

# ESG REGULATORY ROADMAP



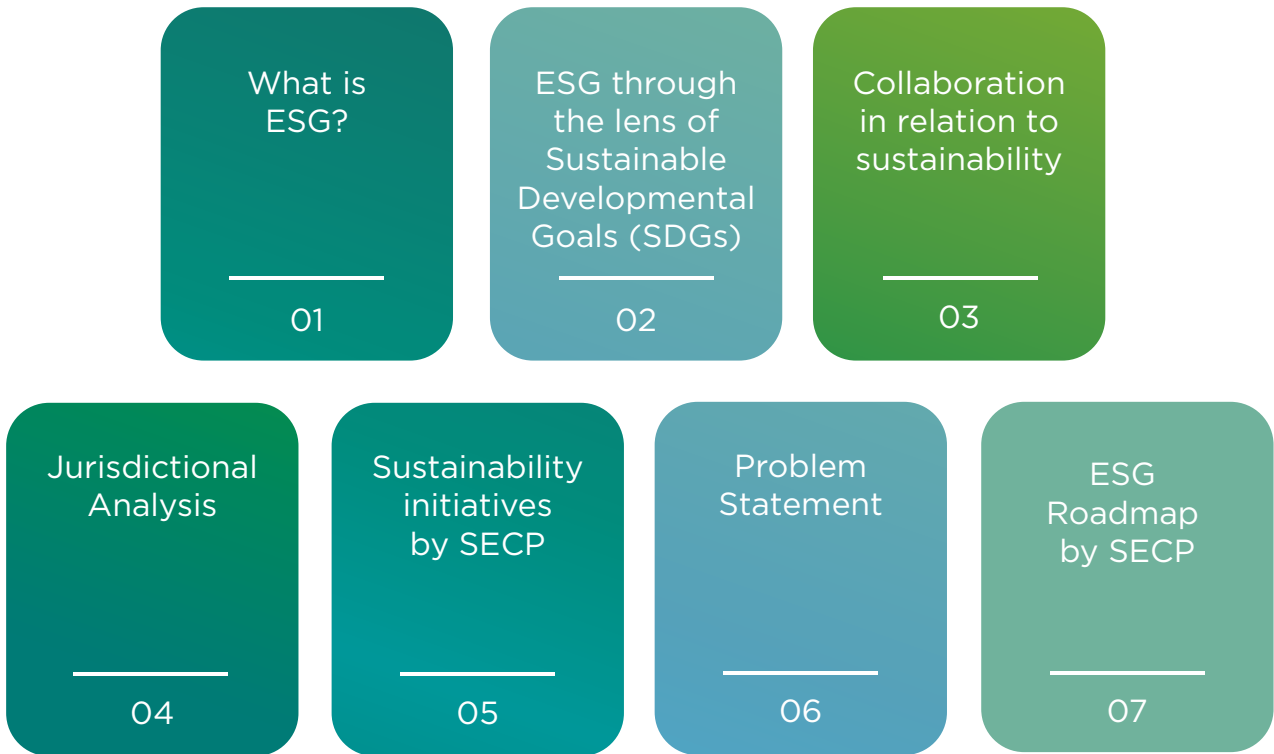
SECURITIES  
AND EXCHANGE  
COMMISSION  
OF PAKISTAN



# ESG REGULATORY ROADMAP FOR CAPITAL MARKETS IN PAKISTAN

The Environmental, Social and Governance (“ESG”) matters have indisputably moved to the forefront as investors are increasingly incorporating sustainability factors into their investment decisions. Companies that effectively communicate their sustainability strategies improve their capital raising abilities and have an overall competitive advantage. Globally, regulators are also recognizing importance of ESG reporting and disclosures to assess the impact of material ESG risks and opportunities.

In context of emerging development in ESG ecosystem, SECP has developed a consultative position paper that provides following key insights:



# 1. WHAT IS ESG?

ESG is an approach of assessing companies on Environmental, Social and Governance performance factors.



