INVESTMENT PROVIDERS SUSTAINABLE FINANCE SURVEY REPORT

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FSCA

FSCA
Financial Sector Conduct Authority

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1. Introduction

The Financial Sector Conduct Authority (FSCA) is the market conduct regulator of financial institutions in South Africa. Our vision is to foster a fair, efficient and resilient financial system that supports inclusive and sustainable economic growth in the country.

Seeing that the financial services industry is undergoing a paradigm shift towards sustainable finance and environmental, social and governance (ESG)[1] investments, the FSCA and other regulators are increasingly monitoring developments in this regard.

For this reason, the FSCA Investment Providers (IP) Department conducted a survey to assess whether investment providers are adequately prepared to integrate sustainable finance and ESG investing considerations into their investment strategies.

This report, the Investment Providers Sustainable Finance Survey Report, summarises the findings of the survey. The report is structured according to the focus elements of the survey, namely:

- Governance
- Operations and products
- Risk and disclosure.

The report provides insights into the current state of the industry and identifies focus areas for the FSCA to promote more sustainable and responsible investment (RI) practices in alignment with our Sustainable Finance Roadmap and Consumer Risk report which was published in March 2024 and provides an update on the FSCA's Programme of Work concerning Sustainable Finance.

[1] ESG and sustainable finance will be used interchangeably throughout the document.

2. Survey method and participation

The FSCA Investment Providers Sustainable Finance Survey (the survey) was conducted using Microsoft Teams Forms and was open to participants from 22 August to 3 November 2023. The initial closing date was 13 October 2023; however, an extension of three weeks was granted due to a low response rate. The survey questions contained closed (yes/no) and open-ended questions to gain investment providers' insights on ESG approaches and views.

The survey was sent to the investment providers, including the following participants:

- Financial Service Providers (category II, category IIA and category III FSPs) approved in terms of the Financial Advisory and Intermediary Services Act 37 of 2002 (the FAIS Act).
- Managers authorised in terms of Collective Investment Schemes Control Act of 2007 (CISCA) to administer a collective investment scheme, excluding Participation Bonds and Property Schemes.

The survey was sent to 1 046 participants via bulk email using the FSCA internal Magic system with a link directing participants to MS Forms. However, only 119 responses were received (11% of the total population). Certain organisations provided group responses, and thus the response rate may be greater than 119.

3. International best practice

Due to the increasing impact of climate change and the growing awareness of corporate responsibility in this regard, leaders throughout the world have started adopting ESG considerations into investment frameworks.

The FSCA's approach to identifying the most effective way forward to address ESG considerations includes reviewing research on international best practice in sustainable finance. International best practice encompasses various principles and frameworks aimed at integrating ESG factors into financial decision-making. Key international best practices include the following:

- **The Principles for Responsible Investment** (PRI) developed by the United Nations-supported PRI Initiative. PRI provides a framework for incorporating ESG factors into investment practices. Signatories commit to incorporating ESG considerations into investment analysis and decision-making processes, promoting transparency, and engaging with organisations to improve their ESG performance.

- **The Task Force on Climate-related Financial Disclosures** (TCFD) provides recommendations for disclosing climate-related financial risks and opportunities in corporate filings. It helps investors, lenders, and insurers assess and price climate-related risks accurately, leading to better-informed investment decisions.

- **The Equator Principles (EPs)** serve as a risk management framework for determining, assessing, and managing environmental and social risks in project finance transactions. Financial institutions that adopt the Equator Principles commit to implementing due diligence processes and fostering sustainable development in project finance.

- **The Green Bonds Principles** (GBP) provide voluntary guidelines that promote transparency, integrity, and credibility in the issuance of green bonds. They provide recommendations on, among others, project selection, allocation of proceeds, reporting, and verification.

- **The 17 UN Sustainable Development Goals** (SDGs) provide a global framework for addressing social, economic, and environmental challenges. Financial institutions and investors can align their activities with the SDGs to contribute to sustainable development and track progress towards achieving the goals.

- **The Global Reporting Initiative** (GRI) provides standards and guidelines for sustainability reporting, enabling organisations to disclose their environmental, social, and governance performance transparently. It helps investors and stakeholders assess organisations' sustainability efforts and make informed decisions.

- **The Carbon Disclosure Project** (CDP) entails a global disclosure platform that enables organisations, cities, states, and regions to measure and manage their environmental impacts. It provides investors with standardised environmental data that allows them to assess climate-related risks and opportunities in their portfolios.

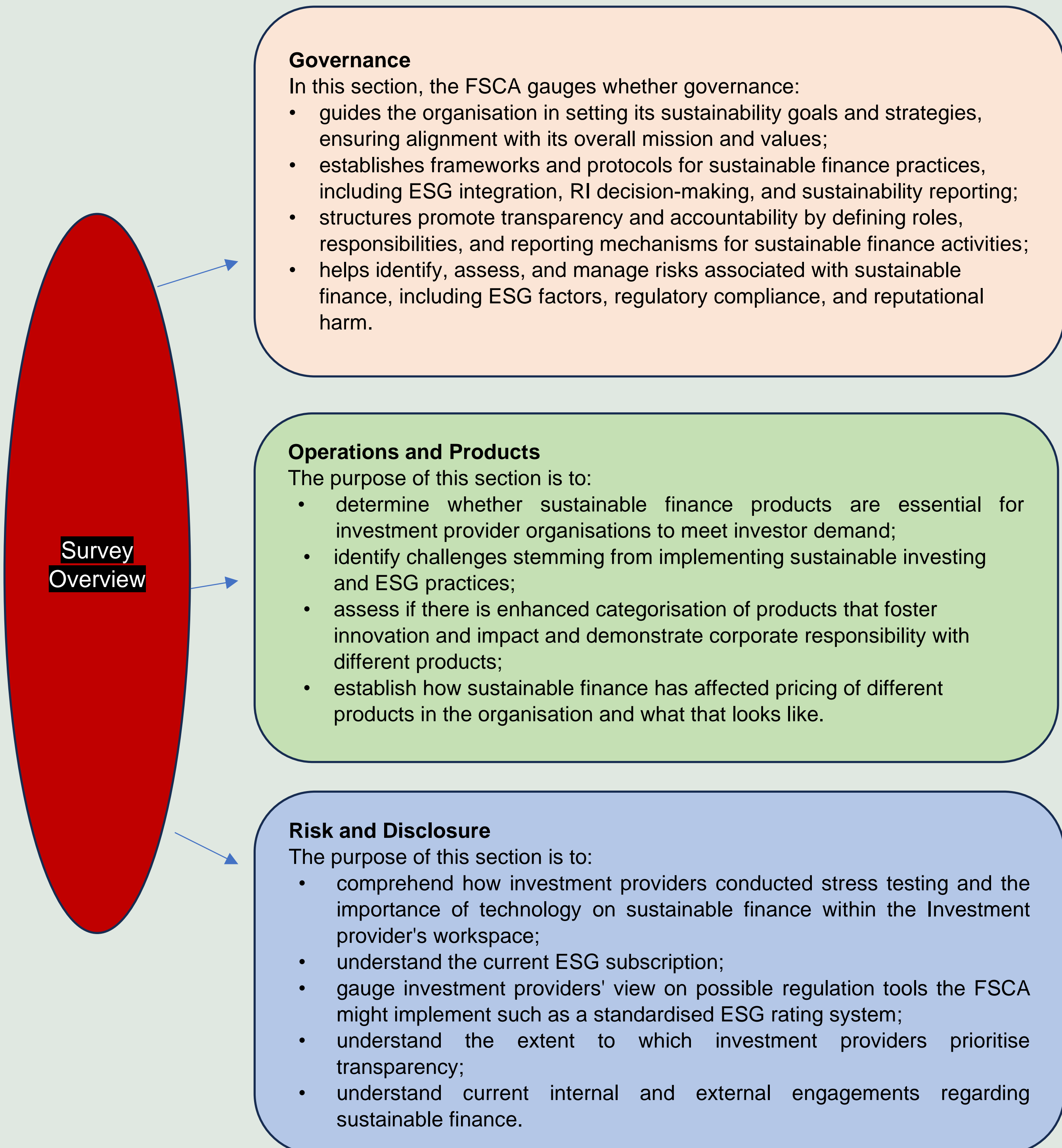
- **The International Integrated Reporting Framework** (IIRF) integrates financial and non-financial information into a single comprehensive report providing a holistic view of a company's performance. It helps investors understand how organisations create value over the short, medium, and long term.

