FINANCIAL CONSUMERS AND SUSTAINABLE FINANCE

Policy implications and approaches

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This report explores issues, opportunities and challenges for financial consumers in relation to sustainable finance. It examines current trends in terms of consumer demand for and experience with sustainable finance products, as well as new risks to consumers posed by sustainable finance products. This report also explores financial consumer protection tools and responses available to policy makers and oversight authorities, illustrated by selected examples of how these tools and responses are being deployed around the world. Finally, this report offers a number of policy considerations to help guide policy makers and oversight authorities responsible for financial consumer protection.

A previous version of this paper was released on 24 July 2023. This version updates the following pages:

- On pages 47 and 56: The bibliographic citation to “Bank for International Settlements and ISOCO, 2021”, was changed to “IOSCO, 2021”.
- On page 30: “Hong Kong (China)”, was changed to “the People’s Republic of China (hereafter ‘China’)”.

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Executive summary

The financial sector has a key role to play in facilitating the mitigation, adaptation and transition of economies towards a more sustainable development pathway. As such, sustainable finance has emerged as a policy priority for many organisations given its potential role in contributing to a sustainable, resilient and inclusive global economy, as well as a way to mitigate the impact of climate change on consumers and on the economy. Sustainable finance has become increasingly important for financial markets and institutional investors and more recently, it is also an emerging and evolving area of interest for financial consumers.

For the purposes of this report, "sustainable finance" is intended to refer to financial products, strategies or financial market activities which support and prioritise long-term economic, social and environmental objectives by, for example, taking into account environmental and social drivers of financial returns; mitigating adverse environmental or social impacts; or advancing positive environmental and social outcomes.

Sustainable finance is one of three new cross-cutting themes in the updated G20/OECD High Level Principles on Financial Consumer Protection (the FCP Principles), the international standard for effective and comprehensive financial consumer protection policy frameworks. Sustainable finance is also recognised in the OECD Recommendation on Financial Literacy as potentially impacting individuals' financial well-being. Consistent with this, sustainable finance is a strategic priority for the G20/OECD Task Force on Financial Consumer Protection and the OECD/International Network on Financial Education (responsible for supporting the implementation of the FCP Principles and the Recommendation on Financial Literacy, respectively).

While significant work has been undertaken at international and national level to understand and guide the development of sustainable finance as it relates to financial products, strategies or financial market activities, less attention has been given, until recently, to the implications of such developments for financial consumers and their financial well-being. This report aims to address this gap and represents a first step towards a more in-depth understanding of the implications of sustainable finance developments for financial consumers and the development of effective policy approaches in response.

This report examines current trends of consumer demand for, and experience with, sustainable finance products, noting the increasing consumer interest in sustainable finance products especially in developed countries and economies. This interest is driven by a variety of factors, ranging from an increasing public awareness of the role of finance in mitigating the climate change crisis, to the willingness of retail investors to seize perceived opportunities for greater financial returns, or avoiding financial risks associated with various financial products that do not consider environmental, social or governance (ESG) factors. This increasing consumer demand is accompanied by a growing market for financial products that help consumers adapt to changes associated with climate change. And alongside the opportunities associated with sustainable finance products for consumers, the report also identifies emerging risks posed by sustainable finance products, such as the risks of "greenwashing", "social washing" and "impact washing".

The report explores financial consumer protection tools and responses available to policy makers and oversight bodies, to protect financial consumers from risks ensuing from sustainable finance products, illustrated by examples of how these tools and responses are being deployed in different jurisdictions. The starting point for these tools and responses is the FCP Principles. For example:

- Principle 3 acknowledges the role of financial inclusion for inclusive economic growth. As sustainable finance integrates economic, social and environmental objectives, there are overlaps and potential synergies between sustainable finance and financial inclusion, related to social objectives in particular, which promote inclusive economic growth. Sustainable finance products may also respond to needs that individuals could develop due to climate-related events.
- Principle 4, consistent with the Recommendation on Financial Literacy, highlights that consumers should gain the knowledge, skills, behaviours and attitudes to be aware, understand risks and opportunities, make informed choices, know where to go for assistance, and take effective action to support their financial well-being and resilience. Financial literacy is important in the context of increasing complexity related to the emergence of financial products with sustainability characteristics. It can support individuals to align their financial choices with their personal values and sustainability preferences.
- Principle 6 relates to equitable and fair treatment of financial consumers, including those who may experience vulnerabilities due to climate change.
- Principle 7 relates to disclosure and transparency, highlighting that all financial promotional material should be accurate, honest, understandable, transparent and not misleading. Jurisdictions have taken different approaches to ensuring transparency related to sustainable finance products, such as, among others, encouraging firms to disclose their climate related financial risks based on the Task Force on Climate Related Financial Disclosures Recommendations, issuing guidance on how to avoid greenwashing, issuing common standards for sustainable and low carbon investments, developing regulatory regimes for the labelling and marketing of financial products marketed as “sustainable” or adopting taxonomies.
- Principle 8 relates to quality financial products. Some jurisdictions, such as the EU, have amended various regulations to include sustainability related aspects in the financial product design process.
- Principle 9 relates to responsible business conduct and culture. This Principle highlights, among other things, the importance of training of financial services providers and intermediaries, which is also relevant for sustainable finance, as well as the importance of undertaking suitability assessment which may also consider a consumer’s financial preferences, interests and objectives regarding sustainability.
- Principle 12 related to complaints handling and redress. In this case, the publication of aggregated information on complaints related to sustainable finance products could increase transparency in the market, allowing for systemic issues to be addressed.

The report concludes with a set of policy considerations which can form the basis of effective approaches to help guide policy makers and oversight bodies responsible for financial consumer protection in relation to sustainable finance. These policy considerations are:

1. Consider adopting a co-ordinated and holistic approach towards financial consumer protection relating to sustainable finance (All FCP Principles)
2. Consider adopting a consistent definition of “sustainable finance” or supporting comparability of definitions at the jurisdiction level, to facilitate consumer transparency, clarity and understanding (FCP Principle 1)

3. Collect evidence and data and monitor market developments, to inform evidence-based responses (FCP Principle 2)
4. Consider the opportunities of sustainable finance to promote access and inclusion for excluded or under-served populations (FCP Principle 3)
5. Consider developing targeted financial education initiatives to promote awareness and understanding of sustainable finance products (FCP Principle 4 and the OECD Recommendation on Financial Literacy)
6. Consider vulnerabilities in the context of fair and equitable treatment of consumers and responsible conduct (FCP Principle 6 and FCP Principle 9)
7. Consider the adequacy of disclosure standards and quality of financial products, and support transparent sustainability reporting (FCP Principle 7 and FCP Principle 8)
8. Monitor disclosure and advertisements to understand how sustainable finance products are promoted, and watch for misleading representations (FCP Principle 2 and FCP Principle 7)
9. Harness complaints handling and redress mechanisms (FCP Principle 12)
10. Encourage the appropriate training of financial services providers and intermediaries in relation to sustainable finance products and services (FCP Principle 9)
11. Engage in international collaboration and co-ordination, which are key especially on exchanging good practices (Principle 2).

As noted above, this report represents a first step towards a more in-depth understanding of the implications of sustainable finance developments for financial consumers and the development of effective policy approaches in response. As sustainable finance evolves, the G20/OECD Task Force on Financial Consumer Protection and the OECD/International Network on Financial Education will continue to undertake work to explore the issues, opportunities and risks for financial consumers and to analyse and identify effective approaches and policy guidance for jurisdictions.

1 Introduction

The year 2015 was marked by the adoption of two international agreements: the 2030 Agenda for Sustainable Development, adopted by all United Nations (UN) Member States; and the Paris Agreement, adopted by 196 Parties at the UN Climate Change Conference (COP21). These two agreements are key pillars of the international commitment towards sustainable, resilient and inclusive development. The 2030 Agenda is a plan of action for people, planet and prosperity, supported by 17 Sustainable Development Goals, balancing the three dimensions of sustainable development: economic, social and environmental (United Nations, 2015[1]). The Paris Agreement brings nations together to combat climate change and adapt to its effects. Its overarching goal is to "hold the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels" (UNFCC, 2015[2]).

The financial sector is recognised as having a key role to play in supporting these two international agreements and contribute to sustainable development, including by facilitating the mitigation, adaptation and transition of economies towards a more sustainable pathway. For example, the Paris Agreement calls for "making finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions and climate-resilient development" (UNFCCC, 2015[3]).

Sustainable development is defined in the 2030 Agenda as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (United Nations, n.d.[4]), and where economic growth, social inclusion and environmental protection are all recognised as interconnected and crucial for the well-being of individuals and societies (United Nations, n.d.[4]).

Sustainable finance has emerged with the goal of aligning the financial system with sustainability and sustainable development. Yet, the concept of "sustainability" is a multidimensional concept and is understood differently in different jurisdictions and contexts. As a result, there are different definitions of, and underlying criteria relating to "sustainable finance" across jurisdictions and market practices.

At an international level, sustainable finance is a policy priority for many organisations and international fora, including the G20 and the OECD. It is seen as contributing to a sustainable, resilient and inclusive global economy as well as a way to mitigate the impact of climate change on consumers and on the economy. Sustainable finance is also a priority for many national governments, regulators and supervisors. To provide broader context for this paper, Annex A sets out a summary of the international policy context, and the activity of a number of international organisations relating to sustainable finance. Annex B sets out a number of examples of national approaches to sustainable finance.

Over the years, sustainable finance has become increasingly important for financial markets and institutional investors. More recently, sustainable finance is also an emerging and evolving area of interest for financial consumers, with a range of sustainable finance products and services being developed and marketed to individuals who are also increasingly exposed to potential new risks linked to climate change related events. As policy developments and responses evolve at an international and national level, it is important that issues and implications of sustainable finance for financial consumers are also considered.

Reflecting these developments, sustainable finance is included as one of three new cross-cutting themes in the updated G20/OECD High Level Principles on Financial Consumer Protection (the FCP Principles). The FCP Principles are the international standard for effective and comprehensive financial consumer protection policy frameworks. Accordingly, the G20/OECD Task Force on Financial Consumer Protection (the Task Force) has identified sustainable finance as one of its strategic priorities.

Concomitantly, the OECD Recommendation on Financial Literacy acknowledges the importance and implications of sustainable finance for individual financial well-being, and sustainable finance is also a strategic priority for the OECD/International Network on Financial Education (OECD/INFE).

This report explores issues, opportunities, and risks for financial consumers relating to sustainable finance. It examines current trends in terms of consumer demand for and experience with sustainable finance products, as well as new risks to consumers posed by sustainable finance products. The report also explores financial consumer protection tools and responses available to policy makers and oversight bodies, illustrated by examples of how these tools and responses are being deployed in different jurisdictions. Finally, this report sets out policy considerations, which can form the basis of effective approaches, to help guide policy makers and oversight bodies responsible for financial consumer protection. Moreover, in keeping with the mandate and expertise of the Task Force, this report is intended to ensure that the policy issues, opportunities and risks for consumers relating to sustainable finance are included in the broader international policy and markets developments relating to sustainable finance.

Finally, it should be noted that, as a relatively new and emerging area, this report represents a first step in the work of the Task Force in this area. It is a first and unique exploration of sustainable finance issues from a consumer perspective, based on the updated FCP Principles and the OECD Recommendation on Financial Literacy. Further work for the Task Force and the OECD/INFE will include collecting and analysing more data and evidence on consumer experience with sustainable finance products and services, sharing information and experience about market developments, policy responses and tools, and continuing to develop policy considerations and effective approaches as this area evolves and matures.

2 Definitions and policy context

Definitions of sustainable finance

Sustainable finance relates to efforts to align financial flows and financial products to a sustainable development pathway that takes into consideration the implications of economic development for the society and the environment. In working to support and improve sustainable finance practices, many financial service providers, policy makers, regulators, supervisors, academics and other organisations have sought to define what "sustainable finance" means. Definitions differ between jurisdictions and vary in relation to the scope and the characteristics considered (OECD, 2020[5]).

While there is not an internationally accepted definition, generally speaking, "sustainable finance" is a broader concept than just "green" or "climate" finance (see Box 1). This is because it incorporates factors that go beyond those that are strictly climate or environment-related, while also including climate-related factors and considerations.

In this report, "sustainable finance" is intended to refer to financial products, strategies or financial market activities which support and prioritise long-term economic, social and environmental objectives by, for example, taking into account environmental and social drivers of financial returns; mitigating adverse environmental or social impacts; or advancing positive environmental and social outcomes.

Definitions of, and relating to, sustainable finance, currently used by jurisdictions are usually very broad and focus on the integration of ESG considerations alongside traditional financial analysis (see some examples of definitions adopted or used by jurisdictions in Box 2). Currently, few jurisdictions impose minimum standards or requirements that must be met to label a financial product as "sustainable". The UK is an example of a jurisdiction that has taken concrete steps in this direction. The UK Financial Conduct Authority (FCA) has set out sustainable product labelling rules in its proposed Sustainability Disclosure Requirements (SDR) in October 2022. The SDR feature minimum standards for sustainable products labelling.

The lack of consistent internationally accepted definitions, and the use of multiple terms often interchangeably, creates issues for consumer understanding and consequently financial consumer protection.

There are also related practical challenges when it comes to assessing the sustainability of financial products and underlying assets. These challenges are linked to the lack of relevant and helpful information, data limitations in terms of quality, comparability and consistency, and the variety of underlying criteria for defining sustainable financial products. This lack of consistency and data heterogeneity represents an additional challenge for consumers in understanding pre-contractual conditions and periodic documentation that incorporates sustainability-aligned information (Ferreira et al., 2021[6]).

In view of these and other potential challenges for financial consumers (see Chapter 4) and given the unique role of the Task Force and the OECD/INFE, this report explores the implications of sustainable finance for financial consumers and their financial well-being. This report represents a first step towards a more in-depth understanding of implications of sustainable finance developments for financial consumers.

Policy context: financial consumer protection and financial education

G20/OECD High-Level Principles on Financial Consumer Protection

Financial consumer protection refers to the laws, regulations and other measures generally designed to ensure fair and responsible treatment of financial consumers in their purchase and use of financial products and services and their dealings with financial services providers. Financial consumer protection aims to address the asymmetry in information and market power between consumers and providers.

The Task Force is the leading international forum for international financial consumer protection policy. The Task Force comprises representatives of G20, OECD and FSB jurisdictions as well as international organisations and standard setting bodies and is the leading international forum for financial consumer protection policy development.

Among other things the Task Force is responsible for *the G20/OECD High-Level Principles on Financial Consumer Protection* (FCP Principles).[1] The FCP Principles are the international standard for comprehensive and effective financial consumer protection policy frameworks. The FCP Principles were developed by the Task Force and were first endorsed by the G20 in 2011 and by the OECD in 2012 in the form of an OECD Recommendation (G20/OECD, 2022[7]). All G20 countries, OECD Members and FSB jurisdictions are Adherents to the Recommendation on the FCP Principles, and many other countries have adopted them in establishing or enhancing their financial consumer protection frameworks.

During the course of 2021-22, the Task Force undertook a major review and update of the FCP Principles via a process of policy development and public consultation, to ensure they continue to reflect global best practices and are forward-looking. The updated FCP Principles were endorsed by G20 Leaders at the Bali Summit in November 2022[2] and adopted by OECD governments in December 2022 in the form of a revised Recommendation.[3] The updated FCP Principles are also included in the FSB Compendium of Standards.[4]

The updated FCP Principles consist of 12 Principles and three cross-cutting themes (see Figure 1). The 12 Principles are the foundations of a comprehensive and effective financial consumer protection policy framework. The cross-cutting themes are topics that are relevant to the consideration and/or implementation of each and all of the FCP Principles, namely digitalisation, financial well-being and sustainable finance. The inclusion of sustainable finance as a cross-cutting theme in the updated FCP Principles is in recognition of the importance of the impact, opportunities and risks of sustainable finance for financial consumers. The description of the cross-cutting theme includes consideration of the fact that financial services providers are increasingly incorporating environmental, social and governance (ESG) and other sustainability-related factors into their operations, products and services, and the growing consumer demand for such products.