All stakeholders i.e. investors, customers, employees, shareholders, lenders, rating agencies and regulators are pushing companies to assess the impact of material ESG risks and opportunities and disclose non-financial, sustainability-related information.

# 2. ESG THROUGH THE LENS OF SDGS

Sustainable Developmental Goals (SDGs) are part of United Nations (UN) 2030 agenda for sustainable development, which was adopted by all member states in 2015. Pakistan affirmed its commitment by adopting SDGs as its own national development agenda. SDGs though being more thematic than corporate centric, can help in aligning sector and company specific ESG factors with broader societal and environmental goals.

# 3. COLLABORATION IN RELATION TO SUSTAINABILITY

Global coordination for ESG on a voluntary basis continues to play an important role through diverse group including the Network for Greening the Financial System (NGFS) for central banks and Sustainable Stock Exchange (SSE) initiative for securities regulators and stock exchanges. Further, Basel Committee on Banking Supervision (BCBS), International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS) have established ESG committees/task forces. In March 2022, International Sustainability Standards Board (ISSB) published the Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and Exposure Draft IFRS S2 Climate-related Disclosures.

## 4. JURISDICTIONAL ANALYSIS

Investor engagement, regulation, and societal expectations are driving focus on ESG matters. Different jurisdictions are adopting different approaches to address ESG risks, opportunities and disclosures. A synopsis of ESG evolution and practices in global capital markets is given below:



### I. UNITED KINGDOM

In 2019, the UK government published its Green Finance Strategy outlining how the finance sector and better climate disclosure from corporate actors can help the UK achieve its net-zero emissions target. The UK Financial Conduct Authority (the FCA) published its Guiding Principles in 2021 regarding design, delivery and disclosure of ESG and sustainable investment funds in the form of a Dear Chair letter. In 2021, FCA published a policy statement containing the final rules and disclosures on climate related disclosures by asset managers, life insurers and FCA-regulated pension providers in line with the UK government's roadmap to adopt mandatory TCFD-aligned disclosures across the UK economy by 2025.

### II. EUROPEAN UNION

The Corporate Sustainability Reporting Directive (CSRD) is the EU legislation requiring all large companies to publish regular reports on their environmental and social impact activities.



### III. HONG KONG

The Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) have established Green and Sustainable Finance Cross-Agency Steering Group for assessing climate and environmental risks to the financial sector. In 2019, HKEX issued guidelines requiring disclosures, among others, regarding statements from boards on ESG issues, explanation on reporting parameters, disclosure of significant climate-related concerns and important targets.

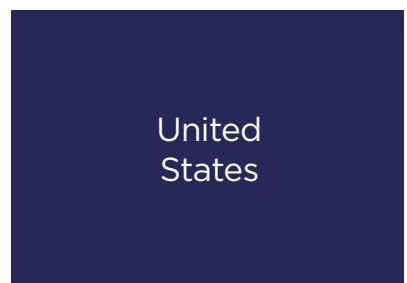
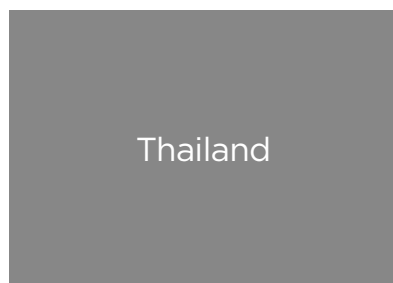
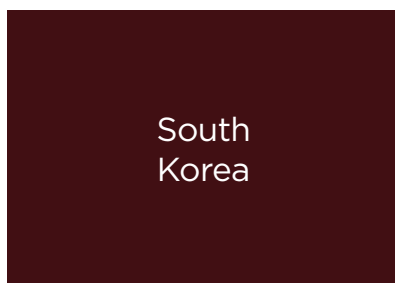
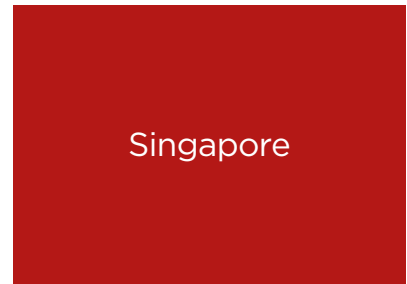
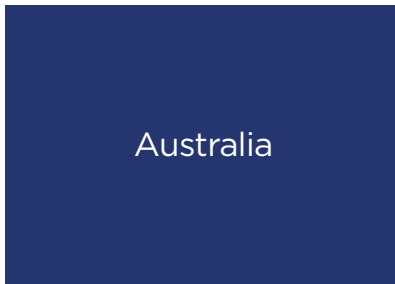
### IV. JAPAN