These international best practices serve as guiding principles for financial institutions, investors, and organisations seeking to incorporate sustainability into their operations and investment decisions, contributing to long-term value creation and sustainable development.

4. Summary of survey findings

The survey responses and findings are presented under three main themes, namely (1) governance, (2) operations and products, and (3) risk and disclosure as depicted in Figure 1.

Figure 1: Overview of survey themes



4.1. Governance

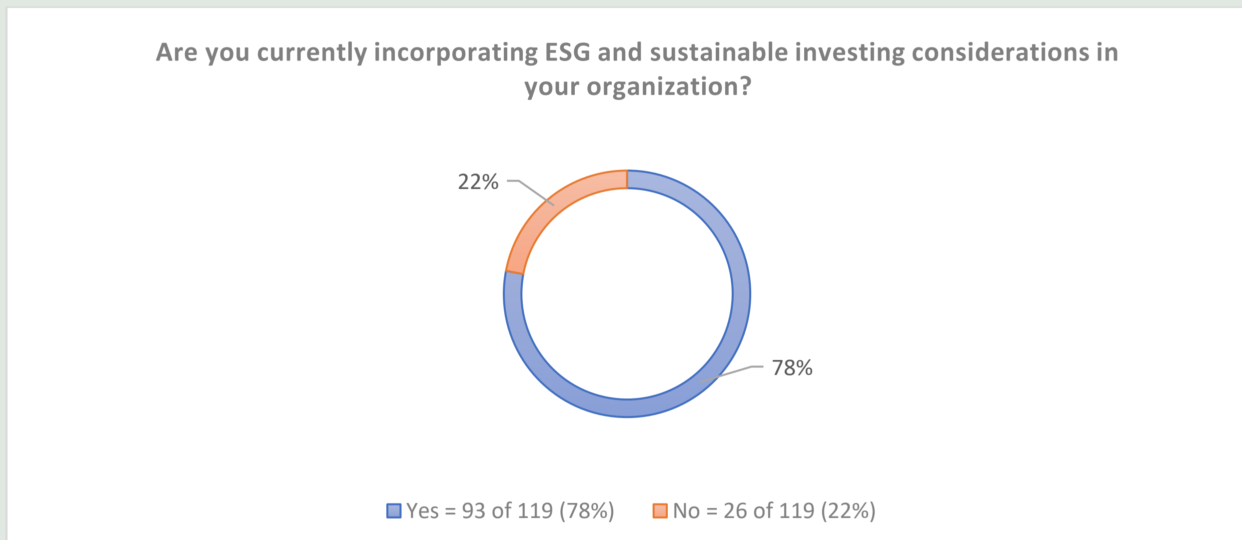
Governance focuses on evaluating and integrating strong governance principles and practices into financial decision-making processes. It highlights the importance of strong corporate governance, ethical behaviour, risk management, compliance with regulations transparency and a commitment to long-term sustainability. We are of the view that, for sustainable finance to be implemented successfully, it should be included as policy and driven by the board of directors. However, there are no regulatory obligations for sustainable investments with regards to IPs.

The FSCA was interested in finding out whether there is governance involvement in sustainable finance related activities within the investment provider industry and if not, why not. To this extent the survey looked at ESG incorporation within organisations.

4.1.1. Entities incorporating ESG and sustainable investing

The survey asked respondents to elaborate on their efforts to actively integrate ESG and sustainable investment considerations into business operations. As Figure 2 shows, 78% of the respondents said they incorporate ESG and sustainable investing considerations in their organisations.

Figure 2: Percentage of organisations incorporating ESG factors



The FSCA enquired on current efforts made by investment providers to actively integrate ESG and sustainable investment considerations into business operations which reflect a commitment

to responsible and ethical practices. It was found that ESG and sustainable investment considerations currently implemented by respondents include the following:

- ESG integration, employing engagement and active ownership for long-term value creation aligned with sustainable development goals,
- in RI, external asset managers are selected based on alignment with the organisation's policies, ensuring ESG integration and oversight by key committees,
- financial commitments to sustainable finance, particularly in green initiatives and renewable energy, highlight dedication to sectors like healthcare, retail, and manufacturing,
- an evolving RI framework that focuses on ESG considerations and integration, active ownership and investing for positive impact,
- company annual reports analysis, to identify measures taken for offsetting carbon footprint when considering organisations to invest into and how they are responding to climate change, as well as commitments towards social upliftment schemes, and
- investment policies which cover the overall approach to RI, guidelines on ESG factors, and guidelines on exclusions of sectors for investment.

Overall, most respondents emphasised ESG integration across their investment processes to make informed decisions for sustainable value creation.