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[1] G20/OECD High-Level Principles on Financial Consumer Protection

[2] G20 Bali Leaders' Declaration, Bali, Indonesia, 15-16November 2022, paragraph 28

[3] Recommendation of the Council on High-Level Principles on Financial Consumer Protection [OECD/LEGAL/0394]

[4] G20/OECD High-Level Principles on Financial Consumer Protection - Financial Stability Board (fsb.org)

Figure 1. G20/OECD High-Level Principles on Financial Consumer Protection

Note: The green text illustrates revisions to the Principles.
Source: G20/OECD (2022[7]), Recommendation of the Council on High-Level Principles on Financial Consumer Protection, https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0394.

In accordance with the above, the Task Force is undertaking work to understand the issues, opportunities and risks of sustainable finance, and to support the implementation of the updated FCP Principles. As a forum dedicated to financial consumer protection issues, the Task Force is well placed to undertake this work as a complement to the broader international policy work relating to economies and financial markets.

As a first step, in March 2022, the Task Force held an international seminar on *Sustainable Finance through a Financial Consumer Protection Lens,* jointly with FinCoNet (FinCoNet, 2022[8]).[5] The seminar provided an initial opportunity to explore relevant issues and developments relating to sustainable finance and specifically the issues and implications for financial consumers. During the seminar, speakers discussed the increasing consumer interest in sustainable finance. It was noted that this increased interest was likely due to two main factors: firstly, that consumers were increasingly exposed to the negative

[5] FinCoNet (Finconet) is an international network of supervisory authorities which have responsibility for financial consumer protection. As a member-based organisation, FinCoNet provides a forum for research and the exchange of information and best practices related to market conduct supervision with a focus on consumer credit and banking.

externalities arising from unsustainable activities; and, secondly, that many consumers have increasingly become aware of climate risks and wish to participate and support the transition to sustainable economies. Seminar participants underlined the importance for policy makers and oversight bodies to consider the impact, opportunities and risks associated with sustainable finance for consumers, emphasising the need to think about the role oversight bodies can play in supporting informed consumer choices, mitigating risks that consumers face, and developing responses or approaches to ensure that consumers are treated fairly.

This report, and the further work that will follow, builds on the initial discussions which took place during the seminar.

OECD International Network on Financial Education

The OECD/International Network on Financial Education (OECD/INFE) has been established by the OECD to share experiences, discuss strategic priorities and develop policy responses on financial education. The OECD/INFE comprises membership from over 270 public institutions in 130 countries.

In 2020, the OECD Council adopted the Recommendation on Financial Literacy (OECD, 2020[9]) which aims at supporting governments to foster financial literacy and, alongside financial consumer protection and financial inclusion, to support individuals' financial resilience and well-being.

The Recommendation on Financial Literacy recognises that "many consumers, especially those from vulnerable groups, also have to bear the financial risks of precarious careers and earnings paths, as well as environmental and climate-related risks. They therefore need to plan for – and mitigate – the impact of these risks through appropriate forward-looking personal finance management."

Furthermore, it recommends that Adherents to the Recommendation should promote an understanding of the implications of saving and investment decisions on society and the environment, and of long-term economic and financial sustainability considerations in saving and investment decisions.

The Recommendation also highlights that financial literacy can play an important part in improving the resilience of individuals to environmental and climate-related risks, through forward-looking personal finance management. Investor education around sustainable finance can support consumers to align their saving and investment choices with their social and sustainability preferences. It can also protect consumers from emerging risks in the financial sector, such as the risk of greenwashing.

In taking forward the implementation of the Recommendation on Financial Literacy, in 2022, the OECD/INFE established a Working Group on Financial Literacy and Sustainable Finance. The Working Group is undertaking work in relation to analysis of issues and challenges for consumers as they relate to sustainable finance, but also work to collect data and develop analysis of consumers' levels of understanding, knowledge, attitudes and behaviours with regards to sustainable finance issues.

Box 1. Understanding the differences between “green finance”, “sustainable finance” and “climate finance

Sustainable finance

As noted in this Chapter, “sustainable finance” relates broadly to efforts to align financial flows and financial products to sustainable development pathways, taking into consideration the implications for society and the environment at large. In practice, these considerations translate into the integration of some form of environmental, social and governance (ESG) factors in financial products and services, for the benefit of clients and society at large (Papageorgiou and Suntheim, 2019[10]; Sustainable Finance Network, 2022[11]). However, as noted above, definitions of what constitute essential elements of the E, S and G factors, as well as ways to assessing them, vary between jurisdictions or market participants. For example:

- Environmental factors may include, among others, mitigation of, and adaptation to climate change. They typically take into consideration exposure to, and management of, physical or transition-related climate risks or use of resources in a sustainable way;
- Social factors include, among others, considerations of human and animal rights, as well as consumer protection and diverse hiring practices;
- Governance factors may refer to the management, employee relations, and compensation practices of both public and private organisations (Bakken, 2021[12]).

From a regulatory perspective, some jurisdictions distinguish between the process of integrating ESG issues and risks into the design of financial services or financial products, and policies or products that aim to encourage the alignment of capital with climate or ESG goals.

Green finance

Definitions of “green finance” focus on financial products that have a positive climate or other environment-related impact relative to a notional “business as usual” scenario. Different approaches to defining and assessing “green” can include reference to:

- Objectives – examining the outcomes to determine whether the specific green finance product or service contributes to environmental improvements relative to a “business as usual” scenario.
- Taxonomies – examining conformity to green taxonomies (classifications) of investment areas.
- Exclusion criteria – these can be used to exclude specific sectors, companies or activities (e.g. activities supporting the fossil fuel industry).
- Indicators – metrics used for measuring environmental performance or impacts of activities.
- Ratings – which can provide assessments of the degree of “greenness” of a firm or financial product according to pre-defined criteria (European Commission, 2017[13]).

Climate finance

Generally, “climate finance” refers to local, national or transnational financing that seeks to support mitigation and adaptation actions that address climate change (UNFCCC, n.d.[14]; UNFCCC, n.d.[15]). The United Nations Framework Convention on Climate Change (UNFCCC) refers to climate finance as finance which “aims at reducing emissions, and enhancing sinks of greenhouse gases, and aims at reducing vulnerability of, and maintaining and increasing the resilience of human and ecological systems to negative climate change impacts” (UNFCCC Standing Committee on Finance, 2014[16]).

Box 2. Examples of sustainable finance definitions

The **Australian** Securities and Investments Commission (ASIC) defines a sustainability-related product as a financial product where the issuer has incorporated sustainability-related considerations – such as environmental, social and governance (ESG) matters – into its investment strategies and decision making.

For the **European Commission,** sustainable finance refers to the process of taking ESG considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects. The Sustainable Finance Disclosure Regulation (SFDR) requires disclosure with respect to how sustainability risks are integrated in investment decisions and how they impact financial products' returns. The SFDR also sets out disclosure on the impact of financial market participants or of products on sustainability factors (European Commission, n.d.[17]). The regulation also introduces a harmonised definition of "sustainable investment", referring to investments in economic activities that contribute to environmental or social objectives or a combination thereof. Such investments should also "do no significant harm" to any other environmental or social objectives, and the investee companies should follow good governance practices.

In **Indonesia**, the Indonesian Roadmap for Sustainable Finance 2015-19 defines sustainable finance as comprehensive support from the financial services industry to achieve sustainable development resulting from a harmonious relationship between economic, social and environmental interests (Indonesia Financial Services Authority (OJK), 2015-2019[18]).

In **Mexico**, the Sustainable Finance Committee of the Financial System Stability Council defines sustainable finance as the integration of environmental and social issues in long-term investment decision-making. Sustainable finance focuses on issues related to the environment, such as climate change adaptation and mitigation, and on issues related to society, particularly inequality, inclusion and human capital investment. It includes financial services, products, processes, as well as institutional and market arrangements that directly and indirectly contribute to the achievement of the Sustainable Development Goals (SDGs).

The Monetary Authority of **Singapore** defines sustainable finance as the practice of integrating ESG criteria into financial services to bring about sustainable development outcomes, including mitigating and adapting to the adverse effects of climate change (Monetary Authority of Singapore, 2021/2022[19]).

In the **United Kingdom**, the 2021 roadmap "Greening Finance: A Roadmap to Sustainable Investing" provides insights on the meaning of "sustainability" in a financial context. Sustainability relates to three key factors: Environment, Social and Governance. The environment factor covers how organisations impact and are impacted by climate change and broader environmental issues, like biodiversity. Global reporting standards are emerging that are underpinned by international agreements on underlying climate policy. The social aspect includes factors ranging from modern slavery to international development. Globally agreed reporting standards may take longer to emerge, but there are existing frameworks which may provide a basis for future global standard setting. Finally, the governance covers how a company is controlled and directed. It is the longest established area for investor engagement and extensive disclosure is already provided by companies through existing company law and other requirements (HM Government, 2021[20]).

3 Consumer demand, understanding and experience of sustainable finance

This chapter presents a summary of the available research on consumer demand for, understanding of, and experience with sustainable finance products.

Available research and data on levels of consumer awareness, interest and usage of sustainable finance products is context sensitive and mostly found in developed countries or economies, while there is currently limited demand side research in developing countries on the effects sustainable finance policies have had on consumers' interest in sustainable finance products, or on whether consumers engage and buy sustainable finance products.

Consumer demand for sustainable finance products

In terms of consumer demand for sustainable products, according to the 2021 Global Sustainability Study, 85% of consumers in the countries covered by the research have shifted their general, every-day purchasing choices to greener and more sustainable options in the past five years (Simon Kucher & Partners, 2021[21]). These trends are also relevant to financial services and there is growing consumer demand for sustainable finance products and services at the retail level (2 Degrees Investing Initiative, 2020[22]). Sustainable finance products cover a wide range of consumer financial products and services, including investment, banking and insurance products (Green Finance Platform, 2021[23]) (see Box 3 for some examples of retail sustainable finance products).

A recent IOSCO report looking at sustainable finance found that an increasing number of retail investors are interested in making financial decisions considering sustainability-related matters. Young people have a stronger preference for sustainable investments compared to other age groups. The reasons for the increasing interest in sustainable investments vary from willingness to seize perceived opportunities for greater financial returns or avoiding financial risks associated with various financial products that do not consider ESG risks (International Organisation of Securities Commissions, 2022[24]).

Other research has also found that many consumers believe that environmental and social concerns are of increasing importance and want their investments to align with ESG-related objectives. Sustainable finance products provide consumers with the opportunity to align their personal values and priorities regarding social, environmental and governance issues, with the financial products they buy and use. This may allow consumers to promote, for example, the energy transition, climate change mitigation or support the financing of specific social causes (Finra - University of Chicago, 2022[25]).

Research suggests that consumer interest in sustainable finance has been driven by an increasing awareness of the role of finance in mitigating the climate change crisis. For example, in a recent study from **Luxembourg**, 43% of those surveyed associated sustainable finance with "environmental impact", while the other dimensions (social and governance) were not as well known (Luxembourg Sustainable Finance Initiative, 2022[26]). This may also explain why, erroneously, some organisations, consumers or retail investors consider "sustainable", "climate" or "green" finance as one and the same, despite the terms encapsulating different concepts (as seen above, Chapter 2).

The 2022 **EU** Barometer on Retail financial services and products points to the fact that, for around 60% of Europeans it is important that their savings and investments do not fund economic activities that have a negative impact on the planet, and about half agree that they are more likely to invest in a financial product if they know it is sustainable. At the same time, less than half of respondents know whether their private savings and investments are invested in sustainable economic activities (European Commission: DG Financial Stability Financial Services and Capital Markets Union, Ipsos European Public Affairs, 2022[27]).[6] Another recent EU Barometer which focused specifically on insurance and pensions products showed that while only 25% of European consumers heard about sustainable insurance products, another 35% would be interesting in knowing more about these products (EIOPA, 2023[28]).

Consumer-focused surveys[7] conducted by 2 Degrees Investing[8] found that 67% of **French** and **German** retail investors want to invest in an environmentally responsible manner and 64% of retail investors would accept a hypothetical minus 5% trade-off on their total returns in order to invest sustainably (2 Degrees Investing Initiative, 2020[22]).

Similarly, the **UK** public wants financial institutions to make a more positive social and environmental impact with the money invested on their behalf. Some 68% of those surveyed through a nationally representative survey said that they want their investments to contribute to solutions for societal and environmental challenges. A similar number wanted their investments to take proactive steps to avoid causing harm to people and the planet (HM Government, 2019[29]).

In **Luxembourg**, 74% of respondents to a nationally representative survey think that the financial sector plays an important role in supporting the transition of the economy towards sustainability (CSSF, Foundation ABBL for Financial Education and LSFI, 2022[30]). Although only 21% of respondents have already invested in sustainable finance, 53% say they would be willing to do so.

Two thirds of **Canadians** (65%) say that ESG factors play an important role in helping them decide on their investment strategies and purchase decisions. Canadians between the ages of 18-34 (71%) and 35-54 (65%) are more likely to agree with the statement, compared to those 55 years and older (60%) (Ipsos Public Affairs, 2022[31]).

The Financial Markets Authority's "Consumer Experience with the Financial Sector Survey 2022" shows 68% of **New Zealand** investors prefer their money to be invested ethically and responsibly. However, of these investors who prefer their money invested ethically, only 26% have selected a fund manager based on ethical credentials, 51% have not, and 23% have looked into it but not taken action. This finding demonstrates both a "value-action gap" and a gap between consumer intention and action (Financial Markets Authority, 2022[32]).

A study undertaken by CONSOB in **Italy**, "Approach to Finance and Investments of Italian Households", analyses the individual characteristics associated with consumer interest in sustainable investments. It finds that interest in sustainable investments is positively correlated with multiple features, such as the

[6] In the survey, sustainable finance is defined as referring to the process of taking environmental, social and governance considerations into account when making decisions in the financial sector.

[7] This research includes information from surveying 2 000 French consumers and 2 000 German consumers as well as interviews and focus group discussions.

[8] 2 Degrees Investing is an independent, non-profit think tank working to align financial markets and regulations with climate goals.

level of education and the robustness of the economic-financial situation, perceived knowledge of sustainable investments, financial and digital knowledge as well as individual traits (such as social preferences, attitude for financial control, investment experience or holding of a diversified portfolio). Conversely, interest is found to be negatively correlated with age, risk aversion, and liquidity holding (CONSOB, Commissione Nazionale Per Le Societa' E La Borsa, 2022a[33]). Some 63% of Italian investors declare themselves to be interested in sustainable investments (albeit with varying degrees of intensity). Interest is more frequent among women, wealthier individuals, and investors with higher basic knowledge of sustainable finance and basic financial knowledge, while it is less widespread among the elderly (Commissione Nazionale Per Le Societa' E La Borsa, 2023[34]). The surveys conducted by the Italian Financial Education Committee (Comitato per la programmazione e il coordinamento delle attiivita di educazione finanziaria) confirm the results found by CONSOB (Comitato per la programmazione e il coordinamento delle attività di educazione finanziaria, 2022[35])).

Many initiatives to develop and promote sustainable finance have also been undertaken by oversight bodies in developing countries, with the objective of mitigating and building resilience into the financial system to the impacts of climate change (AFI - Alliance for Financial Inclusion, 2020[36]). At the same time, there are a series of challenges that developing markets face in relation to the effective development of the sustainable finance market (limited size of the local investor base, higher risk premia in sustainable debt issuance, limited adherence to Green Bond Principles, poor climate-related data disclosure) (Adrian, 2022[37]), which may also impact the availability of sustainable finance products to retail consumers. Data collected in 2020 by Reserve Bank of **Fiji** suggests that 73% of respondents were not aware of any specific climate-related financial product and, of those aware (27%), irrespective of gender and location, their knowledge was largely limited to insurance-type products. Only 2% of respondents reported having an existing climate-related insurance product. Nearly two-thirds (60%) of the respondents who did not have a climate-related product reported they were not ready to spend money on one (Reserve Bank of Fiji, 2020[38]).

A survey conducted by the Bank of **Italy** shows that micro and small enterprises have a strong interest in sustainable finance but the knowledge about this topic is limited (A. D'Ignazio, D. Marconi and M. Stacchini, forthcoming[39]). The majority (almost 70%) of micro and small entrepreneurs care about environmental and social effects of their investments and engage their suppliers in considering adopting activities with low environmental impact.

While this report focuses on individual consumers and their experience with sustainable finance products, it is important to note that entrepreneurs are also likely to be affected by the changes occurring in the financial sector, both in terms of adapting their business models to integrate ESG practices, and in terms of challenges and opportunities they may face in relation to access to finance in a context of raising scrutiny towards sustainable practices. Small businesses may face considerable challenges in tapping into the growing pool of sustainable finance, especially as financial institutions seek to comply with mandatory environmental reporting requirements (see for example (OECD, 2022[40])).