Japan Exchange Group and Tokyo Stock Exchange published ESG disclosure handbook 2020 in consultation with various institutional investors and focuses on linking ESG issues to corporate value and disclosing those links. Japan's Financial Services Agency (FSA) published the revised Japan's Stewardship Code in March 2020 encouraging voluntary adoption of principles by institutional investors by disclosing names of signatories to principles.



### OTHER COUNTRIES

where ESG related regulatory requirements exist



# 5. SUSTAINABILITY INITIATIVES BY SECP

The Code of Corporate Governance was first introduced in Pakistan in 2002. Since then, SECP has endeavoured to bring together representatives of corporate sector, industry experts, academia and policy-makers for deliberations on promotion of its sustainability agenda. Some key initiatives taken by SECP paving way for integrated ESG strategy are presented below:



## 6. PROBLEM STATEMENT

The understanding and practices around concepts of philanthropy, corporate social responsibility, sustainability and ESG practices are evolving and generally intertwined. The need for ESG centric advocacy, reporting and regulatory framework has been under consideration at different forums. It is imperative that integrated and phased approach is adopted for embracing ESG best practices drawing synergy from all relevant stakeholders

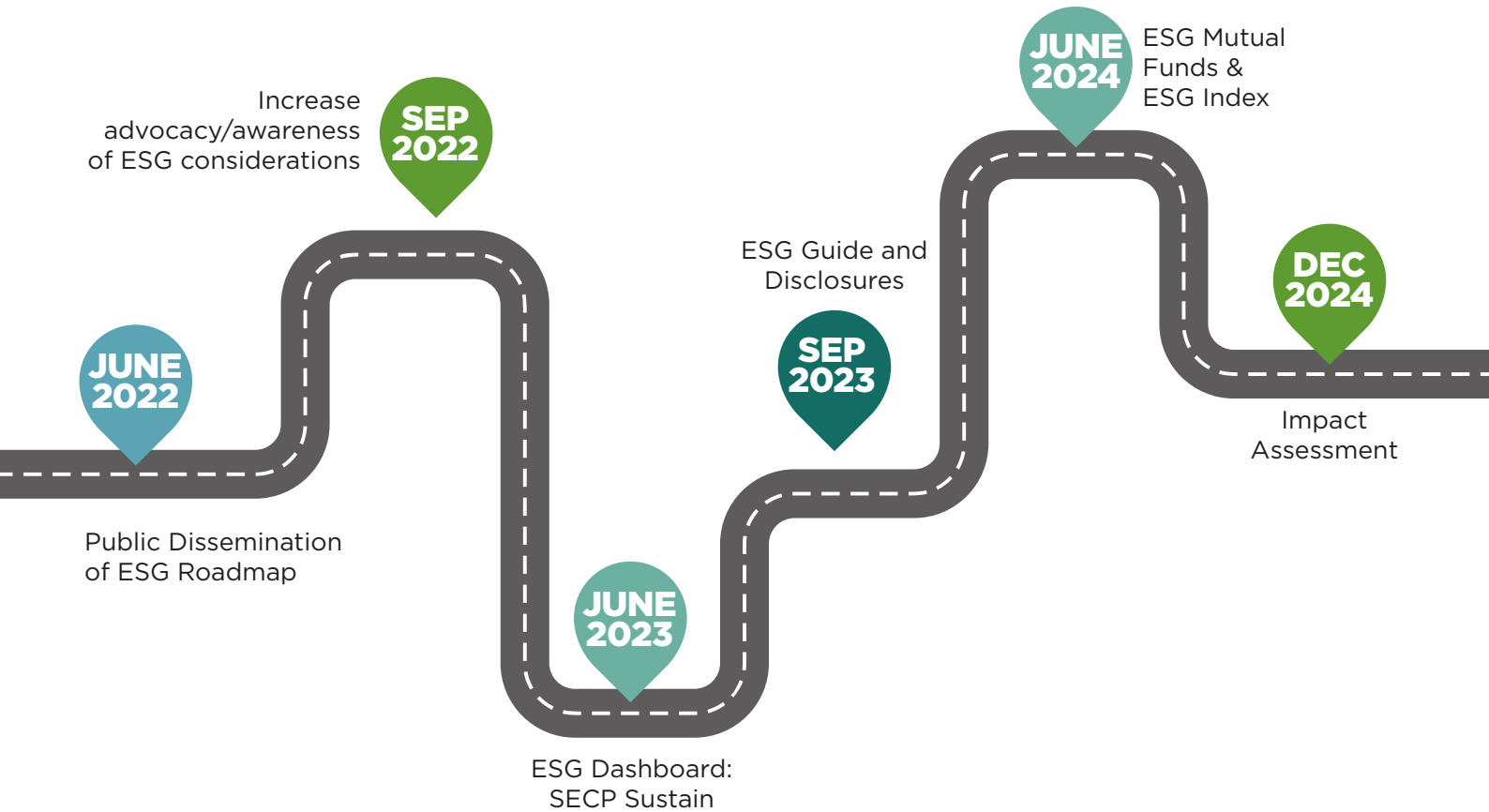
## 7. THE WAY FORWARD

Around \$120 billion was directed towards sustainable investments in year 2021. In 2022, it is expected that ESG considerations shall continue to remain a priority in the corporate sphere. In order to capture the growing interest of institutional investors in ESG based investing, encourage ESG practices and ESG reporting in Pakistan, SECP