

MEMO# 33903

November 16, 2021

G20 Sustainable Finance Working Group 2021 Synthesis Report

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TO: ICI Global Members

ESG Task Force SUBJECTS: ESG

International/Global RE: G20 Sustainable Finance Working Group 2021 Synthesis Report

On 7 October 2021, the G20 Sustainable Finance Working Group (SFWG) released their 2021 Synthesis Report (Report).[\[1\]](#) The Report aims at characterizing challenges, reviewing existing practices, and proposing a set of recommendations to further progress in specific priority areas set out by the G20.

I. Background: initial request for the focus of the Report

In 2021, the G20 Finance Ministers and Central Bank Governors asked the SFWG to develop a multi-year G20 Sustainable Finance Roadmap identifying the G20's sustainable finance priorities, focusing their work on three specific priority areas: (i) improving the comparability and interoperability of approaches to align investments to sustainability goals; (ii) overcoming information challenges by improving sustainability reporting and disclosure; and (iii) enhancing the role of International Financial Institutions in supporting the goals of the Paris Agreement and 2030 Agenda. The Report synthesizes the deep analysis conducted by the SFWG and puts forward a set of recommendations to progress these three areas.

II. Findings on improving comparability and interoperability of approaches to align investments to sustainability goals

Over the past few years, various market actors have recognized the role of private capital in supporting sustainability goals, and have taken steps towards scaling up sustainable financial flow by developing different approaches and tools to align financial investments with climate and other sustainability goals. These tools come in different forms,[\[2\]](#) such as sustainability definitions or taxonomies, but they ultimately contribute to sustainable finance market development. There is fear however, that if developed in silos, without consideration of their interoperability, these developments can lead to market fragmentation, increased transaction costs, and higher risk of green and UN Sustainable Development Goals (SDGs)-washing.

Drawing on various input papers, the Report identifies several challenges in developing and improving the comparability and interoperability of approaches, including issues with complexity and cost, inadequate flexibility, and low levels of quality data. The Report makes recommendations drawn under this factor in two categories: (i) high-level principles for countries/markets; and (ii) recommendations for international coordination. Recommendations made under "high-level principles for countries/markets that intend to develop their own approaches," include:

1. Ensure material positive contributions to sustainability goals and focus on outcomes.
2. Avoid negative contribution to other sustainability goals (e.g., through "Do No Significant Harm" to any sustainability goal requirements).
3. Be dynamic in adjustments reflecting changes in policies, technologies, and the state of the transition.
4. Reflect good governance and transparency.
5. Be science-based for environmental goals and science- or evidence-based for other sustainability issues.
6. Address transition considerations.

Furthermore, recommendations for "international coordination," include:

1. Jurisdictions which intend to pursue a taxonomy-based approach to consider developing sustainable finance taxonomies using the same language (e.g., international standard industry classification and other internationally recognized classification systems), voluntary use of reference or common taxonomies, and regional collaboration on taxonomies.
2. Collaboration and active engagement of service providers, where consistent with applicable laws, with appropriate international organizations and financial authorities to enhance comparability, interoperability, and transparency of approaches, including forward-looking portfolio alignment tools, ESG rating methodologies, verification and labelling approaches.
3. Relevant international organizations, networks or initiatives to further advance work towards better understanding the technical aspects and interlinkages of existing and emerging alignment approaches, as well as good practices, and develop specific recommendations for enhanced comparability and interoperability.
4. Better integrate transition finance considerations into sustainable finance alignment approaches, with a focus on interoperability with existing and emerging approaches for sustainable finance, based on the mapping and review of existing and emerging approaches by the SFWG and appropriate international organizations

III. Findings on overcoming information challenges by improving sustainability reporting and disclosure

Similar to the increase in tools and methods discussed above, sustainability reporting and disclosure has also become more widespread internationally since its inception in the 1990s; however, many reports show that disclosure remains incomplete and inconsistent across jurisdictions and companies. These incomplete and inconsistent reports make it difficult for investors to make fully informed investment decisions and may lead the market to misprice financial assets, harming market integrity and undermining the ability to support the proper allocation of capital towards sustainability goals. In addition to the lack of consistency, there are other challenges in the extent and quality of sustainability reporting by firms, such as incomplete coverage in reporting frameworks or lack of capacity for Small and Medium-sized Enterprises (SMEs). The recommendations on overcoming

information challenges by improving sustainability reporting and disclosure include:

1. G20 to welcome the work program of the International Financial Reporting Standards (IFRS) Foundation.
2. The International Sustainability Standards Board (ISSB) should develop a baseline global sustainability reporting standard while allowing flexibility for interoperability with national and regional requirements.
3. Start from climate and extend to other sustainability factors over time. The ISSB should take a 'climate first' approach in the near term, based on the Taskforce on Climate-related Financial Disclosures (TCFD) framework, in developing the reporting standards. However, the ISSB should develop standards covering other sustainability topics, which could include nature, biodiversity, and social issues.
4. Enhance efforts on capacity building for SMEs and emerging markets. While the standards to be developed by the ISSB may be adopted by a broad range of jurisdictions around the world as a global baseline for reporting, SMEs and emerging markets could benefit from additional capacity-building initiatives.

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endnotes

[1] The full Synthesis Report can be found here:
<https://g20sfwg.org/wp-content/uploads/2021/10/G20-SFWG-Synthesis-Report.pdf>.

[2] Frequently used alignment approaches focused on in this report include taxonomies, ESG ratings and investing approaches, verification and labeling, and additional alignment tools and approaches for products and institutions.

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