As well as evidence of growing consumer demand for sustainable finance products, there is also a growing market for financial products that help consumers adapt to changes associated with climate change. For example, insurance may have a key role to play in supporting consumer financial resilience in the face of potential new risks related to climate change events to which consumers may be exposed. Moreover, as policies and regulations evolve, consumers may also be exposed to "transition risks" that can affect their wealth. For example, a change in environmental regulations could affect the valuation of assets or the income of people who participate in the impacted economic activity.

Understanding climate-related risks and their potential financial implications for both the financial system overall as well as for the individuals, is complex. Individuals should be aware that they could be affected by such risks and be ready to take steps to mitigate them. Going further, financial advice to retail investors typically includes an analysis of risks and financial strategies in response, notably as part of suitability assessments. In order for such considerations to be useful and effectively serve financial consumer protection goals, it is important that financial advisers understand climate-related risks.

Therefore, sustainable financial products may play an important role, alongside financial education (for consumers and advisers) and forward-looking personal finance management, to support the financial well-being and resilience of consumers and help them achieve their financial goals.

Box 3. Sustainable finance products for consumers – a non-exhaustive list of examples

Financial services providers offer a wide range of financial products to consumers. Like other financial products, sustainable finance products differ from provider to provider in relation to their terms and conditions, fees and charges, product features and outcomes. Some of these financial products are directly accessible to consumers, while others may be more likely to be accessed via intermediaries. This Box provides a non-exhaustive list of examples for illustrative purposes of sustainable finance products that are available to consumers. This list is not intended to provide detailed descriptions of how these financial products work or their impact on consumers.

- **Sustainable deposit products** – these products include savings whereby the money deposited by the consumer is used by the financial product provider for green, environmental, sustainable renewable lending projects, such as renewable energy projects, green building projects or waste management projects. For example, Westpac Bank offers a Landcare Term Deposit, whereby for every dollar spent the bank lends equivalently to support sustainable agriculture practices. Similarly, in France, individuals can save in a "Livret de développement durable et solidaire" (LDDs). These are savings accounts with an advantageous interest rate, and which are not subject to taxation. Financial institutions can use the amounts collected in the LDDs to issue loans aimed at improving the energetic insolation of buildings.
- **"Ethical" credit cards (including so-called "green credit cards")** – financial institutions offering ethical or green credit cards provide a variety of benefits to holders, depending on terms and conditions. For example, some credit cards donate a percentage of a consumers' credit card spending to a green or sustainable project or cause. Some credit card providers also offer consumers rewards and discounts when consumers make environmentally friendly product purchases using the green credit card (such as, for example, paying for second hand clothing or purchasing plant-based meats). For others, the issuer plants trees with every swipe of the card and allows cardholders to redeem rewards to plant more trees for a small cost per tree or provides an app to track the holder's progress toward achieving personal carbon-neutrality.
- **Sustainable insurance** – refers to insurance products which have social or environmental considerations. For example, they are designed to promote sustainable transport with reduced environmental impact (for owners of electric and hybrid vehicles, or policies that reward low annual mileage), to support energy efficiency in buildings (policies linked to the use of specific energy-saving devices), to respond to the needs of specific categories of customers or to serve excluded populations. The NN Group NV, one of the largest insurers in the Netherlands, has an insurance product that does not simply replace a cracked smartphone screen, but instead pays for repairs, as this is the most environmentally friendly option, despite costing the insurer more than replacing the phone.

- **Green mortgages** – these products are generally available to consumers purchasing an energy efficient home or seeking to make "green" improvements to their home. Financial product providers usually advertise discounted interest rates or cash back incentives to consumers. For example, Dutch banks can offer a green loan or mortgage with an interest rate that is below the normal interest rate. The interest rate reduction is in the range of 25% below the normal interest rate and depends on a complex formula. The maximum amount of the reduced rate mortgage is set from EUR 25k to EUR 100k based on criteria related to specific energy-saving measures.
- **Sustainability-linked loans** – these include any type of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) which incentivise the borrower's achievement of predetermined sustainability performance objectives. The borrower's sustainability performance is measured using sustainability performance targets, which include key performance indicators, external ratings and/or equivalent metrics and which measure improvements in the borrower's sustainability profile.
- **ESG funds** – are portfolios of equities and/or bonds for which environmental, social and governance factors have been integrated into the investment process. Fund managers may employ a number of different ESG-centric investment strategies (such as, for example, negative screening, positive screening or thematic investing). These funds in some jurisdictions can also be re-packaged into insurance-based investment and personal pension products.
- **Green bonds** – these bonds are devoted to financing new and existing projects or activities with positive environmental impacts. Examples of project categories eligible for green bond issuance include renewable energy, energy efficiency, clean transportation, green buildings, wastewater management and climate change adaptation. For example, HSBC has issued green bonds. The proceeds of each HSBC green bond are used to finance eligible businesses and projects that promote the transition to low-carbon, climate resilient and sustainable economy and provide environmental benefits.
- **Social bonds** – similar to the green bonds, these bonds are devoted to finance or refinance social projects or activities that achieve positive social outcomes and/or address a social issue. Social projects can provide targeted support to various vulnerable populations such as those living below the poverty line, marginalised communities, migrants, unemployed, people with disabilities, or displaced persons. Example of project categories eligible for social bonds include food security and sustainable food systems, socio-economic advancement, affordable housing, access to essential services, or affordable basic infrastructure.
- **Sustainability bonds** – are issues where proceeds are used to finance or re-finance a combination of green and social projects or activities.
- **Sustainability-linked bonds** – are structurally linked to the issuer's achievement of defined sustainability goals (any ESG goals, including, for example, climate or broader SDG goals) set by the issuer before the sale of the bond. Most often, this takes the form of a covenant linking the value of the bond coupon to defined ESG targets. Progress (or lack thereof), toward the selected targets, typically results in the preservation of (or an increase in) the instrument's coupon.

In addition, some financial services providers have launched initiatives to reduce the carbon footprint of financial products themselves, in relation to their usage by customers. For example, initiatives include online communications (instead of paper-based), prioritising online or phone meetings to in-person appointments, sharing of advertising or gifts in digital instead of physical format or offering digital wallets instead of ATM cards. Generally, customers have the option to choose whether to transition to fully digital financial products or maintain physical/paper-based communication options.

Note: Examples and case studies referencing particular firms, financial products or services in this document are for illustrative purposes only, and their inclusion or reference does not constitute or suggest any endorsement by the OECD or its member countries.
Sources: (Berger, 2023[41]; Pimco Europe, 2022[42]; Moneyfacts.co.uk, n.d.[43]; Barclays, n.d.[44]; Paul, 2023[45]; Chauncey Crail, 2022[46]; Standard Chartered, 2022[47]; McKinsey & Company, 2022[48]; Generali, n.d.[49]; LSTA, n.d.[50]) (ICMA, 2021[51]; OECD, 2020[5]; Service Public Francais, n.d.[52]; Forbes, 2023[53]; Rachel Wait, 2022[54])

Consumer understanding of and experience with sustainable finance products

Given the wide range of financial products available, and the lack of standardised terms and definitions, consumers with preferences for sustainability are faced with an increased complexity when taking financial decisions or choosing financial products.

Evidence or data on consumer knowledge, attitudes, preferences, and behaviours in relation to sustainable finance; information on factors that consumers and investors consider when choosing sustainable finance products; or evidence on the profile of consumers and investors that use or are interested in sustainable finance products and services remain limited. Set out below is a summary of available research on this topic.

A study undertaken by (IOSCO, 2022[55]) found that in general, consumers have difficulty understanding or differentiating sustainable products from conventional products offered in the market, as well as difficulty comparing sustainable finance products. IOSCO has observed that this is due to many factors, such as:

- The lack of a common or generally accepted definition of terms such as sustainable finance or ESG finance, and lack of definitions or characterisations of environmental, social, or governance terms.
- The inconsistency of sustainability-related disclosures across companies, due to the voluntary nature of sustainability-related disclosure and reporting frameworks.
- The lack of consistent and comparable metrics or methodologies that could provide the basis for a reliable understanding (and comparability) of what is a green, low carbon, sustainable or ESG product or investment strategy.

Understanding finance is complex for consumers, and sustainable finance seams to add to the challenge (Finance for Tomorrow, 2020[56]). A recent study of **Swiss** households (Filippini, Leippold and Wekhof, 2022[57]) found that, in general, even those with high level of financial literacy, exhibit low levels of “sustainable financial literacy”.[9]

Limited understanding of sustainable finance and products is compounded by overall low financial literacy levels, prevalent especially among some segments or groups of the population, such as young people (Organisation for Economic Co-operation and Development, 2020[58]).

[9] Sustainable financial literacy in the cited paper is understood as “the knowledge of regulations, norms, and standards about financial products that have sustainable characteristics.” In the paper, “literacy” refers to solely “knowledge of” and does not incorporate attitudes, skills, or behavioural components.

In **Italy**, although growing slightly, financial knowledge with respect to financial concepts, financial instruments, financial risks and types of credit remains limited. A survey conducted by CONSOB indicated that knowledge about sustainable finance is low among Italian investors (Commissione Nazionale Per Le Societa' E La Borsa, 2023[34]). On average, 29% of interviewees responded correctly to one of four basic questions related to sustainable finance,[10] and just 6% answered correctly to all four questions. About 60% of respondents did not know or refused to answer these basic questions. In terms of individual characteristics, the survey indicates that basic knowledge of sustainable finance is positively correlated with general financial knowledge and investment experience (Commissione Nazionale Per Le Societa' E La Borsa, 2023[34]).

The surveys conducted by the **Italian** Financial Education Committee confirm the results of the CONSOB survey. Only 33% of Italian families declared to have some knowledge of sustainable finance and only 22% understand ESG factors (Comitato per la programmazione e il coordinamento delle attività di educazione finanziaria, 2022[35]).

A study focused on insurance carried out by the European Insurance and Occupational Pensions Authority (EIOPA) found that for 75% of **European** consumers it is difficult to know if an insurance product is sustainable or not. Some 77% of them would not know how to verify if an insurance product is sustainable and 64% are of the view that sustainability related claims are often misleading. Finally, 63% of European consumers declared they do not trust sustainability related claims made by insurance providers and distributors (EIOPA, 2023[28]).

The above-mentioned findings highlight the importance of collecting data on knowledge, attitudes, behaviours, and motivations of individuals' interest in sustainable finance products, since it is difficult to clearly discern, based on current available data, meaningful correlations between consumer intertest in sustainable finance products, consumer profiles, their levels of sustainable finance literacy and general financial literacy levels. These findings also highlight the importance of financial education in supporting consumers' understanding and navigation of sustainable finance policies and products. In addition to its broader role in supporting individuals to take increasingly complex financial decisions to improve their financial well-being, financial education could also help consumers become aware of new risks (climate-related risks, risks related to evolving climate-related legislations potentially affecting their assets or risks related to sustainable finance products). Overall, financial education remains complementary to broader efforts related to legislation, regulation and financial consumer protection. The role of financial education is explored further in Chapter 5.

[10] 19% understood the notion of greenwashing risk, 25% were familiar with ESG factors, 36% knew what green bonds were and 37% correctly defined sustainable investments.

4 Opportunities and risks for consumers associated with sustainable finance products

Opportunities for consumers associated with sustainable finance products

There are opportunities associated with sustainable finance products for consumers. Sustainable financial products may play an important role in supporting the financial well-being and resilience of consumers and help them achieve their financial goals. As explored in detail in the previous chapter, sustainable finance products provide consumers with opportunities to align their personal values and priorities regarding social, environmental and governance issues, with the financial products they buy and use, allowing consumers to promote, for example, the energy transition, climate change mitigation or support the financing of specific social causes. Depending on their design, they may also allow consumers to seize opportunities for greater financial returns or avoiding financial risks associated with various financial products that do not consider ESG risks.

A growing market of financial products are designed help consumers adapt to changes associated with climate change and protect themselves and their assets from physical or transition risks. There may also be overlaps and potential synergies between sustainable finance and financial inclusion, related to social objectives promoting inclusive economic growth. Sustainable finance products could support individuals to enter the formal financial sector (hence increasing financial inclusion) or respond to needs that individuals may develop due to climate-related events, and which are not addressed by traditional financial products.

Risks for consumers associated with sustainable finance products

At the same time, sustainable finance products may present risks for financial consumers. The risks for financial consumers associated with financial products generally are also relevant to sustainable finance products. Consumer risks stem from, for example, the design and quality of the product itself; inadequate or misleading disclosure information; potential misconduct in the market; or low levels of consumer financial literacy and behavioural biases. In the context of sustainable finance, these risks are amplified by a dynamic context of new and emerging regulations, products and players, fluid definitions and evolving consumer experience.

Furthermore, the growing interest and relevance of sustainable finance products has created new challenges in terms of consumer understanding of relevant concepts and associated information and hence, financial education needs. In addition to having basic financial literacy levels, consumers may need to understand concepts related to sustainability, evaluate new risks related to climate-events or evolving legislation, convey their sustainability preferences when choosing financial products and investing[11] and navigate between sustainable finance products and services.

As such, the increasing consumer demand for sustainable finance products, coupled with low financial literacy levels, as highlighted in the previous section, represents an important risk too. This may lead to consumers purchasing or being sold sustainable finance products they do not need or that do not correspond to their preferences and goals. This could lead to the loss of consumer trust in sustainable finance products, and even a broader loss of trust in the financial sector.

There are additional specific risks relating to sustainable finance products, such as "greenwashing", "social washing" and "impact washing", which are analysed below. While greenwashing and social washing can appear in relation to any financial product or service marketed to consumers as sustainable, impact washing is specific to investments.

Greenwashing

Greenwashing is generally understood as the practice of marketing financial products as being more environmentally or climate-aligned than they are (Organisation for Economic Co-operation and Development, 2022[59]). This may include suggesting or otherwise creating the impression (in the context of communication, marketing or advertising) that a financial product or a service has a positive impact on the environment or is less damaging to the environment than competing goods or services. When these environmental claims are inaccurate or cannot be verified, this practice is described as "greenwashing" (European Commission, 2014[60]). The European Commission further refers to "greenwashing" as "the practice of gaining an unfair competitive advantage by recommending a financial product as environmentally friendly or sustainable, when in fact that financial product does not meet basic environmental or other sustainability-related standards (European Commission, 2022[61]). Furthermore, greenwashing can also occur when the financial service provider makes un-substantiated claims about its own sustainability record in order to gain a competitive advantage (ESMA, 2022[62]).

The risk of greenwashing can relate to any type of financial product where environmental claims are likely to mislead if the basis of the claim is not clear. Such misrepresentations distort the information that a consumer requires to make an informed financial decision.

Greenwashing is a significant financial consumer protection concern for policy makers and oversight bodies when considering the risks sustainable finance products pose to financial consumers (Autorité des marchés financiers, 2020[63]). The potential to mislead by greenwashing can arise where a financial product provider is unclear about what standards it uses to assess the financial product as environmentally responsible or by overstating green credentials. Greenwashing may also occur through omission of relevant facts (European Securities and Markets Authority, 2022-2024[64]). In EIOPA's view, greenwashing could also occur when a target market with sustainability preference is associated with a financial product with no sustainability features (European Union, 2016[65]).

When greenwashing occurs, it risks harming the interests not only of individual consumers in each case, but of consumers more generally, through loss of trust. Addressing this risk can improve accountability in the market generally (BEUC, European Consumer Organisation, 2022[66]).

[11] The amendments introduced to the MIFID II and IDD Delegated Regulations as of 2 August 2022, and which apply to any type of investment advice or insurance product, require the integration of consumer sustainability preferences into any provision of financial advice by investment advisors/firms/insurance undertakings/insurance intermediaries. See more here: ESMA publishes final guidelines on MiFID II suitability requirements (europa.eu). See more here in relation to insurance: EIOPA publishes a Guidance on the integration of the customer's sustainability preferences in the suitability assessment under IDD | Eiopa (europa.eu)

With regards to investments, IOSCO has noted that greenwashing can occur throughout the investment value chain and any market participant (issuers, asset managers, financial advisers, ESG rating agencies and data providers) can engage in this behaviour (IOSCO, 2022[67]).