As demonstrated in Figure 2, a small percentage (22%) of the respondents do not incorporate ESG and sustainable investing considerations in their organisation. They provided the following reasons for not incorporating ESG and sustainable investing considerations:

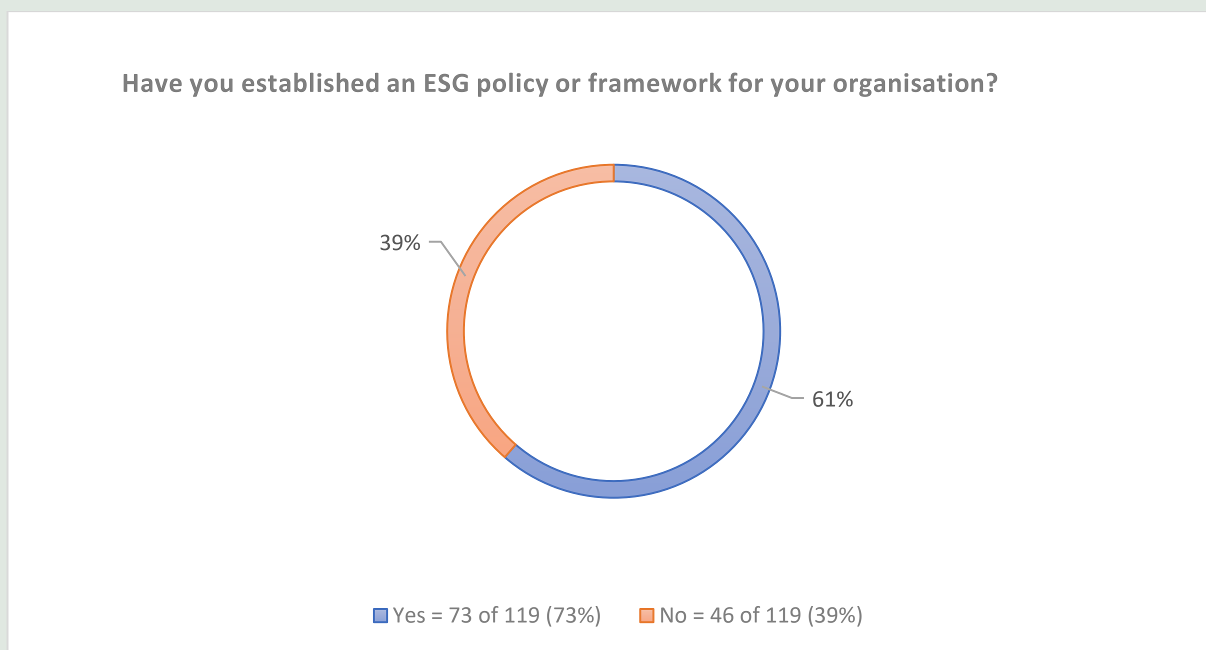
- ESG is an additional cost burden.
- ESG is not relevant to their line of business, and of no interest to them now or in future.
- They wish to support the initiative by including ESG in their investment process and are taking baby steps to implement it.
- ESG can conflict with investment objectives or is not feasible within the organisation’s current investment mandate – when underlying securities are ESG agnostic.
- They consider the framework to be under-researched and that proper definitions, measurements, deeper discussions, and identification of unintended consequences of ESG are needed.
- ESG considerations are not viable because the size of the business is small; however, larger entities incorporate ESG as part of their mandate.

4.1.2. Organisations that have an ESG policy or framework

A total 73 respondents out of 119 (61%) said that they have an ESG policy or framework in place. Conversely, 46 respondents out of 119 (39%) said that they have not yet established an ESG policy or framework within their organisational structures, as depicted in Figure 3.

These findings reflect varying degrees of commitment and readiness of organisations towards embracing ESG principles and sustainable investing practices. The findings underscore the need for further exploration and support in this critical domain of corporate responsibility.

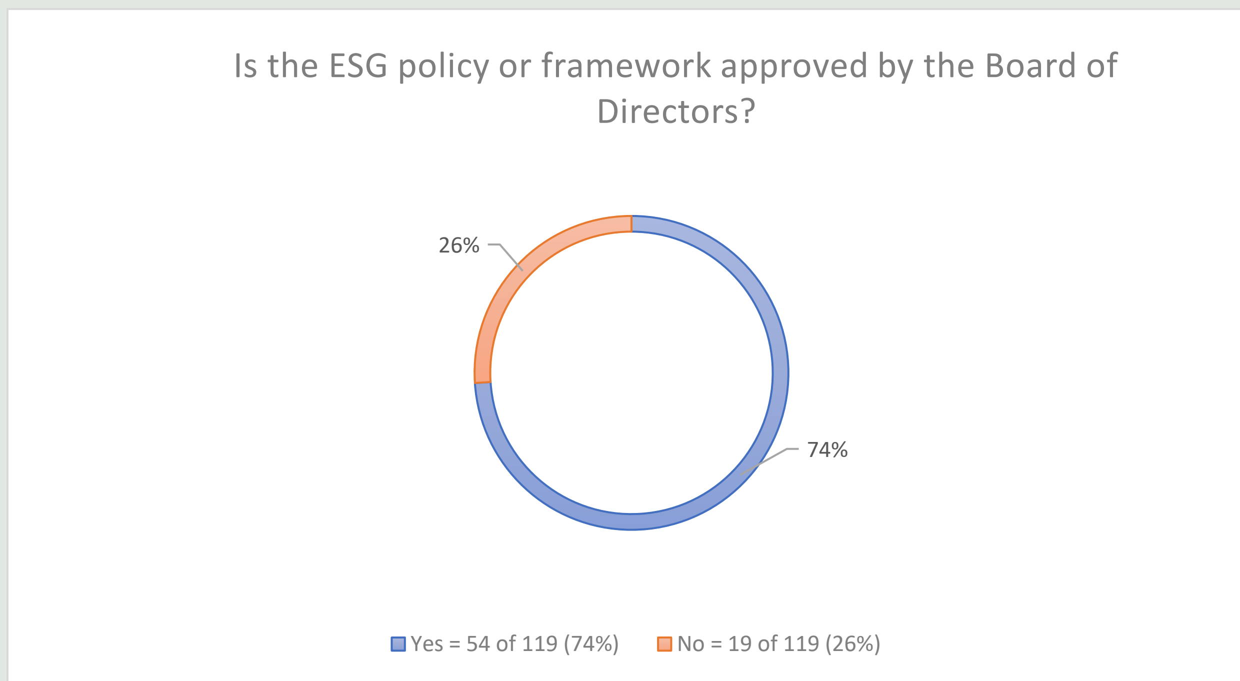
Figure 3: Organisations with an ESG policy or framework



Out of the 73 respondents who established an ESG policy or framework, 54 stated that they obtained approval from their respective boards of directors, whilst 19 respondents said that their ESG policies or frameworks had not been approved by their board.

