

OPINIONS

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How Asia Can Help Joe Biden in the Fight Against Climate Change, Starting with Financial Markets

By Eric J. Pan

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US President Joe Biden's decision to make climate change a top priority opens wide the door to developing international standards for how climate issues will be addressed in trade and finance. To carry out this agenda, the United States will be looking for strong partners in Asia, making the region's policymakers highly influential in determining how these standards are developed.

Asian leaders, working with the United States, can help ensure the global climate effort allows markets to allocate capital efficiently—and avoid a quagmire of conflicting, ineffectual regulation. Conversely, failing to act would slow the fight against climate change and harm Asian companies and investors, who, once again, face regulatory fragmentation.

Asia and the United States should start where there is common ground: corporate disclosure of climate risk. Establishing a global standard for companies to describe how their business is affected by climate change would allow investors to allocate their capital more efficiently, to the benefit of financial markets and regional economies as policymakers work toward a greener financial system.

Asia should help drive the United States, as well as Europe, to work on a global climate disclosure standard. And it can do so from a position of strength and authority, given how much work its policymakers have already done.

Here in Hong Kong, the Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority have robust climate policy workstreams underway that can help serve as a foundation for a global consensus. The Monetary Authority of Singapore has also been very focused on this issue and would be a strong partner to help guide future international deliberations.

Importantly, regulators in Asia understand the importance of making sure that any global disclosure standard is market-based; is designed to give investors accurate, timely, and comparable information on how companies assess—and act on—climate-related risks; and is not based on prescriptive, top-down requirements imposed by regulators.

The Investment Company Institute, which represents regulated funds that globally manage US\$36.8 trillion in assets, strongly shares that view. We have called for companies to disclose climate-related risks in line with recommendations established by the Task Force on Climate-Related Financial Disclosures (TCFD) and standards set forth by the Sustainability Accounting Standards Board (SASB).

While the task force provides a high-level framework focused on climate risk, the board's standards include sector-specific metrics on sustainability factors more broadly. Importantly, the board's standards have been developed over years of research and market input, and support much-needed comparability between companies.

Both the task force and board help companies communicate about climate risks in a clear, consistent manner that provides investors with useful information for making decisions.

This work is so critical to our fight against climate change that the Investment Company Institute has issued a call for cooperation to leaders in the United States and European Union as well. Recent statements by SFC CEO Ashley Alder calling for the global adoption of the recommendations of the TCFD give hope that this work is achievable.

In international circles, regulators often talk about “rule makers” and “rule takers.” Leaders in Asia have a critical window to be rule makers—to help lead global talks on climate disclosure and bring the global community together around a market-based standard like the TCFD and the SASB.

Failing to seize that opportunity could leave Asia's key financial centers as rule takers, confronted with new standards and regulations that burden Asia-Pacific companies and capital markets.

Asian and US leaders must act together now to achieve a framework that will bring much-needed clarity and help investors—including funds—direct capital efficiently around the globe and support efforts to build a greener economy. The choice is simple.

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