As an example of recent action in a case of alleged greenwashing, a **United Kingdom**-based financial service provider was recently instructed by the UK Advertising Standards Agency (ASA) to remove two advertisements that were accused of greenwashing by omission because the service provider continued to invest in fossil fuels, while advertising its sustainable finance leadership. Initial conclusions from the ASA stated that how environmentally astute and active companies are represents a significant interest to consumers. The ASA stated that claims of climate action could be deemed to sway consumers to open bank accounts or take out loans, and if the pretences are false, the public will have been misled (Insider Intelligence, 2022[68]). ASA issued Advertising Guidance on misleading environmental claims and social responsibility (Advertising Standards Authority - UK, 2022[69]).

In **Australia**, the Australian Securities and Investments Commission (ASIC), recently undertook a "greenwashing review" of a sample of superannuation (pension) and investment products and identified some areas for improvement. In particular, ASIC made recommendations regarding the disclosure and promotion of financial products, urging providers to:

- use clear labels
- define the sustainability terminology they use
- clearly explain how sustainability considerations are factored into their investment strategy (Australian Securities and Investments Commission, 2022[70]).

ASIC has also taken its first action against alleged greenwashing against a listed energy company. The company has paid a total of USD 53 280 to comply with four infringement notices issued by ASIC over concerns about alleged false or misleading sustainability-related statements made to the Australian Securities Exchange (ASX) in October 2021. Companies are on notice that ASIC is actively monitoring the market for potential greenwashing and will take enforcement action for serious breaches (Australian Securities and Investments Commission, 2022[71]).

Social washing

"Social washing" refers to the practice of attempting to improve a company's reputation through social responsibility initiatives which are not effective, or to the pursuit of economic return under the guise of social responsibility projects. It occurs when there is a disconnect between perceived commitments to social issues and action (Williams, 2022[72]).

Over the past years, the increased focus of many consumers and investors on social issues and how companies are dealing with these (for example, fair treatment, product safety, inclusive marketing and lending practices, privacy issues etc.) has also heightened the threat of "social washing", where consumers and investors can be misled by companies on the socially responsible aspects of their products, or the "S" factor in ESG.

Similarly to "greenwashing", "social washing" represents a risk to consumers and investors, as it distorts information needed by financial consumers and retail investors to make informed decisions about a particular financial product or service, aligned with their social values and preferences, and has the potential of misleading them.

Globally-agreed reporting standards for the "S" aspect of the ESG factors may take longer to emerge, if ever, but there are existing frameworks which may provide a basis for future global standard setting (HM Government, 2021[20]).

Impact washing

Another emerging risk in relation to sustainable finance is the risk of "impact washing". Just as with greenwashing and social washing, impact washing refers to the risk consumers face of being misled when acquiring investment products that claim to make an impact in the real economy, when this impact is not verifiable or measurable, or when the said impact is overstated. Hence, the investment products marketed and sold to retail investors do not align with their expectations, goals and/or preferences.

"Impact investments" are investments made with the intention to generate positive, measurable social and environmental impact, alongside a financial return (Global Impact Investing Network, n.d.[73]). The Global Impact Investing Network defines core characteristics of "impact investing" as being:

- *Intentionality* or the intention of an investor to generate a positive and measurable social or environmental impact.
- *Measurement* through use of evidence and impact data in decision-making to manage investments towards achievement of social and environmental objectives, or the ability to account for, in a transparent way, the financial, social and environmental performance of investments.
- *Additionality* or the fulfilling of a positive impact beyond the provision of private capital, such as enabling investees to make progress which otherwise would not have occurred. This principle implies that a social or environmental outcome would not have been achieved without the particular investment (Global Impact Investing Network, n.d.[74]).

Impact investing is a complex investment approach, which has an important focus on the positive changes that the investment can make on the environment or society. Impact investing aims to obtain the maximum social or environmental return of investment per unit invested, while at the same time achieving a financial return. It also requires a high level of measurement and management effort throughout the process. For all these reasons, impact investing is difficult to achieve (Operating Principles for Impact Management, n.d.[75]; Environmental Finance, 2022[76]).

Impact washing can occur when the promised impact on the real economy cannot be proven, or when firms do not accurately measure their investments' impact in the way that was promised, while still claiming an asset is having a "real impact" on the economy as in making the economy more "green" or "sustainable" (Catherine Cote, 2022[77]).

According to 2 Degrees Investing Initiative (2Dii), a majority of people want to leverage their power as shareholders and investors to generate "positive changes in the economy", meaning they wish to have an impact on the real economy (2 Degrees Investing Initiative, 2019[78]). Potentially unsubstantiated "impact" claims of "green" or "sustainable" investment products raise risks for consumers. In 2020, 2Dii reviewed 230 European retail funds presented as having a link to environmental characteristics through the implementation of socially responsible investing, green thematic and green bond approaches. Some 52% of these funds made "environmental impact claims". Almost all the "impact" claims were misaligned with applicable EU regulatory guidance in that they did not reflect a "verifiable environmental benefit or improvement" or were found to be vague, ambiguous and unsubstantiated. For example, funds were conflating the impact of certain economic activities of the investee companies with the impact of the investment strategy itself; in other cases, funds were comparing an indicator associated with the companies in the portfolio (usually their carbon footprint) with the market average and presenting the difference as a reduction in real economy emissions. In both these instances, 2Dii found inaccuracies and uncertainties, which made it so that these claims were vague, ambiguous and unsubstantiated (2 Degrees Investing Initiative, 2020[79]; Elena Johansson, 2021[80]).

5 Financial consumer protection tools and responses

While consumer demand for and experience with sustainable finance products are relatively recent trends, the task for policy makers and oversight bodies (such as regulators and supervisors) in terms of examining risks to consumers and retail investors and developing or selecting the most appropriate regulatory tools is familiar. The same type of financial consumer protection considerations are relevant and applicable to sustainable finance products as with other types of financial products.

This section presents a range of tools and responses available to financial consumer protection policy makers and oversight bodies to address the risks associated with sustainable finance products. The starting point for these tools and responses are the G20/OECD High-Level Principles on Financial Consumer Protection (FCP Principles) which, as explained above, set out the foundations for a comprehensive and effective financial consumer protection framework. The presented tools and responses are accompanied by relevant examples, where available.

Disclosure and transparency

Disclosure and transparency are the subject of Principle 7 of the FCP Principles. It is a key aspect of most financial consumer protection regimes and is often considered by policy makers and oversight bodies when new financial products enter the market (Organisation for Economic Co-operation and Development, 2022[59]).

Disclosure requirements aim to reduce the information asymmetry that exists between financial services providers and consumers by increasing transparency and providing consumers with necessary information to make informed decisions (Hung, Gong and Burke, 2015[81]). The common challenge of effective disclosure is trying to find a balance between providing all relevant information without overloading consumers with large amounts of complex information that they do not read or understand (Australian Securities and Investments Commission and Dutch Authority for Financial Markets, 2019[82]). Another consideration related to disclosure requirements is balancing the costs involved.

“The Ethical Investment Journey Research” found that investors who participated in a study in New Zealand did not fully read a Product Disclosure Statement, instead they relied on fund managers’ websites and marketing materials, as well as the opinions of friends, to make their decisions. The report found that investors were overwhelmed by technical jargon and often relied on a leap of faith in choosing an ethical investment. Others abandoned the search as “too hard” and did not choose an investment at all (Financial Markets Authority, 2022[83]). These findings underline the importance of using clear and plain language and defining key terms in a simple manner when making information available to retail investors.

Where possible, consumer research should be conducted and behavioural insights used to help determine and improve the effectiveness of disclosure requirements, acknowledging the limits to disclosure by itself in terms of ensuring consumer understanding and engagement (Organisation for Economic Co-operation and Development, 2022[59]).

As stated in Principle 7 of the FCP Principles, financial service providers and intermediaries should provide consumers key information about the fundamental benefits, risks and terms of a financial product. For some types of sustainable finance products, such as investment products, the information disclosed via regular financial statements is also relevant for consumers. Financial statements may provide additional essential information on how a company's investment strategy and financial operations address risks or align with issues related to sustainability. Sustainability-related financial disclosures may provide information about the significant sustainability-related risks and opportunities to which the reporting entity is exposed (Deloitte, 2023[84]; Deloitte, 2022[85]).

Further, the **International Organisation of Securities Commissions** (IOSCO) has found that frequently sustainability reporting does not commonly form part of financial firms' periodic reporting structure and is instead treated as a separate and isolated reporting activity. IOSCO has observed that sustainability-related disclosures remain incomplete and inconsistent across firms and that the voluntary nature of sustainability related disclosure frameworks, together with the number and variety of sustainability reporting frameworks, potentially leads to selective disclosure. The lack of standardisation of disclosures and their voluntary nature makes it challenging for consumers to compare sustainable finance products (International Organisation of Securities Commission, 2021[86]).

In response to IOSCO's recommendation that the IFRS Foundation could deliver investor-oriented sustainability-related disclosure standards, the IFRS Foundation announced the creation of the International Sustainability Standards Board (ISSB) on 3 November 2021. On 26 June 2023, the ISSB issued its inaugural standards – IFRS S1 and IFRS S2. IFRS S1 provides a set of disclosure requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium and long term. IFRS S2 sets out specific climate-related disclosures and is designed to be used with IFRS S1. Both fully incorporate the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The ISSB Standards are designed to ensure that companies provide sustainability-related information alongside financial statements. They have been developed to be used in conjunction with any accounting requirements. They are also built on the concepts that underpin the IFRS Accounting Standards, which are required by more than 140 jurisdictions (IFRS, 2023[87]).

According to the **UK** ASA, for a financial product to be marketed as "green" or "sustainable", the provider should ensure it has robust documentary evidence to prove all claims, whether direct or implied, that are capable of objective substantiation (Advertising Standards Authority - UK, 2022[69]).

In **Australia**, ASIC's Corporate Plan details its focus on sustainable finance practices, and states that it will take action to prevent harm arising from greenwashing and to support effective climate and sustainability governance and disclosure. ASIC will focus on the oversight of sustainability-related disclosure and governance practices of listed companies, managed funds, superannuation funds and green bonds. ASIC also encourages listed companies to use the TCFD's recommendations as the primary framework for voluntary climate-related disclosures. ASIC's Information Guide 271, "How to avoid greenwashing when offering or promoting sustainability-related products" (2022) lists several principles to help firms avoid greenwashing or overstating their "green" credentials. These suggestions apply broadly to entities offering or promoting financial products that take into account sustainability-related considerations in their investment strategies and decision-making. Examples of disclosure practices that may fall short of meeting existing regulatory obligations are also provided in the information guide (Australian Securities and Investments Commission, 2022[88]).

In 2021, the **Canadian** Government launched the Sustainable Finance Action Council to help lead the Canadian financial sector towards integrating sustainable finance into standard industry practice. The Council's early emphasis has been on enhancing climate-related disclosures in Canada's private and public sector (in alignment with the recommendations of the FSB's TCFD), improved assessment/measurement of climate-related risks, enhanced climate data and analytics, and common standards for sustainable and low carbon investments, which respond to the recommendations of the Expert Panel on Sustainable Finance (2019). The Expert Panel's final report sets out 15 recommendations to mobilise sustainable finance in Canada (Government of Canada, 2022[89]). In 2021, the Canadian Securities Administrators (CSA) published for comments a proposed climate-related disclosure rule, modelled largely on the recommendations of the TCFD (Canadian Securities Administrators, 2022[90]). In January 2022, amidst rising interest in ESG investing, the CSA published guidance for investment funds on their disclosure practices related to ESG considerations, aiming to help investors make informed decisions about ESG products; to prevent potential greenwashing; and to ensure that sales communications of ESG-related funds are not untrue or misleading. The CSA continues to actively monitor and consider international developments and how these might impact or further inform their climate-related disclosure rule (Ontario Securities Commission, 2022[91]).

The **EU** Sustainable Finance Disclosure Regulation provides rules for sustainability-related disclosures at entity and financial product level, including specific requirements for products displaying ESG characteristics (European Commission, n.d.[17]). Intermediaries subject to disclosure obligations are grouped into two categories (Financial market participants[12] and Financial advisers[13]) while the products and services covered by the disclosure requirements are financial products[14] and investment and insurance advice. Financial market participants and financial advisers need to include in pre-contractual disclosures descriptions of a) the manner in which sustainability risks are integrated into their investment decisions or investment and insurance advice; b) the result of the assessment of the likely impacts of sustainability risks on the returns of the financial products they make available or advise on (Article 6). Moreover, financial market participants and financial advisors need to publish and maintain on their websites a) information about their policies on the integration of sustainability risks in their investment decision-making process or investment or insurance advice (Article 3); b) and, respectively, information regarding the main negative impacts on sustainability factors related to the investment decisions, as well as information as to whether they consider in their investment or insurance advice the principal adverse impacts on sustainability factors (Article 4). For each financial product, financial market participants need to include in disclosures a clear and reasoned explanation of whether and how a financial product considers principal adverse impacts on sustainability factors, or if the financial product does not consider negative impacts of investment decisions on sustainability factors, the reasons why this is the case (Article 7). Where a financial product promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, there should also be information disclosed on how those characteristics are met and if an index has been designated as a reference benchmark, information on whether and how this index is consistent with those characteristics (Article 8). Finally, where a financial product has sustainable investment as its objective and an index has been designated as a reference benchmark, the information to be disclosed needs to also include (a) information on how the designated index is aligned with that objective; (b) an explanation as to why and how the designated index aligned with that objective differs from a broad market index (Article 9).

In **Hong Kong (China)**, the Green and Sustainable Finance Cross-Agency Steering Group (CASG), comprising local financial regulators and relevant government bureaux, is working towards mandating

[12] Undertakings for Collective Investment in Transferable Securities (UCITS), Alternative Investment (AIF), European venture capital (EuVECA) and European social entrepreneurship (EuSEF) fund managers, investment firms and credit institutions which provide portfolio management, insurance companies which make available an 'insurance-based investment product' (IBIP), institutions for occupational retirement provision (IORP), manufacturers of a pension product and pan-European Personal Pension Product (PEPP) providers.

[13] Credit institutions, investment firms, UCITS or AIF fund managers which provide investment advice; insurance firms and intermediaries which provide insurance advice.

[14] Investment funds (UCITS and AIF), IBIPs, pension products and pension schemes, portfolio management service and PEPPs.

climate-related disclosures aligned with the TCFD by 2025 and is evaluating a climate-first approach to implementing the ISSB standards for Hong Kong-listed companies (Hong Kong Monetary Authority, 2022[92]). The Hong Kong Stock Exchange has also revised their ESG Reporting Guide to strengthen disclosures on ESG governance and climate change with a view to meeting investors' and stakeholders' expectations and align with international best practices (Hong Kong Stock Exchange, n.d.[93]). Apart from disclosure, the CASG is also developing a local green classification framework that facilitates easy navigation among the Common Ground Taxonomy, and the taxonomies in the People's Republic of China (hereafter 'China') and the EU, guided by the principles of interoperability, comparability and inclusiveness. The CASG is working to propose the structure and core elements of the framework for industry consultation (Hong Kong Monetary Authority, 2022[92]).

The Reserve Bank of **India** has issued a Framework for Acceptance of Green Deposits in April 2023 which came into effect on June 1st, 2023, with an objective to encourage its regulated entities to offer green deposits to customers, protect interest of the depositors, aid customers to achieve their sustainability agenda, address greenwashing concerns and help augment the flow of credit to green activities and projects. The framework mandates that the allocation of funds raised through green deposits during a financial year needs to be subject to an independent Third-Party Verification/Assurance, to be done on an annual basis. The Third-Party Verification/Assurance Report should, at the minimum, cover the following aspects:

- Use of the proceeds to be in accordance with the eligible green activities/projects as indicated in the guidelines issued in April 2023. The regulated entities need to monitor the end-use of funds allocated against the deposits raised.
- Policies and Internal Controls including, inter-alia, project evaluation and selection, management of proceeds, and validation of the sustainability information provided by the borrower to the regulated entities and Reporting and Disclosures.

Regulated entities are also required, with the assistance of external firms, to annually assess the impact associated with the funds lent for or invested in green finance activities/projects through an "Impact Assessment Report". Furthermore, the guidelines require the regulated entities to put in place a comprehensive Board-approved Financing Framework for effective allocation of green deposits covering, inter-alia, Third-Party Verification/Assurance of the allocation of proceeds and the impact assessment. Although the framework provides for a mandatory Third-Party Verification/Assurance, the third-party assessment does not absolve the regulate entities of their responsibility regarding the end-use of funds, for which the laid down procedures of internal checks and balances would have to be followed as in the case of other loans (Reserve Bank of India, 2023[94]).