Notably, among the respondents with board-approved ESG policies or frameworks, the approval process extends to board subcommittees or is managed by a sustainable and responsible investing committee. This finding highlights the existence of diverse approaches to governance and oversight in integrating ESG considerations within organisational frameworks. As Figure 4 shows, 54 respondents (74% of total) said ESG policy or framework is approved by the board of directors while 19 respondents (26% of total) said it is not.

Figure 4: Number of ESG policies or frameworks approved by board of directors



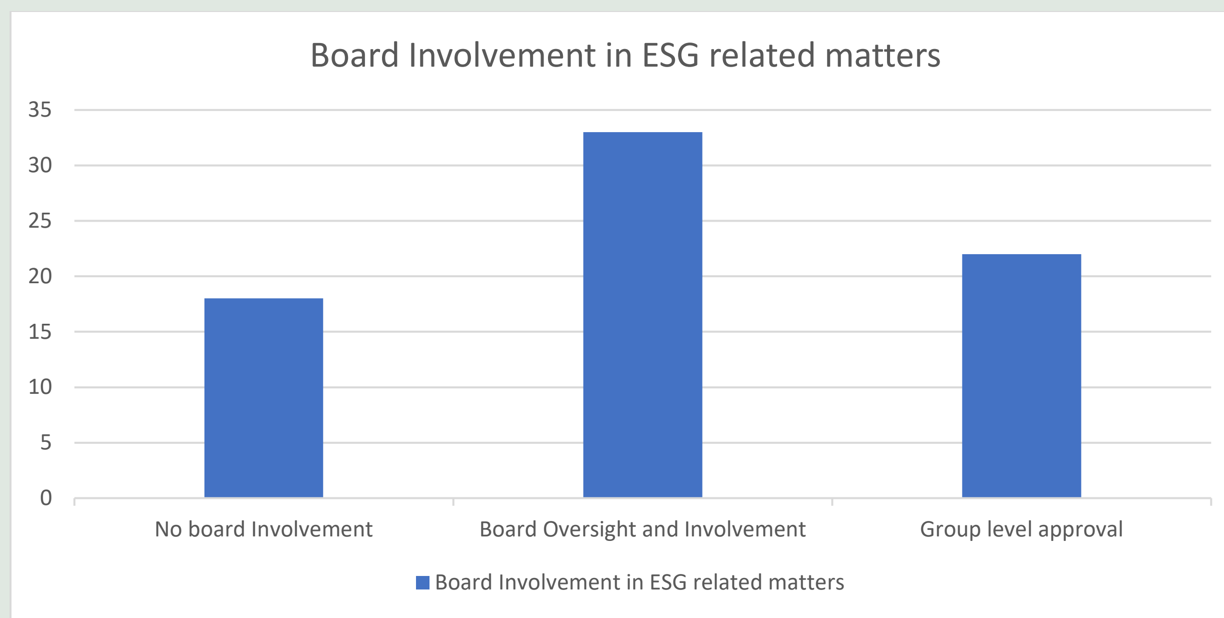
4.1.3. Board involvement in ESG related matters

Several respondents stated that their boards of directors play a crucial role in setting ESG strategies, approving policies, ensuring compliance, and providing implementation oversight. ESG-related matters are managed by different committees such as sustainability committees and social, ethics, and transformation committees, which support boards in these efforts.

Some respondents said that their respective boards assess organisational governance, as well as monitor the performance of portfolio investments. The board is responsible for oversight in driving sustainability, managing risks, and creating long-term value for their organisations while considering ESG factors.

As Figure 5 shows, 33 out of 119 respondents said that their boards of directors are involved in the oversight of ESG related matters, whilst 18 stated that their boards are not involved in ESG-related matters. The boards that provide guidance and monitor progress on set ESG priorities, also hold their management and investment teams accountable for performance towards achieving set goals. Such boards also interrogate investment processes and their alignment with best international practices. ESG and sustainability is a permanent item on the agenda of board engagements.

Figure 5: Board involvement in ESG



The survey found that boards of larger entities have developed and formally adopted ESG policies or frameworks and oversee their implementation. Most small-to-medium sized respondents indicated that their chief investment officers are members of their boards and have oversight of the investment process including ESG-related matters. Some respondents noted that they make use of third-party service providers to purchase ESG research to support their investment mandates.

4.1.4. Alignment of ESG framework or policy with organisational strategic goals

The survey further investigated how ESG frameworks and policies link with the strategic objectives of organisations. A substantial number of respondents with approved ESG frameworks did not elaborate on how their ESG frameworks or policies link with the strategic objectives of the organisation. Given this lack of detail in responses, it is not possible to fully gauge whether ESG frameworks are being implemented and integrated successfully.

Some respondents stated that they are yet to source ways to incorporate ESG and sustainable finance into their investment universe. Other respondents noted that they do not offer ESG products, and it is therefore not a priority to link ESG to their strategic business objectives. Thus, ESG is not directly linked to the strategic objectives because the best practice is to ensure long-term investment returns on services and products to clients.

Respondents that have approved ESG frameworks in place were requested to elaborate on how their ESG frameworks link with their strategic objectives. The following are the most notable responses:

- Their investment decision-making and processes ensure that they consider the society within which they operate, whilst generating financial returns in a way that promotes and aligns to long-term sustainability.
- They consider their investment approach through the selection process of identifying organisations that sustainably generate returns above their cost of capital and generation of sustainable returns.
- Long-term sustainable investing provides outcomes suitable to clients.
- It is important to ensure that ESG and those outcomes are not mutually exclusive so they can resist short-term thinking and implementation in favour of longer-term strategic direction.

4.1.5. Tracking performance and accountability measures

The survey assessed organisations' governance and oversight structures in relation to ESG initiatives by enquiring whether they implement measures such as key performance indicators (KPIs), targets and reporting frameworks to track ESG performance and hold management responsible for achieving sustainability goals.

It was found that some entities do not link ESG performance to compensation. Asset managers are responsible for all ESG related matters within the business and are remunerated based on holistic compensation. Some SMEs include ESG as part of their investment team's performance appraisal. Thus, ESG integration in the investment process is part of the deliverables of the investment team. It also forms part of the scorecard for the CEO's remuneration.

Organisations that belong to a group pointed out that within their organisational structure, their group executive committee assumes responsibility for crafting and executing strategies, policies, and risk management plans. Within these structures, the ESG executive committee operates as a subcommittee of the group executive committee, dedicated to overseeing ESG initiatives. Notably, the ESG Executive Committee ensures comprehensive reporting to the social and ethics committee, encompassing all pertinent aspects of ESG.

