (companies listed in mainland China) for over a decade.[5] In 2023, sustainability reporting was completed by ~35% of companies.[6][7][8] However, awareness and ambition for more complete reporting is on the rise, spurred by investor demand and guided by the Government's own ambitions to peak emissions and enhance climate resilience of the Chinese economy.

In February 2024, mainland China's stock exchanges (in Shanghai, Beijing, and Shenzhen) requested feedback on proposed climate-related reporting requirements. If approved, the requirement would begin from 2025 onwards, with the first report due in 2026. The proposal adopts a double materiality approach, requiring entities to evaluate climate-related impacts to their business, along with climate-related impacts caused by their respective business[9]. This approach would largely align with the EU methodology and TCFD recommendations.

What's notable is that small and medium-sized enterprises (SMEs) would be subject to Beijing's voluntary ESG disclosure requirements. All eyes are on Beijing as a sustainability hub, given the announcement by the IFRS Foundation on 19 June 2023 that it opened an ISSB office in Beijing, China.

Hong Kong

Hong Kong continues to strengthen its climate-disclosure requirements with enhanced requirements commencing on 1 January 2025. The city is home to 650+ private market (credit and equity) firms, managing over US$215 billion in assets, along with a stock market comprising of over 2,000 companies, valued at ~US$4 trillion[10].

1 Commonwealth Climate Disclosure Policy, Australian Government Department of Finance

2 Companies with two of three attributes: revenue AU$500m +, gross assets AU$1b+, 500+ employees.

3 Companies with two of three attributes: revenue AU$200m+, gross assets AU$500m+, 250+ employees.

4 Companies with AU$5b+ assets under management.

5 ESG disclosures in China, UNPRI and Syntao Green Finance, 2020

6 2023 capital market ESG development report, STCN, 2024

7 ESG in China: A review of practice and research, and future research avenues, China Journal of Accounting Research, 2023

8 Listed companies in China by end of 2023, SASAC, 2024

9 China exchanges endorse double materiality in market-first disclosure rules, Responsible Investor 2024

10 HKEX monthly market highlights, 2024

Hong Kong has had ESG reporting requirements in place for listed companies since July 2020. Enhanced climate-related disclosures were proposed in 2022 to align with IFRS's ISSB Climate Standard; the proposal was adopted in June 2023 with an activation date of 1 January 2024[11]. The proposed disclosure changes would result in all listed companies including climate-related disclosures in their sustainability reporting, in line with the ISSB Climate Standard. [12]

India

The Reserve Bank of India ("RBI"), India's central bank, issued draft guidelines underpinned by the TCFD recommendations/ISSB Climate Standard. The guidelines require mandatory disclosures from financial institutions from 1 April 2025[13].

The developments are a meaningful and important step towards the management of climate-related risk but fall short of requiring financial institutions to cover scope 3 emissions (including financed emissions). The guidelines do, however, require financial institutions to complete scenario analysis over the short, medium, and long term[14]. As data availability and transparency improve over time, we expect the RBI to strengthen and broaden these guidelines.

In addition to this disclosure, India's Securities and Exchange Board announced a Core Business Responsibility and Sustainability Report (BRSR) in July 2023. This subset of reporting has KPIs that look across a company's value chain. Disclosures for value chain shall be made by the listed company as per BRSR Core, as part of the company's Annual Report. The value chain is defined for this purpose as the top upstream and downstream partners of a listed entity, cumulatively comprising 75% of its purchases/sales (by value), respectively[15]. This is noteworthy because there are impacts for privately-held companies represented in the value chain.

Singapore

From 1 January 2025, all listed entities on the Singapore Exchange will be required to lodge annual climate-related disclosures in line with the ISSB Climate Standards (excluding scope 3 emissions). From 1 January 2026, scope 3 reporting will also be mandatory.

Singapore's climate-related disclosures will also extend to non-listed entities. Those companies in scope[16] will need to lodge annual climate-related disclosures from 1 January 2027, excluding scope 3 emissions but otherwise the same as their listed counterparts. From 1 January 2029, scope 3 emissions will be compulsory[17].

Conclusion

The adoption of the TCFD and IFRS Standards across jurisdictions (albeit modified) points to increased movement toward convergence on reporting. Standardized disclosures serve to help investors access decision-useful information about companies, improving transparency and strengthening the capital markets. We see many opportunities for collaboration in feedback from investors, in APAC and beyond.

11 Corporate sustainability disclosures, Securities and Futures Commission, 2023
12 Update on consultation on enhancement of climate disclosures under ESG framework, HK Stock Exchange, 2023
13 Draft Disclosure Framework on Climate-Related Financial Risks, Reserve Bank of India, 2024
14 Embracing climate-resilience: A new era of disclosure for Indian financial entities, PwC, 2024
15 BRSR Core framework for assurance and ESG disclosures, SEBI, 2023
16 Only large (revenues of SG$1b+ and total assets of SG$500m) entities are within scope.
17 Consultation paper on sustainability reporting: Enhancing consistency and comparability, Singapore Exchange, 2024

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