In **New Zealand**, the Financial Sector Amendment Act 2021, "Climate-related Disclosures and Other Matters", requires around 200 large financial institutions to provide climate-related disclosures from 2023 onwards. Mandatory climate-related disclosures help financial consumers by improving transparency and revealing climate-related information within financial markets and promoting a more resilient financial system (New Zealand Ministry for the Environment, 2022[95]). There are requirements for issuers to consider whether climate is a material risk. The Financial Markets Authority (FMA) recently published a guidance, "Climate risks and the impacts on financial statement audits", to provide clarity to auditors about the expectations for information about climate risks in audit files. The FMA's role is to monitor and enforce the Climate-related disclosure regime. The first Climate Statements are expected from April 2024 (Financial Markets Authority, 2022[96]).

In **South Africa,** the Disclosure Working Group[15] published “Principles and Guidance for Minimum Disclosure of Climate Related Risks and Opportunities” in December 2021. These Principles are designed to contribute to a shared understanding between regulators and industry participants on disclosure of the climate related financial risks and opportunities. It will also inform a dialogue with National Treasury, the South African Reserve Bank, the Financial Sector Conduct Authority, the Prudential Authority and other regulators who may be considering mandatory climate-related disclosures in line with international developments (South Africa Sustainable Finance Initiative, 2020[97]).

The **Singapore** Exchange unveiled its roadmap for issuers to provide climate-related disclosures based on recommendations of the TCFD in December 2021. All issuers must provide climate reporting on a “comply or explain” basis in their sustainability reports from the financial year (FY) commencing 1 January 2022 (Singapore Exchange, 2016[98]). Climate reporting will subsequently be mandatory for issuers in the (i) financial, (ii) agriculture, food and forest products, and (iii) energy industries from FY 2023, and the (iv) materials and buildings, and (v) transportation industries from FY 2024 (S&P Global, 2022[99]). The Exchange will begin the process of incorporating the ISSB standards into its listing rules as mandatory disclosure requirements (Singapore Exchange, 2022[100]).

The **United Kingdom** enshrined into law mandatory TCFD-aligned disclosures for its largest companies and financial institutions from April 2022. The UK Government’s Roadmap to Sustainable Investing, published in October 2021, sets out Sustainability Disclosure Requirements (SDR), building on the UK’s TCFD implementation. The objective of the SDR is to create an integrated framework for decision-useful disclosures on sustainability across the economy. The UK regulator, the Financial Conduct Authority (FCA) will be responsible for implementing elements of the SDR. The FCA launched a public consultation on its proposed Sustainability Disclosure Requirements (SDR) in October 2022. The measures notably seek to implement further entity level sustainability disclosure requirements for certain firms, a new regulatory regime for the labelling and marketing of financial products marketed as sustainable, as well as a new “anti-greenwashing” rule to apply to all regulated firms which affirms that sustainability-related claims must be clear, fair and not misleading (Financial Conduct Authority, 2022[101]). This builds on the FCA’s guiding principles developed in 2021 to help clarify expectations for the design, delivery and disclosure of retail responsible and sustainable funds (Financial Conduct Authority, 2021[102]). In November 2022, the Financial Conduct Authority announced the formation of a group to develop a Code of Conduct for Environmental Social and Governance (ESG) data and ratings providers (Financial Conduct Authority, 2022[103]).

In 2021, The Securities Commission **Malaysia** (SC) issued an update of the Malaysian Code on Corporate Governance (MCCG), which requires companies to manage ESG risks and opportunities, with the introduction of new best practices that emphasise the need for collective action by boards and senior management. The global commitment and acceleration of efforts to transition towards a net zero economy has resulted in demand for greater action on the part of corporates. The SC will continue to review the sustainability statements by listed large companies (Securities Commission Malaysia, 2021[104]).

To promote and foster consumer trust in sustainable finance, **transparency** is key for consumers, policy makers and oversight bodies to be able to assess the environmental and social impacts of sustainable finance products. This can be difficult given that many jurisdictions do not have accepted metrics,

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[15] On 15 October 2021, South Africa’s National Treasury announced the publication of the Updated Technical Paper on Financing a Sustainable Economy. Working Groups have been established to support implementation of the following key recommendations:

- Develop a Green Finance Taxonomy and governance framework
- Co-develop technical guidance, standards and norms for all financial institutions including ESG risk management, the use of science-based methodologies and disclosures as per the TCFD
- Develop a benchmark climate risk scenario for use in stress tests by the sector
- Build sector capacity and competency for good climate risk governance

definitions or standards for sustainable finance products (Australian Securities and Investments Commission, 2022[105]). Even where ESG ratings are provided, the breakdown of the rating may not be clear to consumers. For example, an ESG rating may appear to be high, however this could be due to high social and governance ratings while the environmental component of the ESG rating is low. Furthermore, as seen in previous sections, the lack of definitions, metrics and standards in relation to the "environmental" and "social" factors increase the risks of greenwashing and social washing for consumers.

Taxonomies, definitions and product labels can, when used appropriately by jurisdictions, be powerful regulatory tools for increasing and improving transparency in the financial sector (Finance For Tomorrow, 2021[106]).

The Network for Greening the Financial System (NGFS) suggests there is growing interest between central banks and supervisory authorities in improving market transparency in sustainable finance. The NGFS suggests the development of taxonomies as one tool available to achieve greater market transparency (Network for Greening the Financial System, 2020[107]). The European Commission has suggested that by providing high-quality definitions, effective taxonomies could diminish the risk of unsubstantiated and misleading indicators of environmental benefits, thereby contributing to transparency and market integrity (European Commission, n.d.[17]). Effective taxonomies may also create a common language that investors can use when investing in projects and economic activities that have a substantial positive impact on the climate and the environment and align with jurisdictions' environmental goals (Network for Greening the Financial System, 2022[108]).

At the same time, taxonomies are often complex frameworks which use technical language and cover a variety of sectors, activities, companies, transition-related criteria, which vary between jurisdictions and pose potentially additional practical challenges for consumer protection purposes. Therefore, to support wider transparency benefiting consumers, they need to be translated into language or formats that are easily accessible and understandable by consumers.

The **European Commission** (EC) first adopted the European Green Deal in late 2019, with the goal of making energy production more sustainable and less environmentally damaging and making Europe the first climate-neutral continent by 2050. In recognition of the lack of uniform standards for the evaluation of sustainable products and practices that made it difficult for investors to compare green investments, in June 2020, the EC published the EU Taxonomy Regulation. The Taxonomy establishes the criteria for determining whether an economic activity qualifies as "environmentally sustainable", for the purpose of establishing the degree to which an investment is environmentally sustainable. The purpose is to give consumers more clarity about the environmental sustainability of their investments and reduce greenwashing in the financial services sector. It also ensures that all EU member states follow a uniform set of criteria in terms of green investing (European Commission, n.d.[17]). Thanks to these harmonisation efforts, economic operators can find it easier to raise funding across borders for their environmentally sustainable activities, as their economic activities could be compared against uniform criteria in order to be selected as underlying assets for environmentally sustainable investments. Such harmonisation should therefore facilitate cross-border sustainable investments in the Union. The EU Taxonomy supplements the rules on transparency in pre-contractual disclosures and in periodic reports laid down in the SFDR. The SFDR requires to disclose Taxonomy aligned investments, therefore works to enhance transparency of disclosure of ESG criteria in financial products by providing a green classification system that translates the EU's climate and environmental objectives into criteria for specific economic activities for investment purposes. It is a transparency tool that will introduce mandatory disclosure obligations on some companies and investors, requiring them to disclose their share of Taxonomy-aligned activities. This disclosure of the proportion of taxonomy-aligned activities will allow for the comparison of companies and investment portfolios (European Commission, 2021[109]).

In 2021, the Financial Superintendence of **Colombia** enacted External Circular 31 with the purpose of standardising and improving the relevance of information on sustainability practices for investors and strengthening its disclosure by issuers. This External Circular sets forth the rules applicable to issuers regarding the disclosure of information on social and environmental matters, including climate issues, by adopting the international standards of the TCFD and the SASB Standards of the Value Reporting Foundation, under the principle of proportionality. These disclosures should be done in periodic reports. In addition, Colombia developed a Green Taxonomy adopted by External Circular 5 of 2022. The Green Taxonomy should help mitigate greenwashing, if issuers and financial entities use it as a reference to improve transparency in sustainable financial products, as suggested for voluntary pension funds (EC 008/2021), thematic issuances (EC 008/2022 and EC 020/2022), and listed investment schemes (EC 031/2021). The above-mentioned regulations aim to support financial consumers take informed decisions.

South Africa's first national Green Finance Taxonomy was developed in 2022 by the Taxonomy Working Group and launched by the National Treasury. The Taxonomy is designed for investors, issuers, lenders and other financial sector participants to track, monitor, and demonstrate the credentials of their green activities in a more confident and efficient way. A comparison study undertaken in November 2022 between the EU Green Taxonomy and the South Africa Green Finance Taxonomy has found that the two taxonomies pursue climate ambition of a net-zero economy to 2050 as a core environmental objective and have a very high degree of similarity between the criteria specified at the level of individual economic activities (National Treasury Republic of South Africa, 2022[110]).

At the same time, beyond taxonomies, other tools and approaches are used in jurisdictions to achieve the required transparency in the market. These may include disclosure rules or climate-alignment tools (emissions data, temperature-alignment estimates, conformity to benchmark decarbonisation pathways, etc.).

In 2022, the **United States** Securities and Exchange Commission (SEC) issued several rule proposals related to climate and ESG issues. First, the SEC issued a corporate climate disclosure proposal that would require domestic and foreign registrants to disclose certain climate-related information in registration statements and periodic reports. The proposal is aimed at ensuring that investors receive consistent, comparable, and reliable information about climate-related risks so that they can make informed investment decisions. The SEC also proposed amendments to rules and disclosure forms to promote consistent, comparable, reliable, and decision-useful information for investors concerning funds' and advisers' incorporation of ESG factors. Lastly, the SEC proposed to amend its Names Rule, which helps ensure that a fund's name accurately reflects the fund's investments and risks. The Commission is considering public comments that have been submitted in response to these rule proposals. In addition, in 2021, the SEC launched the Climate and ESG Task Force within the Division of Enforcement to develop initiatives to identify ESG-related misconduct with respect to climate and ESG-related disclosure. The Division has filed several ESG-related enforcement actions. Also, in 2021 and 2022, the Division of Examinations prioritised the inspection of ESG-related advisory services and investment products given the risk that false or misleading disclosures could misinform investors. The Division is also looking into potential operational risks stemming from climate change for registrants (U.S. Securities and Exchange Commission, 2022[111]; U.S. Securities and Exchange Commission, 2022[112]; 2022[113]; U.S. Securities and Exchange Commission, 2022[114]; U.S. Securities and Exchange Commission, 2021[115]; U.S. Securities and Exchange Commission, 2021[115]; U.S. Securities and Exchange Commission, 2022[112]).

In January 2022, the **United States** Consumer Financial Protection Bureau's Office of Minority and Women Inclusion, as part of its mission to provide strategic advice to the financial industry for the benefit of the American consumer, produced a report on diversity and inclusion within financial services based on research and analysis of public-facing diversity and inclusion programming, policies, and practices data. The report includes best practice recommendations of how financial services firms can better demonstrate their diversity and inclusion commitment to the public. The recommendations indicate the types of information that firms should consider publishing, proportionate to firm size (Consumer Financial Protection Bureau, 2022[116]; Consumer Financial Protection Bureau, 2022[117]).

As can be seen from the above, many jurisdictions around the world have implemented or enhanced regulations aimed at improving disclosure and increasing transparency relating to sustainable finance products. A related consideration is the interoperability of such regulations in the context of cross-border marketing and selling of financial products. Such considerations highlight the need for and importance of international collaboration on issues related to sustainable finance.

Quality financial products

Principle 8 of the FCP Principles (Quality Financial Products) explains that quality financial products are those that are designed to meet the interests and objectives of the target consumers and to contribute to their financial well-being. Principle 8 also states that there should be appropriate product oversight and governance by financial services providers to ensure that quality financial products are designed and distributed. In order to promote quality financial products that offer value to consumers, financial services providers may be required to define a target market for a financial product, conduct research and consider behavioural insights to understand the target market and, depending on the type, complexity and risk of the financial product, carry out testing before launching the product (Organisation for Economic Co-operation and Development, 2022[59]).

There is the potential for tension and the need to accept trade-offs where a consumer's preference for sustainable finance products does not otherwise meet their interests and objectives, and perhaps does not contribute to their financial well-being compared to other financial products. **IOSCO's** research found that consumers find it considerably challenging to compare sustainable products and conventional financial products. This could also adversely affect the wide range of consumer perception or understanding of the risks and performance of sustainable finance products (International Organisation of Securities Commissions, 2022[24]).

In the **EU**, the Insurance Distribution Directive (IDD) and the Product Oversight and Governance Delegate Regulation have been amended to include sustainability related aspects in the financial product design process. In particular, insurance product manufacturers need to assess and take into account the target market's sustainability preferences when designing the product. The product testing should also identify whether, over its lifetime, the financial product meets the needs, objectives and characteristics of the target market – including sustainability related objectives. Finally, as part of the monitoring and review process, insurance product manufacturers should monitor and assess whether the products remain aligned with the target market's needs, objectives and characteristics (including sustainability related objectives).[16] Similarly, investment firms should understand the features of the financial instruments offered or recommended, and establish and review effective policies and arrangements to identify the category of clients to whom financial products and services are to be provided. Moreover, the investment firms which manufacture financial instruments should ensure that those products are manufactured to meet the needs of an identified target market of end clients, take reasonable steps to ensure that the financial instruments are distributed to the identified target market, and periodically review the identification of the target market and the performance of the financial products they offer.

The **European Commission** has proposed the introduction of Green Bond Standards, which should be a voluntary standard that will help scale up and raise the environmental ambitions of the green bond market. At the same time, the standard would encourage market participants to issue and invest in EU green bonds

[16] These requirements have entered into force on 2 August 2022 and have been introduced with Commission Delegated Regulation (EU) 2021/1257 of 21 April 2021 amending Delegated Regulations (EU) 2017/2358 and (EU) 2017/2359 as regards the integration of sustainability factors, risks and preferences into the product oversight and governance requirements for insurance undertakings and insurance distributors and into the rules on conduct of business and investment advice for insurance-based investment products.

and improve the effectiveness, transparency, comparability and credibility of the market (European Commission, n.d.[118]). A political agreement on the European Green Bond Standard was reached in early 2023.

The **Indonesian** Sustainable Finance Initiative (ISFI) is a market-led initiative by the financial services industry that aims to promote and implement inclusive sustainable finance practices. The ISFI works to support the implementation of OJK's regulations on Sustainable Finance Principles and Green Bond Issuance (Regulation Number 51 and 60 Number 2017). The initiative serves as an open platform for banking and non-banking financial industry, corporate issuers and other relevant industry sectors (Otoritas Jasa Keuangan, 2022[119]).

In **New Zealand**, default KiwiSaver[17] providers have been mandated by the government to exclude investments in fossil fuel production or illegal weapons and for their responsible investment policy to be published on the providers website.

Responsible business conduct and culture: suitability assessments

Principle 9 of the FCP Principles (Responsible Business Conduct & Culture) encompasses, among other things, the need for financial services providers and intermediaries to have as an objective to work in the best interest of consumers and for conduct and culture to be aligned to promoting the fair treatment of consumers and achieving appropriate consumer outcomes that contribute to their financial well-being. It also stipulates that financial services providers and intermediaries should be properly trained and qualified, and that financial advice should be objective, and based on the consumer's profile considering the complexity of the financial product, the risks associated with it, as well as the consumer's financial objectives, knowledge, capabilities and experience.

Consistent with Principle 9, many financial consumer protection frameworks around the world require financial product providers to undertake a **suitability assessment** to assess whether a financial product is appropriate for a particular consumer. Where relevant, this may require financial product providers or intermediaries to consider a consumer's financial preferences, interests and objectives regarding sustainability.

Understanding of a consumer's financial preferences, interests and objectives in the context of undertaking a suitability assessment may not be straightforward, given that many consumers may not have sustainability preferences well-defined, or may not have the knowledge and understanding of the various options, strategies or products available to them. Furthermore, behavioural biases may also come into play during suitability assessments (for example, the framing effect when sustainability information is presented), further affecting consumer choices.