This oversight extends to climate-related transformation initiatives, encompassing corporate targets, employee incentives, research and development, and budgetary considerations. Investment holding and portfolio management reports are generated and provided to the senior management team and the board to ensure that a current overview of investments is available for scrutiny and compliance with ESG. There is a recognition of the role of businesses in promoting social good and addressing environmental challenges related to sustainability, ethical practices, and community upliftment.

The survey found a growing awareness of the interconnectedness between ESG factors and business success, with organisations increasingly viewing responsible investing as not only a moral imperative but also a strategic necessity. Table 1 elaborates on entities that have mechanisms in place to hold management accountable on ESG-related matters and performance.

Table 1: Entities that have mechanisms to hold management accountable for ESG performance

Yes (17%)	No (44%)	Other (39%)
• Various organisations have integrated ESG considerations into their value creation and investment processes, with regular reporting occurring quarterly and annually. • ESG integration is also part of the deliverables for investment teams, influencing CEO remuneration and management's key performance indicators. • Management's decisions align with the organisation's ethos, and contractual agreements on ESG value creation plans are established with shareholders.	• Many organisations do not have formal ESG policies or mechanisms in place now. • Some are exploring ESG integration but have not implemented it yet. • Others have concerns about the historical performance of ESG-focused funds or the lack of formal accountability mechanisms. • Some emphasise engagement with organisations on ESG issues, including proxy voting, shareholder resolutions, and direct dialogue.	• Various organisations are implementing formal ESG policies and mechanisms. • Many individuals prioritise ESG factors in investments. • Management is assessed based on long-term returns influenced by high ESG scoring asset managers. • ESG factors are integrated into performance and stock selection, with annual audits. • Reports ensure ESG compliance. • Accountability for ESG varies; some link it to compensation or reviews. • Quarterly reports address material ESG issues.

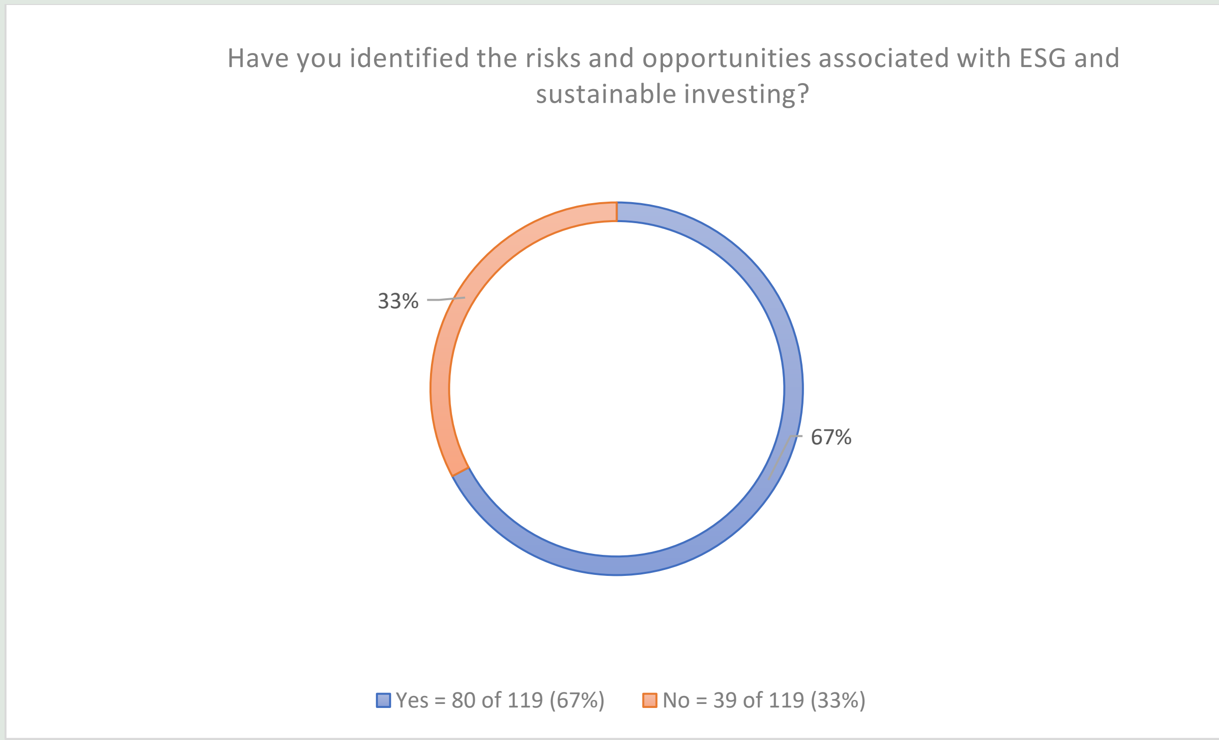
• Sustainability metrics are embedded in scorecards at both group and individual levels, influencing remuneration and performance evaluations. • Governance and oversight mechanisms, such as committees, ensure ESG-related matters are addressed, and evaluation of portfolio alignment with • Additionally, accountability mechanisms tie ESG strategy to key performance indicators and facilitate reporting on ESG performance to stakeholders.	• There is a recognition of the importance of ESG in investment decisions, with considerations such as risk management, long-term value creation, and societal impact. • Accountability for ESG integration varies, with some tying it to performance reviews or compensation and others relying on broader performance measures. • Transparency and communication about ESG processes and efforts are considered essential, even if formal policies are not yet established.	• Some define ESG-related KPIs at executive levels. Engagement policies, proxy voting, and tools ensure ESG compliance. • Active shareholder engagement is emphasised. • ESG policies are being drafted or implemented, with ongoing efforts. • Management accountability for ESG often falls to the board or specific committees.

4.1.6. Identification of risks and opportunities associated with ESG

As seen in Figure 6, the majority (67%) of respondents consider ESG factors with the aim to mitigate investment portfolio risks, rather than solely addressing current client needs. These respondents identified risks and opportunities associated with ESG and sustainable investing whilst 33% of the respondents indicated that they have not done so.

Respondents who affirmed their commitment to advancing opportunities and mitigating risks stated that they implement robust measures. These measures encompass establishing effective governance structures, policies, and plans dedicated to comprehensive risk and opportunity management. Furthermore, a notable approach adopted by some respondents involves leveraging Morningstar ESG ratings on asset managers. This strategic utilisation is integrated into the selection process of asset managers, reflecting an overarching objective of delivering superior long-term returns to clients.

Figure 6: Percentage of identified risks and opportunities associated with ESG



Respondents pointed out that neglecting to evaluate an entity's governance practice can lead to significant performance setbacks resulting from mismanagement.