has proposed a sustainable ESG roadmap for capital markets which comprises of extensive awareness and advocacy sessions to synergize with all relevant stakeholders. Further Commission shall launch a dedicated ESG dashboard named 'SECP Sustain' to serve as a focused communication platform and capture the progress on adaption of ESG initiatives on real time basis. Moving forward, Commission intends to undertake feasibility for introducing ESG guidelines aimed at harmonizing the disclosures related to ESG indicators and metrics. This shall pave way for launch of ESG based mutual funds & other financial products and ESG based Index at PSX. In a bid to gauge progress of industry in ESG ecosystem, impact assessment of financial implication of ESG risks can be undertaken as a follow-up exercise.

### KEY CONSIDERATION FOR ESG ROADMAP



# ESG ROADMAP



This position paper intends to capture the best of progressive ESG thinking providing an inclusive roadmap for adopting ESG best practices and will be updated on an ongoing basis.

SECP highly values thoughts of all stakeholders on proposed ESG roadmap and any feedback and suggestions would be welcome. Any input/feedback can be shared with SECP at the following address: [esg@secp.gov.pk](mailto:esg@secp.gov.pk)

In order to collaborate further, SECP intends to hold consultative sessions with key stakeholders. Information about roundtables and discussion sessions shall be posted on SECP's webpage and social media.

SECP is committed to promote sustainable practices with the belief that businesses will only be successful in the long run if their models respect the triple bottom line of "profit, planet and people".





# Securities and Exchange Commission of Pakistan

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