In this context, and also consistent with Principle 9, there is the need for training of financial services providers and intermediaries, especially those who interact directly with consumers, in the area of sustainable finance. A proper assessment and understanding of sustainable finance products, as well as of climate-related financial risks, by financial services providers, intermediaries or financial advisors alike are essential for good consumer outcomes. Financial services providers and advisers should also have the necessary knowledge and competence with regards to the criteria of the sustainability preferences and should be able to explain to their clients all the different aspects in non-technical terms. To that effect, firms should consider giving staff appropriate training.

IOSCO has also noted that financial education (which, in IOSCO's view, includes education for industry participants) may also address the professional and licensing obligations of industry participants, including

[17] KiwiSaver is a voluntary, work-based retirement savings scheme

financial advisors, to ensure that industry participants have the necessary knowledge and skills to provide advice and services relating to sustainable finance.

In 2021, the Investment Industry Regulatory Organisation of **Canada** (IIROC) published updated Know Your Client (KYC) rules incorporating new ESG requirements. They require members to ensure they have sufficient information about their clients' investment needs and objectives, including information about clients' personal values, and to give clients an opportunity to express their investing needs and objective including the desire to invest in accordance with ESG criteria (Investment Industry Regulatory Organisation of Canada, 2021[120]).

In April 2021, the **European Commission** adopted the delegated directive (EU) 2017/593 (European Commission, 2021[121]) supplementing Directive 2014/65/EU (MiFID II), which requires fund managers to properly inform investors about the environmental, social and governance risks involved in their investment. The directive, effective as of 2 August 2022 builds on criteria, definitions, considerations and disclosures introduced by the EU Sustainable Finance Disclosure Regulation and the EU Taxonomy Regulation. Clients can express their sustainability preference as one or more of the following options:

1. A minimum proportion of environmentally sustainable investments as defined by the EU Taxonomy Regulation.
2. A minimum proportion of sustainable investments as defined by the EU Sustainable Finance Disclosure Regulation.
3. The consideration of Principal Adverse Impacts (PAIs) on sustainability factors, from a qualitative and/or quantitative perspective.

Similar amendments have been made to the IDD delegated acts via the Commission Delegated Regulation (EU) 2021/1257 of 21 April 2021 amending Delegated Regulations (EU) 2017/2358 and (EU) 2017/2359 as regards the integration of sustainability factors, risks and preferences into the product oversight and governance requirements for insurance undertakings and insurance distributors and into the rules on conduct of business and investment advice for insurance-based investment products.

In January 2022, the **European Securities and Markets Authority** (ESMA) issued a consultation paper outlining updated guidelines on certain aspects of the MiFID II suitability requirements, primarily focused on the actual integration of client sustainable preferences. As part of the suitability assessment, firms should help clients understand the concept of sustainability preferences, the different types of products included under the definition of sustainability investment and the choices to be made in this context (ESMA, 2022[122]). In case a firm does not have any financial products or funds in its product range that would meet the client's sustainability preferences, the firm should clearly indicate that there are currently no products available that would meet the client's preferences and the client should be given the possibility to adapt their sustainability preferences. The firm can then recommend financial products that do not meet the sustainability preferences of the client, but only once the client has adapted their preferences. The firm's explanation and the client's decision should be documented in the suitability report (J.P. Morgan, 2022[123]). The final report "Guidelines on certain aspects of the MiFID II suitability requirements", providing clarity on the harmonised application of requirements in the area of suitability, including on the topic of sustainability, was published in September 2022 (ESMA, 2022[124]).

In July 2022, the **European Insurance and Occupation Pensions Authority** (EIOPA) issued guidance on the integration of the customer's sustainability preferences in the suitability assessment under the Insurance Distribution Directive (IDD). It aims at providing competent authorities, insurers and insurance intermediaries with guidance on:

1. How to help customers better understand the concept of "sustainability preferences" and their investment choices
2. How to collect information on sustainability preferences from customers

3. How to match customer preferences with financial products, based on the SFDR product disclosures
4. When to assess sustainability preferences
5. The competences needed to assess a customer's sustainability preferences.

Equitable and fair treatment of consumers

Principle 6 of the FCP Principles states that all financial consumers should be treated equitably, honestly and fairly at all stages of their relationship with financial services providers. Principle 6 also highlights the importance of paying special attention to the treatment of consumers who may be experiencing vulnerability. It highlights that consumer vulnerability can manifest differently and be applicable in different circumstances.

In the context of sustainable finance, some consumers may experience vulnerabilities due to climate-related risks, as highlighted in Chapter 4. Financial services providers may therefore consider such vulnerabilities, where relevant, when undertaking suitability assessments for individual clients, or in the process of selling of financial products.

Complaints handling and redress

Principle 12 of the FCP Principles stipulates that financial consumers should have access to adequate complaints handling and redress mechanisms. In relation to sustainable finance, complaints handling and redress mechanisms can play an important role in resolving consumer complaints and disputes relating to sustainable finance products, for example, where a consumer may have been misled by greenwashing giving rise to financial loss. Principle 12 provides that complaints handling and redress mechanism should allow providers to monitor and address systemic issues and support improved financial consumer outcomes.

In terms of external dispute resolution schemes, Principle 12 provides that information relating to consumer complaints should be available to oversight bodies to support their supervisory or enforcement functions. In accordance with this, financial services providers and external dispute resolution schemes, such as ombudsman schemes, may consider recording complaints related to sustainable finance products as a separate category, making public aggregated information with respect to such types of complaints and/or publishing case studies on this topic. This will increase transparency, allow systemic issues to be addressed and support the supervisory or enforcement functions of oversight bodies.

As an example, in **Denmark**, guidance around usage of environmental or ethical claims for businesses in their communication to consumers was issued by the Consumer Ombudsman (Danish Consumer Ombudsman, 2014[125]; Magnusson, n.d.[126]). This may also be applied to financial services providers.

Financial literacy and awareness

Principle 4 of the FCP Principles (Financial Literacy and Awareness) recognises the important role that financial education plays alongside efforts to protect consumers and preserve confidence in the financial sector. Financial education serves as an important tool that oversight bodies may use to improve consumer understanding as well as to complement and enhance the effectiveness of regulation, supervision and enforcement actions (International Organisation of Securities Commissions, 2022[24]). The IOSCO report "Retail Investor Education in the Context of Sustainable Finance Markets and Products", published in August 2022, provides a first set of examples of various financial education initiatives related to sustainable finance, tools and practices currently in place in various jurisdictions and suggests approaches for the industry to consider in terms of developing financial education on sustainable finance.

As noted above, the OECD Recommendation on Financial Literacy highlights the importance of promoting an understanding, through financial education programmes, of the implications of saving and investment decisions on society and the environment, and of long-term economic and financial sustainability considerations in saving and investment decisions (OECD, 2020[9]). The **OECD International Network on Financial Education** (OECD/INFE) has recently established a new working group on financial literacy and sustainable finance to further explore the topic of effective financial education relating to sustainable finance, undertake research and gather evidence on financial literacy and its links to sustainable finance. Work conducted to date by the OECD/INFE includes the development, jointly with the European Commission, of an EU/OECD-INFE financial competence framework for adults. The framework promotes a shared understanding of the financial competences adults need to make sound decisions about personal finance. Among other things, the framework includes sustainable finance competences for individuals to align their financial decisions with their sustainability preferences. The European Commission and the OECD have also started working on a similar framework for youth. The two frameworks build on the existing OECD/INFE financial literacy core competences frameworks (European Union and Organisation for Economic Co-operation and Development, 2022[127]).

To promote and facilitate consumer understanding of sustainable finance issues, the Joint Committee of the European Supervisory Authorities has planned work in 2023 on financial education, to help retail investors understanding sustainable finance aspects (European Securities and Markets Authority, 2022[128]).

Financial education on sustainable finance is a key part of **Germany**'s Federal Financial Supervisory Authority (BaFin) efforts to protect consumers. From the beginning of January 2021 BaFin's website includes explanatory information about sustainable finance investments such as about risks related to those investments as well as information on obligations for investment providers. In addition, a FAQ supports consumers in search for information related to sustainable finance investments. In 2022, the digital and printed brochure "Geldanlage im Ruhestand" (Investment in Retirement), addressing senior investors, was revised to include relevant ESG details.

In **Italy**, CONSOB has launched several financial education initiatives focused on sustainability issues. For example, CONSOB has recently organised seminars and webinars dedicated to sustainable finance and sustainable investing and published an educational video-pill on sustainable finance. Together with Bank of Italy, CONSOB launched a two-module online course "Sustainable finance: be aware of risks!" (La finanza sostenibile: occhio ai rischi! Non è tutto oro quello che luccica). The course is aimed at disseminating basic knowledge on the topics of sustainable finance and is organised in two modules. The first one introduces the basic concepts related to sustainable finance by making examples of what is meant by environmental and social factors (the ESG criteria) and by illustrating different types of sustainable investment strategies. The second module takes a more practical approach by explaining the customer's sustainability preference assessment and the main characteristics of sustainable finance products in the market: it is possible for a consumer to invest in a sustainable way through funds which apply very different strategies while taking into account ESG factors. The module explains what information is needed to consciously invest in a sustainable product and where to look for it. CONSOB is also planning to develop a course aimed at raising awareness and informing MSMEs on sustainable finance (CONSOB, Commissione Nazionale Per Le Societa' E La Borsa, n.d.[129]). All these education initiatives are grounded in an evidence-based approach inspired by the findings of CONSOB research activities (CONSOB, Commissione Nazionale per le Società e la Borsa, 2022[130]).

The Bank of **Italy** has launched several educational activities dedicated to sustainability and, more specifically, to sustainable finance. An entire section of the Bank of Italy website on financial education "L'economia per tutti" (Economy for everyone) is dedicated to sustainable finance (Bank of Italy, n.d.[131]).

The aim is to explain basic concepts by making examples of what is meant by environmental and social factors (the ESG criteria) and by illustrating different types of sustainable investment strategies. The section also provides basic information to consumers regarding the EU Directives on disclosure. Bank of Italy has also been engaged in improving the knowledge of high school students about the connection between sustainability and the economy. The aim of this programme is for students to understand the economy and the financial effects of climate change, the importance of the co-operation between countries to preserve the environment and the role of sustainable finance to achieve the climate transition goals.

In **Luxembourg**, as part of its consumer protection mission, the Commission de Surveillance du Secteur Financier (CSSF) launched the first digital tool to promote financial education (www.letzfin.lu) which contains a broad range of information on issues regarding money and finance in general. A specific section relating to sustainable development was recently developed. Users can find information on concepts such as sustainability and explanations relating to sustainable finance products.

In **Mexico**, the Sustainable Finance Committee of the Financial Stability Council recently created the Capacity Building Hub on Sustainable Finance. The objective of the Hub is developing free of charge materials, such as personalised guides based on interests, needs and level of expertise of visitors. The Hub focuses on addressing the needs of specific audiences: i) financial authorities, ii) financial institutions, iii) non-financial institutions, iv) the youth and v) indigenous and local communities. The Hub is a public-private partnership initiative, whereby Banco de México has been tasked with directing and overseeing the development of the Hub while the private sector-led Council of Sustainable Finance will be in charge with operating the Hub.

The Banco de **Portugal**, the Portuguese Securities Market Commission (CMVM) and the Insurance and Pension Funds Supervision Authority (ASF) integrated sustainability as a strategic dimension in the third National Strategy for Financial Education of Portugal, alongside strengthening financial resilience and fostering digital financial education (Banco de Portugal, Portuguese Securities Market Commission and Insurance and Pension Funds Supervision Authority, 2021[132]). Topics related to sustainability are being included in financial education initiatives, such as training sessions and webinars. They focus on fostering the concept of circular economy as contributing to the household budget planning and management, disseminating the features and risks of financial products that promote environmental, social and governance sustainability and raising awareness of the existence of investment products with different sustainability features. Financial education programmes also seek to alert consumers to the risks of greenwashing, to disseminate information on obligations related to ESG factors applicable to enterprises, investment funds, pension funds and life insurance and to raise awareness on the impact of environmental policies and climate change on the evolution and development of the economy and the importance of insurance in mitigating these risks.

In **Spain**, Banco de España and the National Securities Market Commission (CNMV) collaborate during the Financial Education Day, an initiative part of the National Financial Education Plan, and developed together with the Ministry of Economy and Digital Transformation. The 2021 Financial Education Day was dedicated to sustainability, with the slogan “Your finances, also sustainable” (Banco de Espana, 2022[133]).

More evidence is needed to understand the links between financial literacy and effective use of sustainable finance products and services in order to design effective financial education programmes related to sustainable finance. In this context, there is room for financial education to support consumers and retail investors in their decision-making process related to sustainable choices, especially considering that these may have intertemporal effects.

6 Policy considerations

Consumer demand and interest in sustainable finance products is increasing globally. Therefore, it is important for policy makers and oversight bodies to consider the specific financial consumer protection risks associated with sustainable finance products and the effectiveness of their financial consumer protection frameworks in addressing these risks, to promote good consumer outcomes.

This section presents some preliminary considerations for policy makers, oversight authorities and market participants, as relevant, based on the analysis presented in previous sections. These preliminary policy considerations can form the basis of effective approaches for the application of sustainable finance as a cross-cutting theme in implementing the updated FCP Principles and the implementation of the Recommendation on Financial Literacy.

Consider adopting a co-ordinated and holistic approach towards financial consumer protection relating to sustainable finance (all FCP Principles)

Responding to new and emerging risks arising to financial consumers from a particular market development is often most effective when policy makers and oversight bodies take a co-ordinated and holistic approach. This means considering all of the policy responses and regulatory tools available and deploying them in a holistic fashion to maximise the effectiveness of interventions in the market. For example, a combination of disclosure and transparency measures, financial education, financial product requirements, the availability of complaints handling and redress mechanisms, and effective supervision and enforcement may be needed to ensure an appropriate degree of financial consumer protection in relation to sustainable finance products.

Policy makers and oversight bodies may consider adopting a holistic approach to sustainable finance in the sense of working with relevant stakeholders from their jurisdiction representing, for instance, government, industry, academia and consumers/investors, to ensure a co-ordinated and joined-up approach. Enhancing co-ordination between relevant stakeholders and ensuring consistency between policies may support good outcomes for consumers.

Consider adopting a consistent definition of "sustainable finance" or supporting comparability of definitions at the jurisdiction level, to facilitate consumer transparency, clarity and understanding (FCP Principle 1)

Policy makers and oversight bodies should consider adopting consistent definitions of sustainable finance or supporting comparability of definitions and related terms at the jurisdiction level and ensuring the usage of clear and plain language, as appropriate, by market participants when marketing and selling sustainable finance products or services. Such a uniform approach would provide consumers with better transparency and clarity and support their understanding when shopping for and comparing financial products. In order to support consistency, definitions need to be underpinned by well-defined ways to assess the sustainability of financial products and underlying assets, as well as by granular and consistent data.

Setting out sustainable financial product labelling rules, with minimum standards for sustainable products labelling, may also facilitate consumer understanding and transparency.

Collect evidence and data and monitor market developments, to inform evidence-based responses (FCP Principle 2)

Given the complex and rapidly evolving nature of the market, it is important to understand consumer attitudes, behaviours and experiences in relation to sustainable finance to calibrate financial consumer protection approaches. It is also important to identify needs and gaps in consumer understanding of sustainable finance products in order to develop appropriate financial education initiatives or information campaigns.

Additionally, it is important to monitor market developments to identify emerging risks affecting financial consumers, as well as any gaps in regulatory frameworks and supervisory approaches. Regular monitoring initiatives can help jurisdictions to identify patterns of conduct in the market and sources of information and communication channels (e.g. social media) that influence consumer financial choices.

Consider the opportunities of sustainable finance to promote access and inclusion for excluded or under-served populations (FCP Principle 3)

Financial inclusion can contribute to inclusive economic growth. Sustainable finance integrates economic, social and environmental objectives. There are overlaps and potential synergies between sustainable finance and financial inclusion, related to social objectives in particular, which promote inclusive economic growth. Policy makers, oversight bodies and financial services providers and intermediaries that seek to support access to and use of financial products and services of underserved or excluded populations may consider how sustainable finance products could support individuals to enter the formal financial sector. Furthermore, sustainable finance products may respond to needs that individuals may face due to climate-related events.