The assessment of ESG risks within the industry, sector, or region of the portfolio company is conducted during the initial investment phase. Throughout the investment lifecycle, said respondents consider ESG factors, engaging with companies and participating in proxy voting, aligned with responsible investment principles. They offer funds focused on positive impact and monitor ESG risks, aligning with global initiatives and with an implemented ESG roadmap and integration into risk management, they aim to advance sustainability goals while delivering returns.

Investment managers then endeavor to address and mitigate these risks through due diligence and onboarding processes, which may involve contractual negotiations or the implementation of relevant company policies. Acknowledging challenges in quantifying ESG impact, they prioritise comprehensive reporting and client education on sustainable investing.

4.2. Operations and products

During the Sustainability Reporting Roundtable held in Pretoria between 27 and 28 September 2023, the Department of Trade, Industry and Competition mentioned having observed a growing demand from investors (including institutional investors, asset managers and retail investors) for sustainable finance products. It has become evident that offering a range of sustainable finance products allows investment providers to cater to this increasing demand and attract a broader investor base. Sustainable finance products integrate ESG factors into the investment decision-making process, enabling investment providers to better assess and manage risks associated with environmental and social issues.

By considering ESG criteria, investment providers can identify potential risks, such as climate change impacts, supply chain disruptions, and reputational risks, and mitigate them effectively, thereby enhancing the resilience of their investment portfolios.

Sustainable finance products support the transition to a more sustainable and equitable economy by channelling capital towards environmentally friendly and socially responsible projects and initiatives. By investing in renewable energy, green infrastructure, sustainable agriculture, and other impactful sectors, investment providers can contribute to positive environmental and social outcomes while generating financial returns for investors.

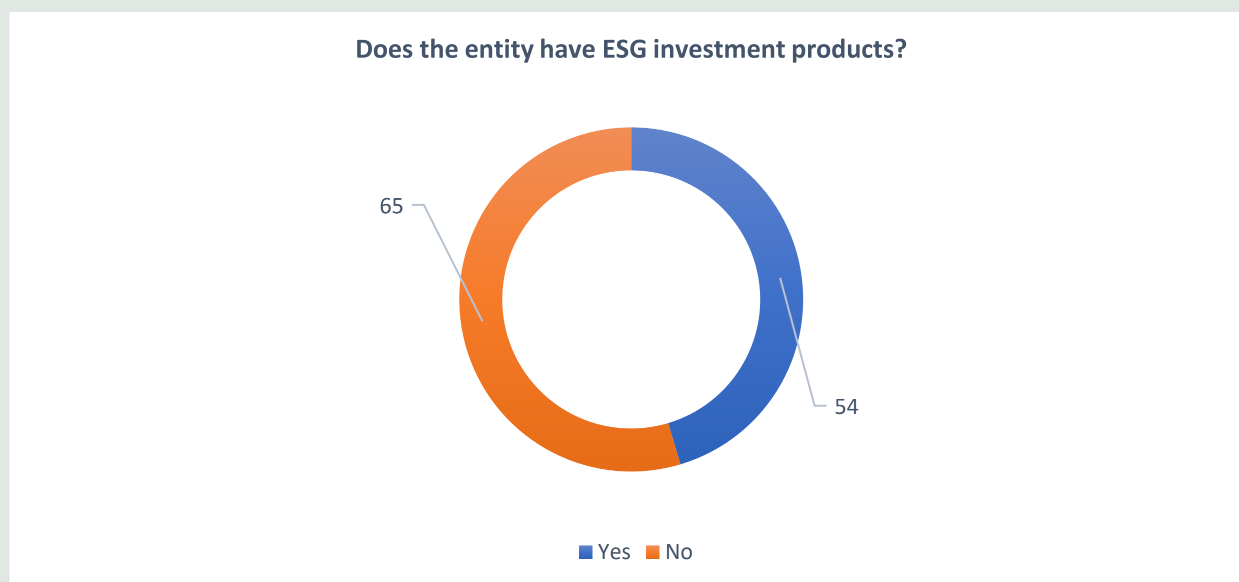
4.2.1. ESG investment products

As depicted in Figure 7, the majority of respondents (55%) do not offer ESG investment products, but yet do have ESG principles embedded in their investment and organisational strategies. The remaining 45% of respondents offer ESG products. Only 30 of the 54 respondents that offer ESG investment products provided the names of the ESG products that they offer.

Some entities responded that products are categorised as sustainable funds targeting specific green economy outcomes. An insignificant number of respondents stated that they use third-party products that have ESG ratings[2].

[2]An ESG rating is a comprehensive score made to measure an organisation's commitment to environmental, social, and governance investing standards

Figure 7: Availability of ESG investment products



4.2.2. Features of ESG investment products

Survey participants were asked whether they offer investors the choice of investing in products with ESG investment structures, or in products without such descriptions and at what stage is the difference in choice explained to investors.

Fifty-two out of the 119 respondents (46%) stated that they only offer ESG products at the request of investors, in accordance with their investment philosophy. A respondent pointed out that there is currently no requirement in the FAIS Act to provide ESG product choices; the requirement is to provide suitable advice to clients, which is duly done.

A total of 48 respondents (42%) indicated that ESG investments are not applicable to them and 13 (12%) did not provide a response in this regard.

Furthermore, respondents stated that they use newsletters to inform investors about products with ESG features, or if future products will have ESG features. In addition, the ESG features are defined in the products' respective marketing materials. This information is valuable for assessing the extent to which investors are informed about their investment choices and the role of ESG considerations in their decision-making process. The FSCA believes that knowing when and how the difference in choice is explained, can provide insights into best practice for promoting ESG awareness and engagement among investors.

4.2.3. Pricing of ESG investment products

The survey requested participants to provide information on how products with ESG features are priced and explain how this pricing differs from the pricing of traditional investment products.

Of the 119 respondents, 89 respondents (75%) indicated that their entity's pricing models are applied across all offered investment products and do not specifically differentiate between traditional products and products with ESG features. The remainder of the respondents do not offer ESG products.

By exploring the pricing dynamics of ESG products compared to traditional offerings, stakeholders[3] can gain insights into how entities are positioning and pricing their ESG offerings, and how they are responding to evolving client preferences and market trends. Additionally, understanding the pricing strategies for ESG products can provide valuable insights into the broader adoption and integration of sustainability principles within the financial industry.

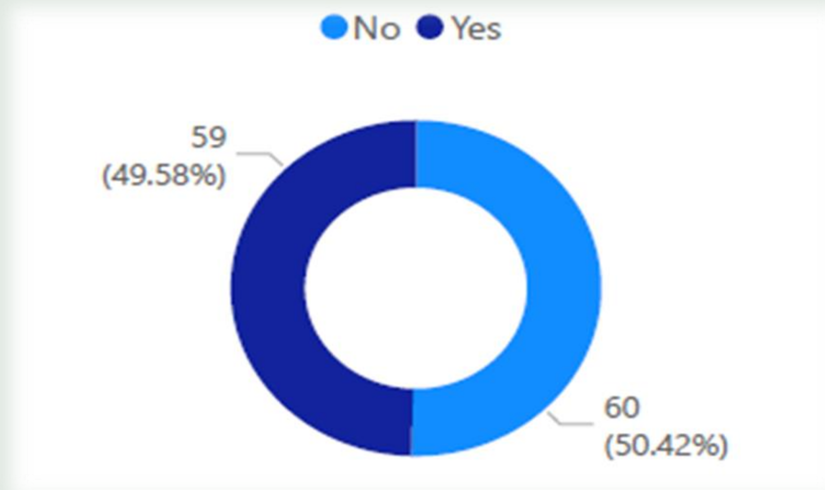
4.2.4. Inclusion of ESG in investment philosophy

Respondents were asked whether they include any ESG or sustainability-related investments in their strategies or investment philosophies. As Figure 8 shows, 60 respondents (50.42% of total) indicated that they do not include any ESG or sustainability-related investments in their strategies or philosophies.

The remaining 59 respondents (49.58%) said that they include ESG investments in their respective investment strategies and emphasised that there is a process in place that assigns a risk rating to the entities in which they invest. The risk rating is an equally weighted score that considers ESG, financial and assumption risks. Then the ESG score is used to identify areas of weaknesses and to engage the organisations on the issues identified.

[3] Stakeholders in this context – investors, investment managers, regulators and participants in the investment management landscape.

Figure 8: ESG inclusion in investement strategies/philosophies



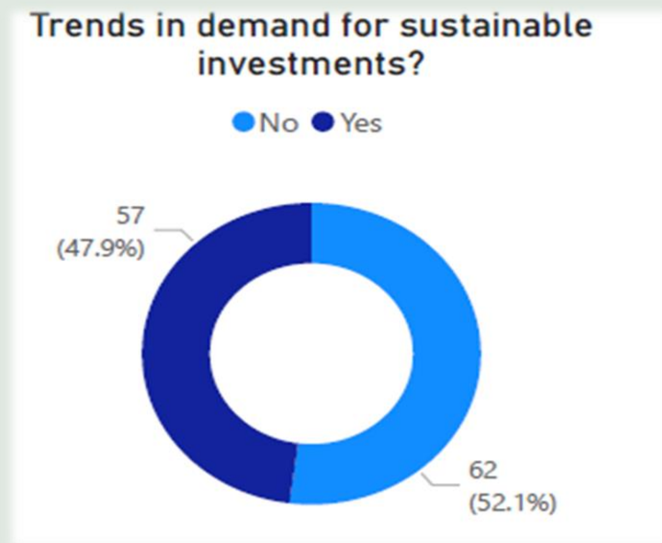
Furthermore, to evaluate the integration of ESG considerations into operational practices, particularly regarding deal documentation and stakeholder engagement for product development, respondents were asked whether they incorporate ESG clauses into contractual agreements and collaborate with clients on ESG-related issues. The responses to this question shed light on their dedication to sustainable practices and alignment with ESG principles.

4.2.5. Demand for ESG products

As shown in Figure 9, respondents have contradicting views on the actual demand for sustainable or ESG investment options. Slightly more than half (52.1%) of respondents stated that there is no evident trend that highlights demand from retail investors for ESG products.

The remaining 47.9% of respondents stated that retail investors seem to show interest in ESG products. These respondents also pointed out that they have noticed increased interest, from their clients globally, in ESG reporting.

Figure 9: Demand for ESG products



The survey measured how ESG products influence the need for product development and how organisations ensure that ESG and sustainable investing practices align with clients' values and their responsible investing mandate. The findings can be summarised as follows:

- ***No effects at all:*** More than 50% of the respondents indicated that ESG has not affected their demand for product development.
- ***Minimal effects:*** This response is based on entities structured in a way that caters for clients' needs and preferences. Some respondents indicated that they already have ESG embedded in some of their products and direct their clients to those products. However, that does not mean that new ESG products will not be created or developed.
- ***Highly affected:*** In most instances, respondents stated that clients demand low-cost ESG investment products with high ESG credentials and low carbon footprint.

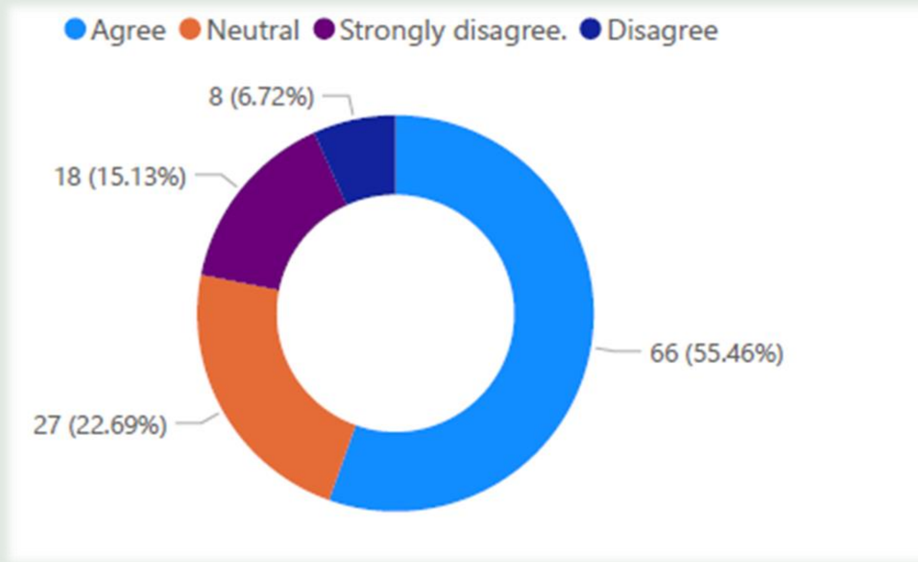
4.2.6. Research, data and tools for product objectives

Respondents were asked if they agreed with the statements provided below:

- **Statement:** An organisation must describe the arrangements and resources it has in place to oversee the sustainability research, data, and analytical tools that it uses in supporting the product's sustainability objective. The statement outlines the requirement for organisations to detail the arrangements and resources they employ to supervise sustainability research, data, and analytical tools utilised to advance a product's sustainability objectives.