Consider developing targeted financial education initiatives to promote awareness and understanding of sustainable finance products (FCP Principle 4 and Recommendation on Financial Literacy)

To enable consumers to make appropriate financial decisions, it is important to empower them with knowledge, awareness and skills through financial education programmes. Current data on the levels of financial literacy of consumers relating to sustainable finance remains limited. A sizeable proportion of consumers do not fully understand what sustainable finance products are, how they differ from other types of financial products, or how they may support them achieve their financial goals. In general, a low level of understanding of sustainable finance may make consumers more susceptible to mis-selling or to buying financial products that do not address their preferences and needs. In addition to clearly defined terms and definitions, financial education initiatives can complement broader regulatory policies to ensure better outcomes for consumers and maintain trust in this growing market. These initiatives should at least address core competences related to sustainable finance, as relevant for the specific country context. In the EU, the OECD and the European Commission have developed financial literacy core competences frameworks for adults and youth, which cover aspects related to sustainable finance as well, to guide the development of relevant financial education programmes and initiatives.

Higher levels of financial literacy and consequently a better consumer understanding of sustainable finance will allow consumers to align their financial goals with their sustainability preferences and objectives, protect them in the financial marketplace and may also have broader implications in the longer term, such as the further development of the sustainable finance market through increased competition and transparency.

Financial education around sustainable finance could also play a role in making individuals more aware of the sustainability of their consumption decisions, which typically have financial implications.

Consider vulnerabilities in the context of fair and equitable treatment of consumers and responsible conduct (FCP Principle 6 and FCP Principle 9)

Some financial consumers may experience particular vulnerabilities due to climate-related risks (physical or transition risks) such as the loss of their assets or reduction in the value of their assets, increased indebtedness, reduced financial resilience due to climate-related events. Financial services providers and intermediaries should therefore take such vulnerabilities into account where relevant when providing or advising on financial products or undertaking suitability assessments for individual clients, in order to ensure fair and equitable treatment of consumers and to act in their best interests.

Consider the adequacy of disclosure standards and quality of financial products, and support transparent sustainability reporting (FCP Principle 7 and FCP Principle 8)

Greenwashing, social washing and impact washing are significant risks for consumers of sustainable financial products. It is important that sustainable finance product providers can substantiate environmental, social or impact claims made, to promote consumer trust in sustainable finance practices. Clear disclosure standards which support appropriate transparency facilitate the adequacy of disclosure for consumers, in addition to supporting transparent sustainability reporting practices.

Using clear definitions, terms and plain language can help consumers understand sustainable financial products characteristics and make financial choices in their best interest. Disclosure is most likely to be useful to consumers if it provides them with plain language information they need and understand. There should be a balance between providing all relevant information, without overloading consumers with complex information that they do not read or understand and without imposing undue burdens on reporting firms.

At the same time, the intrinsic limitations of disclosure by itself in terms of ensuring consumer understanding and engagement should also be kept in mind in relation to sustainable finance products.

Appropriate product oversight and governance by financial services providers to ensure that quality financial products are designed and distributed to take into account consumer sustainability preference and objectives, will also play an important role in improving consumer outcomes relating to sustainable finance. Where possible, consumer research should be conducted, and behavioural insights used to understand the target market and help inform the design of sustainable finance products.

Monitor disclosure and advertisements to understand how sustainable finance products are promoted, and watch for misleading representations (FCP Principle 2 and FCP Principle 7)

It is essential that consumers receive correct and clear information and advice in relation to sustainable finance products available to them. Given the risk of greenwashing and other misleading representations, oversight authorities should monitor both disclosure statements and advertisements for sustainable finance products, to ensure that all claims are accurate and honest.

Harness complaints handling and redress mechanisms (FCP Principle 12)

As noted above, complaints handling and redress mechanisms can play an important role in resolving individual consumer complaints and disputes relating to sustainable finance products, for example where a consumer may have been misled by greenwashing or other false claims giving rise to financial loss.

In accordance with this, financial services providers and external dispute resolution schemes, such as ombudsman schemes, may consider recording complaints relating to sustainable finance products as a separate category, making public aggregated information with respect to such types of complaints and/or publishing case studies on this topic. Such actions will lay a foundation so that policy makers can harness complaints handing and redress mechanisms to help identify systemic issues that need to be addressed and inform the supervisory or enforcement functions of oversight bodies.

Encourage the appropriate training of financial services providers and intermediaries in relation to sustainable finance products and services (FCP Principle 9)

Financial services providers and intermediaries (especially those who interact directly with consumers) should be properly trained and qualified. They should have a good understanding of sustainable finance products and be able to undertake an appropriate assessment of climate-related financial risks to ensure good consumer outcomes. Financial services providers and advisers should also have the necessary knowledge and competence with regards to the criteria of the sustainability preferences and be able to explain different aspects of sustainability-related financial products in non-technical terms.

Engage in international collaboration and co-ordination, which are key especially on exchanging good practices (Principle 2)

Considering that climate and social risks affect many if not all countries, the cross-border nature of many financial products, and that many jurisdictions around the world are developing sustainable finance-related regulations, there is an important need to continue promoting co-operation and dialogue at an international level about issues related to sustainable finance and sharing good practices.

Annex A. Summary of international policy context relating to sustainable finance developments

This section summarises the main international policy context and activities relating to sustainable finance broadly, to provide context to the specific consumer issues explored in the report. It is not meant to be comprehensive in terms of outlining the international policy context related to sustainable finance.

OECD

The OECD is committed to supporting global action and progress to combat climate change. In 2016, the OECD established a Centre on Green Finance and Investment to help catalyse and support the transition to a green, low-emissions and climate-resilient economy through the development of effective policies, institutions and instruments for green finance and investment (Organisation for economic co-operation and development, 2022[134]). In 2021, the OECD Ministerial Council Meeting Statement highlighted the OECD countries' support for the "analysis of how (ESG) risks are addressed across OECD work streams to foster integrated approaches to sustainable finance, including on principles for climate transition finance" (OECD, 2021[135]).

On 5 October 2022, the OECD's Committee on Financial Markets published "Policy guidance on market practices to strengthen ESG investing and finance a climate transition" (OECD, 2022[136]), to provide guidance for policy makers and market participants seeking to strengthen ESG investing and finance a climate transition through the use of quality metrics, ratings, targets and frameworks. Among other things, the guidance aims to address challenges such as limited transparency and comparability of climate transition and ESG methodologies and metrics.

The OECD also developed, through the Working Party on Climate Investment and Development of the Environmental Policy Committee, "OECD Guidance on Transition Finance" laying the groundwork for further efforts on scaling up transition finance (OECD, 2022[137]).

In February 2023, the OECD launched the Inclusive Forum on Carbon Mitigation Approaches (IFCMA), an initiative designed to help improve the global impact of emissions reduction efforts around the world through better data and information sharing, evidence-based mutual learning and inclusive multilateral dialogue. It brings together all relevant policy perspectives from a diverse range of countries from around the world, participating on an equal footing basis, to take stock of and consider the effectiveness of different carbon mitigation approaches.[18]

G20

In 2021, the G20 Finance Ministers and Central Bank Governors endorsed the establishment of the G20 Sustainable Finance Working Group (G20 SFWG). The Group was mandated to develop, in a collaborative

[18] https://www.oecd.org/climate-change/inclusive-forum-on-carbon-mitigation-approaches/

manner, an initial evidence-based and climate-focused G20 Sustainable Finance Roadmap. The group also focused on three priority areas: improving sustainability reporting, approaches to align investments to sustainability goals, and enhancing the role of International Financial Institutions to support the goals of the Paris Agreement and the 2030 Agenda (G20, 2021[138]).

In 2022, the G20 SFWG advanced work in three areas: developing a framework for transition finance; improving the credibility of private sector financial institutions commitments; and scaling up sustainable finance instruments. Among other takeaways, the G20 SFWG's efforts resulted in a set of high-level principles for transition finance to foster better understanding and greater coherence of different jurisdictions' approaches to promoting private finance to support the climate transition. The report defines "transition finance" as financial services supporting the whole-of-economy transition, in the context of the Sustainable Development Goals, towards lower and net-zero emissions and climate resilience in a way aligned with the goals of the Paris Agreement (G20 Sustainable Finance Working Group, 2022[139]).

Financial Stability Board (FSB)

In 2015, the Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD) to develop recommendations for more effective climate-related disclosures. These recommendations aimed to, among other objectives:

- promote more informed investment, credit, and insurance underwriting decisions
- enable stakeholders to understand the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

The TCFD's recommendations were published in 2017. In follow up work, the TCFD has published various reports and supporting materials to help organisations implement the recommendations and advance the availability and quality of climate-related financial disclosure (Financial Stability Board, 2022[140]). The TCFD has sought to clarify issues raised by organisations in their implementation of the TCFD recommendations and provide additional supporting guidance and other information where appropriate. In 2021, the TCFD published guidance on climate-related financial disclosures including metrics, targets and transition plans (Task Force on Climate-related Financial Disclosures, 2021[141]).

Furthermore, as part of the FSB's Roadmap for Addressing Climate-related Financial Risk, one year after the publication of the Report on Promoting Climate-Related Disclosures, the FSB published the first edition of an annual report on progress made in implementing climate-related disclosures across jurisdictions (Financial Stability Board, 2022[142]). The report presents progress made by the International Sustainability Standards Board (ISSB) in developing its climate reporting standards, progress made in the area of assurance, as well as progress made by firms and by jurisdictions on climate-related disclosure practices, including implementing the 2021 FSB recommendations. The FSB also reviewed how strategies and external commitments of financial institutions are incorporated into their internal compensation frameworks (Financial Stability Board, 2023[143]).

In June 2023, the IFRS S1 and IFRS S2 standards were issued by the ISSB. Both fully incorporate the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Moving forward, the ISSB will work with jurisdictions and companies to support adoption. The first steps will be creating a Transition Implementation Group to support companies that apply the Standards and launching capacity-building initiatives to support effective implementation (IFRS, 2023[87]).

International Monetary Fund (IMF)

Since 2019, the IMF has focused on the link between sustainable finance and financial stability, acknowledging that environmental, social, and governance issues can have a material impact on firms' performance and on the stability of the financial system more broadly (International Monetary Fund, 2019[144]). Financial risks from climate change are difficult to quantify, and the fact that asset prices may not yet fully internalise climate risks and the transition to a cleaner economy could lead to a cliff-like moment when investors suddenly demand such risks be priced into asset values with potentially detrimental consequences for financial stability. Work undertaken by the IMF since 2019 includes reports and guidance on climate risks and asset valuation, on developing a science-based, tailored, and consistent "global climate information architecture" (Ferreira et al., 2021[6]), and on sustainable finance evolution in emerging markets.

The World Bank

The World Bank Group (WBG) long-term finance unit has been active in promoting Sustainable Finance globally – though data provision, analytical work, instrument design and technical assistance to support regulators and investors to "green" their financial systems. The WBG issued the world's first green bond in 2008, creating a blueprint for sustainability across markets. More recently, the WBG launched the Country Climate and Development reports, bringing together data and analysis to prioritise the most impactful actions that can deliver on development in the context of a changing climate (World Bank Group, 2021[145]).

The World Bank Climate Change Action Plan 2021-25 is guided by three fundamental principles that drive the WBG's work across all sectors. First, people must benefit from the transition to a low-carbon and resilient future. People are at the centre of climate action and need support in managing the transition and the changes that come with climate-focused policies. Second, natural capital is critical to address climate change. Ecosystems are affected by climate change, with negative consequences for human health and well-being. Conserving natural capital, including biodiversity and ecosystem services, can contribute significantly to both mitigation and adaptation. Scaling up investments in emerging markets to strengthen and expand the waste value chain, including to address marine plastics, is critical to generating a sustainable circular economy. Third, the WBG plans to enhance collaboration with the International Monetary Fund, development banks, other international organisations, monetary and financial institutions, including central banks, institutional investors, the private sector, think tanks, and civil society organisations to complement the work being undertaken (World Bank Group, 2021[146]).

Central Banks and Supervisors Network for Greening the Financial System

The Central Banks and Supervisors Network for Greening the Financial System (NGFS), established in December 2017, is a group of over 114 Central Banks and Supervisors exchanging experiences, sharing best practices, contributing to the development of environment and climate risk management in the financial sector, and mobilising mainstream finance to support the transition towards a sustainable economy. The purpose of the NGFS is to help strengthening the global response required to meet the goals of the Paris agreement and to enhance the role of the financial system to manage risks and to mobilise capital for green and low-carbon investments in the broader context of environmentally sustainable development. The NGFS defines and promotes best practices to be implemented within and outside of the membership of the NGFS and conducts or commissions analytical work on green finance (NGFS, n.d.[147]). The NGFS has been actively publishing various reports and guides on integrating climate-related and environmental risks into supervision, climate scenarios and climate scenarios analysis for central banks and supervisors, implications of climate change on monetary policy, climate-related disclosure for central banks and other relevant topics.

International Organisation of Securities Commissions (IOSCO)

In 2018, IOSCO established its Sustainable Finance Network (SFN) to allow members to exchange experiences and gain a better understanding of sustainability issues, including the details of issuer disclosures, their relevance to investor decision-making and the level of uptake and the implementation of industry-led initiatives, and to have structured discussions around these issues. In February 2020, the SFN was replaced by the Sustainability Task Force (STF), who focused initially on three workstreams: sustainability-related disclosures for issuers (IOSCO, 2021[148]), sustainability-related disclosures for asset managers, greenwashing considerations and other investor protection concerns (IOSCO, 2021[149]), and a workstream on ESG ratings and ESG data product providers (IOSCO, 2021[150]). The three respective reports and recommendations were published in June 2021 (IOSCO, 2021[148]) and November 2021 (IOSCO, 2021[149]).

In 2022, IOSCO adopted a workplan aimed at incentivising the regulatory community to step up its efforts in ensuring markets contribute positively to sustainability challenges, in a way that secures the integrity of financial markets and the protection of investors. The workplan includes a review of the International Sustainability Standards Board (ISSB) climate and general sustainability disclosure standards (IFRS, 2023[87]).

Recently, IOSCO issued a Call for Action from voluntary standard setting bodies and industry associations operating in financial markets to promote good practices among their members to counter the risk of greenwashing related to asset managers and ESG rating and data providers (IOSCO, 2022[67]). As part of this Call for Action, IOSCO will engage with voluntary standard setting bodies and industry associations to promote the adoption and implementation of good practices stemming from the IOSCO recommendations amongst their members, and to address greenwashing and related investor protection concerns within the context of their domestic regulatory frameworks (International Organisation of Securities Commissions, 2022[151]).

In 2023, the STF will continue advancing its work through the following workstreams: (i) Corporate Reporting, which covers the work on International Sustainability Standards Board (ISSB) Standards and Assurance; (ii) Promoting Good Practices, which promotes the IOSCO Recommendations for Asset Managers and ESG ratings and data providers, both at supervisors and industry levels, and (iii) Carbon Markets, which is working on compliance and voluntary carbon markets.

International Association of Insurance Supervisors (IAIS)

In 2017, the International Association of Insurance Supervisors (IAIS) has identified climate risk and sustainability as a strategic focus. Climate change is a source of financial risk, having an impact on the resilience of individual insurers as well on financial stability. Insurers are exposed to both transition and physical risks through their underwriting and investment activities. Insurers can also be key agents in identifying, mitigating and managing climate risk and thereby contribute to a sustainable transition to net-zero. Therefore, insurance supervisors have a key role to play in identifying, monitoring, assessing and contributing to the mitigation of the risks from climate change to the insurance sector with the objective of protecting policyholders, contributing to financial stability and promoting the maintenance of a fair, safe and stable insurance market. IAIS's work on climate change spans across many activities, ranging from financial stability risk assessment and capacity building.

IAIS has a strategic partnership with the Sustainable Insurance Forum (SIF).[19] In July 2018, the SIF and the IAIS released a joint Issues Paper on Climate Change Risks to the Insurance Sector. As a follow-up, the SIF and IAIS published a second Issues Paper in February 2020 on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In 2021, the IAIS published jointly with SIF the Application Paper on the Supervision of Climate-related Risks in the Insurance Sector (International Association of Insurance Supervisors and Sustainable Insurance Forum, 2021[152]). The 2021 Application Paper aims to promote a globally consistent approach to addressing

[19] SIF is an UN-convened leadership group of insurance supervisors and regulators working together to strengthen their understanding of and responses to sustainability issues facing the insurance sector. The long-term vision of the SIF is a global insurance system where sustainability factors are effectively integrated into the regulation and supervision of insurance companies.

climate-related risks in the supervision of the insurance sector (International Association of Insurance Supervisors and Sustainable Insurance Forum, 2021[152]).

In 2022, the IAIS performed a gap analysis of existing IAIS supervisory material to assess how climate risk is already captured and to identify possible further work in terms of standard-setting and/or providing further guidance on supervisory practices. In consideration of the gap analysis outcome, the IAIS intends to publicly consult on limited changes to guidance related to various Insurance Core Principles (ICP) and to develop supporting material in several consultations. The first consultation, published in March 2023, includes proposed changes to the ICP Introduction and supporting material on corporate governance, risk management and internal controls. The remaining two parts of the consultation will cover supporting material on market conduct, financial crime, climate scenario considerations, valuation, investments, enterprise risk management (ERM) for solvency purposes, reporting, public disclosure, and macroprudential supervision as well as climate-related additions to the guidance on investments and ERM for solvency purposes.

Annex B. Examples of jurisdictions' approaches to sustainable finance

Many jurisdictions around the world have been developing a holistic approach towards sustainable finance in terms of their efforts to align the financial system and financial flows with environmental, social and broader developmental objectives and priorities. Typically, such approaches are built on, and include broad-based consultations and collaboration between governments, regulatory authorities, consumer association and the industry. This Annex sets out a range of examples of jurisdictions' approaches to sustainable finance.

Colombia

In 2022, the Financial Superintendence of Colombia (SFC) adopted the green finance and climate change strategy called "Towards the greening of the Colombian financial system". This is a roadmap that provides transparency on the actions that the supervisor will carry out during the coming years. Likewise, this strategy aims to facilitate the mobilisation of capital towards sustainable growth objectives and facilitate the transition towards an economy low in carbon emissions. It also seeks to improve the capacity of the financial system to manage socio-environmental and climate risks. The SFC's green finance and climate change strategy is defined across five dimensions and contains both a general action plan, as well as specific actions for credit institutions and the insurance industry. The Colombian supervisor seeks to incorporate climate change issues as strategic imperative across the financial ecosystem.

France

The 2018, the Autorité des marchés financiers (AMF) in France published the Roadmap "Sustainable finance: What is the role for the regulator" and has prioritised further work to understand the issues for consumers. The AMF has established a Climate and Sustainable Finance Commission, composed of experts from corporates and financial institutions, third parties, as well as academics and NGOs to support the AMF to implement the Roadmap. AMF's objectives as a regulator are to preserve consumer confidence in a rapidly growing and innovative market and to take action to limit the risk of greenwashing (Autorité des marchés financiers, 2020[63]).

Greece

Sustainable finance is a strategic priority for the Hellenic Capital Market Commission (HCMC). This has been reflected in both the HCMC's five-year Strategic Plan as well as in its annual Operational Plan. The HCMC has created a special section on its website to provide information (mainly on legislative and regulatory developments) in relation to sustainable finance. This is regularly updated with any developments at national or EU level. The new legal framework (i.e. SFDR, Taxonomy Regulations) is under scrutiny. However, HCMC has organised seminars and a conference to assist the supervised entities with the interpretation of the legislation and the understanding of their obligations. Nevertheless, the HCMC is in the process of assessing the market awareness of supervised entities and assessing whether further guidance in this area is necessary in order to ensure compliance and convergence. The HCMC intends to participate in the 2023 ESMA Common Supervisory Action on sustainability risks and disclosures in the area of investment management. Additionally, HCMC participates in EU sustainable finance capacity building Technical Support Instrument (TSI) Flagship Programme on “ESG Risk Management framework for the financial sector”. Finally, HCMC has organised a number of internal seminars focused on sustainable finance, in order to educate its personnel.

Hong Kong (China)

The Green and Sustainable Finance Cross-Agency Steering Group (CASG), co-chaired by the Hong Kong Monetary Authority and the Securities and Futures Commission and comprising local financial regulators and relevant government bureaux, co-ordinates the management of climate and environmental risks to the financial sector and accelerates the growth of green and sustainable finance in Hong Kong. It released its green and sustainable finance strategy in December 2020, setting out six key focus areas and five action points for strengthening Hong Kong’s financial ecosystem to support a greener and more sustainable future (Hong Kong Monetary Authority, 2020[153]). The CASG is taking forward its work with a focus on capacity building and data, taxonomies, climate-related disclosures and sustainability reporting, as well as carbon market opportunities (Hong Kong Monetary Authority, 2022[92]).

Indonesia

The Indonesian Financial Services Authority, Otoritas Jasa Keuangan (OJK) has built the foundation of sustainable finance through the Sustainable Finance Roadmap Phase I (2015–2019), which focused on enhancing awareness, capacity building as well as laying out the regulatory foundation for financial institutions. Further, OJK has created the Sustainable Finance Roadmap Phase II (2021–2025) to accelerate the implementation of environmental, social, and governance aspects in Indonesia. The Phase II Roadmap focuses on creating a comprehensive sustainable finance ecosystem that involves all relevant parties and promotes co-operation at various levels (Indonesia Financial Services Authority (OJK), 2015-2019[18]; Indonesia Financial Services Authority - OJK, 2021-2025[154]).

The Central Bank of Indonesia, Bank Indonesia (BI) has three strategies to increase Sustainable Finance Instruments (SFI). First, the importance of developing instruments of green finance and investment to foster sustainable and inclusive economic growth, as a new source of growth. Second, the importance of developing an ecosystem of sustainable finance instruments. Third, capacity building programmes and continuous technical assistance are essential to increase the understanding and expertise of all parties (Bank Indonesia, 2022[155]). BI also has key strategies for scaling up green finance and the green economy. First, the importance of formulating policies to create an orderly, just, and affordable transition. Second, the need for commitments from financial institutions to support green financing. Third, the importance of green policy innovation and synergy among authorities to expand green financing from the banking side and to develop green financial markets (Bank Indonesia, 2022[156]).

Ireland

The Central Bank of Ireland has established a Climate Change Unit in order to centrally oversee the integration of climate and sustainability considerations into all of its financial regulation and financial stability activities, in the context of the various EU legislative initiatives. The work of the Climate Change Unit is guided by the Central Bank’s strategy to be future focused, which aims to strengthen the resilience of the financial system to climate-related risks and its ability to support the transition to a low-carbon economy. The Central Bank has also established a Climate Risk and Sustainable Finance Forum which brings together a selection of industry stakeholders and climate scientists with the Central Bank, to build shared capacity and understanding on the implications of climate change and to share best practices. The Climate Forum is establishing working groups (chaired by financial market participants) that aim to develop best practices to assist the financial services industry in addressing climate risk (Central Bank of Ireland, 2022[157]). The Central Bank has also published a Sustainable Investment Charter to provide guidance on how sustainable investment principles will apply to the Bank's own investment practices (Central Bank of Ireland, 2022[158]).

Italy

CONSOB, the Italian Supervisory Authority, is strongly committed to encouraging the development of sustainable finance, while ensuring investor protection. An internal Steering Committee dedicated to sustainability was established in 2019 with the purpose of enhancing the surveillance and regulatory duties carried out by CONSOB and to monitor market developments both in terms of demand and supply of sustainable finance products. Among other things, the Steering Committee promotes staff training activities, organises seminars and workshops involving academics, institutions and the industry, develops an internal newsletter on sustainable finance (including regulatory developments, studies and research published by academics and public institutions) and is in charge of a thematic working paper series on sustainable finance available on the CONSOB website (CONSOB, Commissione Nazionale Per Le Societa' E La Borsa, n.d.[159]). Moreover, CONSOB issues reports dedicated to sustainability issues. As outlined in the Strategic Plan of the Authority for 2022-24, CONSOB's study and research activities will aim to gather empirical evidence to support a data-driven supervision and counteract greenwashing as well as the development of sustainable finance (CONSOB, Commissione Nazionale Per Le Societa' E La Borsa, various years[160]).

The Bank of Italy plays an active role in sustainable finance through the various functions it performs, as an investor, monetary authority, supervisor of financial intermediaries and research institute (Bank of Italy, n.d.[161]). To ensure a consistent approach to sustainability topics across all the Bank's functions, a Climate Change and Sustainability Committee was set up, chaired by a member of the Governing Board. A hub was created to support the Committee in co-ordinating and directing the Bank's activities around all ESG issues. More specifically, the Bank of Italy contributes to defining the action plans for incorporating climate change considerations into the Euro system's framework for implementing monetary policy. The Bank is also committed to ensuring that the banking and financial system is well-prepared to face the challenges posed by the transition towards a sustainable economy. Moreover, since 2019 the Bank has been integrating sustainability criteria and, in particular, the climate-related ones into its investment policy. In addition, it participates in several international fora. Under Italy's G20 Presidency, the Bank of Italy promoted, together with the Ministry of Economy and Finance, the creation of the Sustainable Finance Working Group, with the objective of incentivising best practices in sustainable finance and fostering the transition towards greener, more resilient and inclusive economies and societies (Bank of Italy, 2022[162]).

Jordan

In Jordan, the Central Bank of Jordan (CBJ) is finalising the Financial Inclusion Strategy (2023-27) under the vision of "Responsible and sustainable access and usage of financial products and services for all segments of the society", which is expected to "contribute to achieving economic and social sustainability in the Kingdom." Furthermore, a national green finance strategy is under formulation. The CBJ joined the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) in 2021.

Luxembourg

The CSSF took different initiatives in the field of sustainable finance to prepare itself and the financial sector for the impact of new European rules by encouraging the integration, in general, of ESG factors in the supervisory strategies and internal processes. To this extent and to co-ordinate the numerous active implications of the CSSF in national, European and international working groups and to engage in communication, exchange and collaboration, the CSSF has set up an Internal Group on Sustainable Finance which is composed of experts in sustainable finance matters of CSSF's different departments and has a proactive approach to this topic. The Internal Group on Sustainable Finance drafted, in 2021, an implementation plan for the SFDR requirements for the CSSF's different concerned departments. Supervision with respect to SFDR for financial products (portfolio management and investment advice services) is part of the supervision carried out by the CSSF. The CSSF is currently working on its supervision priorities in the area of sustainable finance for 2023, which aim at fostering a cohesive implementation of the sustainable finance framework across the financial sector and ensuring the integration of ESG requirements in the CSSF's supervisory practice.

New Zealand

In 2022, the New Zealand Government set its first emissions budgets as interim targets towards the 2050 target and published its first Emissions Reduction Plan (ERP) and National Adaptation Plan (NAP) as required by the Zero Carbon Act. Each plan has several action items. ERP Action 6.3 relates to the Green Investment Fund (NZGIF), established in 2019 by the New Zealand Government, which is a green investment bank with the purpose of accelerating investment to enable New Zealand's low carbon future. To date, NZGIF has invested in various businesses by providing debt facilities, equity, standby letter of credits, green credit facilities and hybrid investment (New Zealand Green Investment Finance, 2022[163]). ERP Action 6.2 relates to the recent launch of the Sovereign Green Bonds (Te Tai Ōhanga – The Treasury, 2022[164]).

The Aotearoa Circle (AC) is a voluntary initiative bringing together leaders from the public and private sectors to investigate the state of the natural resources, and to commit to priority actions that will halt and reverse their decline. The AC is committed to reversing the decline of New Zealand's natural capital. The 2030 roadmap for action, was published in November 2020 (The Aotearoa Circle, 2022[165]).

Portugal

The Banco de Portugal (Central Bank of Portugal) has been increasingly active in sustainability and sustainable finance topics over the past five years. It joined the Network for Greening the Financial System in December 2018, developed a specific approach and work programme, adopted supervisory measures, produced research and analysis and expanded its participation in national and international bodies. The Banco de Portugal refined its governance model, internal organisation and processes to better respond to new demands in this regard. While the approach is predominantly bottom-up, with the responsibility for the different initiatives resting with individual departments, an internal structure, chaired by a Board Member, co-ordinates the ESG-related agenda. This is the Subcommittee for Sustainability and Sustainable Financing, created within the Specialised Committee for Financial Supervision and Stability. In its Strategic Plan 2021-25, the Banco de Portugal has embedded ESG related concerns within the Plan's five strategic guidelines: financial system robustness; protection of the banking market; recovery and resilience of the economy; confidence and influence on society and governance and internal management. The Banco de Portugal follows three axes of action to implement the plan's ESG initiatives: (1) integrate climate risks into its mission; (2) strengthen ESG concerns in internal management; and (3) promote ESG awareness among employees and external stakeholders.

Singapore

The Monetary Authority of Singapore (MAS) introduced a Green Finance Action Plan (GFAP) in 2019 that sets out MAS's sustainable finance strategy across five key pillars – (i) strengthen the financial sector's resilience to environmental risks; (ii) enhance comparability and reliability of sustainability related disclosures; (iii) develop green and transition finance solutions and markets for a sustainable economy; (iv) harness technology to enable trusted and efficient sustainable finance flows; and (v) building knowledge and capabilities in sustainable finance. MAS has been taking progressive steps to implement the GFAP to build resilience against climate and environmental risks, support a sustainable Singapore and facilitate Asia's transition to a sustainable future.

South Africa

In October 2021, South Africa's National Treasury announced the publication of the Updated Technical Paper on Financing a Sustainable Economy. The paper encourages voluntary sustainable finance initiatives and further stakeholder engagement to strengthen sustainable finance in South Africa. Working Groups have been established to support implementation of the following key recommendations:

- Develop a Green Finance Taxonomy and governance framework, published by the National Treasury in 2022
- Co-develop technical guidance, standards and norms for all financial institutions including on ESG risk management, the use of science-based methodologies/target setting, and disclosures as per the Task Force on Climate-related Financial Disclosures. "Principles and Guidance for Minimum Disclosure of Climate Related Risks and Opportunities" was published in December 2021
- Develop a benchmark climate risk scenario for use in stress tests by the sector.
- Build sector capacity and competency for good climate risk governance, management and disclosure across the financial sector and the implementing arms of government (National Treasury Republic of South Africa, 2021[166]).

Furthermore, a Sustainable Finance Handbook has been published, bringing together a diverse range of issues connected to sustainable finance, the current state of these matters, and applicability to South Africa. It aims to support the South African financial sector, including financial institutions and other stakeholders, to more effectively tackle pressing sustainability challenges (Carbon Trust, 2021[167]).

The Financial Sector Conduct Authority (FSCA) published in March 2023 its Statement on Sustainable Finance, which identifies the areas of focus for the regulator in the period ahead (FSCA, 2023[168]).

United Kingdom

The UK published its first Green Finance Strategy in July 2019, a comprehensive approach to greening financial systems, mobilising finance for clean and resilient growth, and is due to publish an updated iteration in 2023 (Department for Business and HM Treasury, 2019[169]). In 2019, the FCA established the Climate Financial Risk Forum (CFRF) with the UK Prudential Regulation Authority. The Forum brings together senior financial sector representatives to share their experiences in managing climate-related risks and opportunities and helps build capabilities and capacity across the industry (Financial Conduct Authority, 2021[170]).

The UK's FCA published its Sustainable Finance Strategy in 2021 (Financial Conduct Authority, 2021[171]), based on five key themes:

- Transparency – the UK was the first G20 country to make TCFD disclosures mandatory.
- Trust – in 2022/23, the FCA consulted on proposals for SDR and investment labels, initially applying to asset managers in respect of their UK fund products and portfolio management – but with the intention to expand over time; meanwhile, the FCA also set out a clear rationale for regulatory oversight of certain ESG data and ratings providers in FS22/4, and is convening, supporting, and encouraging industry participants to develop and follow a voluntary Code of Conduct with ICMA and the IRSG acting as Secretariat.
- Tools – In 2019, the FCA established the Climate Financial Risk Forum (CFRF) with the Prudential Regulation Authority (PRA), helping industry manage climate-related risks and build capabilities and capacity through a range of workstreams and publications (Financial Conduct Authority, 2019[172]).

- Transition – The UK will move towards making it mandatory for institutions across the financial sector to publish robust firm-level transition plans that set out how they will decarbonise as the UK meets its net zero targets. Meanwhile, the FCA co-chairs the UK Transition Plan Taskforce’s workstream on user and prepares guidance to develop the “gold standard” for private sector transition plans in the UK.
- Team – embedding ESG considerations across all functions of the FCA, including by setting ESG-related expectations at the authorisations gateway; incorporating ESG-related questions and criteria in supervisory assessments and engagements; building ESG-related elements into enforcement models.

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