- **Response:** As Figure 10 shows, 55.5% of respondents agreed with the statement, 22.7% felt indifferent/neutral and 15.1% strongly disagree with the statement, while 6.7% disagreed that an organisation must describe the agreements and resources it has in place to oversee sustainability research and tools.

Figure 10: Organisations that oversee sustainability research, data, and tools for product objectives

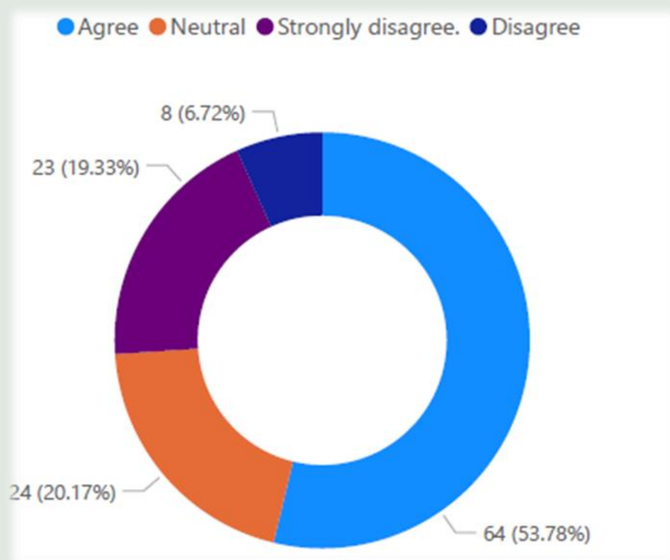


- **Statement:** The framework that caters for the organisation's ESG targets must clearly define the roles and responsibilities within the organisation for managing ESG. This statement emphasises the importance of having a structured framework, it highlights the need for clarity regarding who is responsible for managing various aspects of ESG initiatives within the entity.

  By defining roles and responsibilities clearly, the organisation can ensure accountability, effective coordination, and alignment with ESG objectives across different departments or teams. This approach facilitates smoother implementation of ESG strategies and enhances the organisation's ability to achieve its sustainability goals.

- **Response:** As depicted in Figure 11, a total 53.8% of respondents agreed with the statement, 20.2% felt neutral and 6.7% disagreed, while 19.3% strongly disagreed that the framework must cater for the organisation's ESG targets and must highlight roles and responsibilities for managing ESG.

Figure 11: Percentage of organisation's framework that must cater for ESG targets



Furthermore, respondents were requested to provide recommendations on how the FSCA could utilise the Task Force on Climate-related Financial Disclosures (TCFD) as the foundation for its existing or upcoming requirements, guidance, or expectations concerning ESG and sustainable investing (climate-related) disclosure reporting.

Respondents made it clear that they are sceptical of making any recommendations to the FSCA when there is no clear broad-based ESG scoring. Careful consideration is needed to invest responsibly, as well as logical solutions that can be applied at present day.

Respondents said that the FSCA should not burden the market with too many requirements as the market is small, and caution is needed as the investment field is not understood by laymen. Another caution was for the FSCA to "avoid creating a greenwashing tick box exercise". The FSCA should rather focus on making a positive impact to resolve ESG and the standards concerning it.

4.3. Risk and disclosure

Risk and disclosure are of paramount importance to the FSCA as the market conduct regulator. The FSCA promotes transparency and aims to encourage trust in financial systems, including sustainable finance usage in investment products and services.

4.3.1. Stress testing and technology

In respect of stress testing, 101 out of the 119 respondents (which represents 85% of the respondents) indicated they do not conduct stress testing. The remaining respondents said that they have ongoing efforts to develop and implement stress testing processes. The responses highlighted a diversity in approaches, such as the assessments of carbon footprint, carbon emissions, and exposure to specific risks. Eight respondents (7%) perform stress testing by applying quantitative approaches, climate-related stress tests, and scenario analyses, particularly focusing on assessing a portfolio's resilience to climate-related risks. Two respondents (2%) outsource ESG ratings to external global service providers and use third-party data sets for quantitative analysis. Eight respondents (7%) expressed concern related to the feasibility and accuracy of stress testing, especially within the South African context.

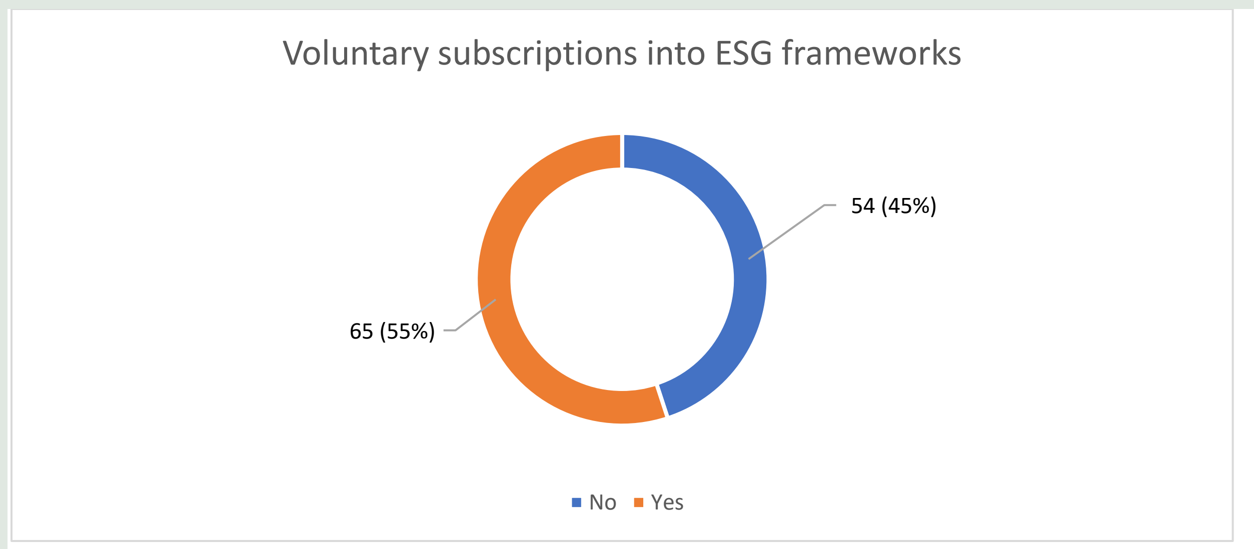
Stress testing and other sustainable finance methodologies are implemented by using some form of technology. Thus, 64 out of 119 respondents (54%) indicated technology plays a vital role in their practices, five respondents (4%) indicated technology plays a minimal role, and the remainder indicated it played no role and did not apply to them. The responses varied, with two respondents stating that technology is critical for filtering out low-performing ESG organisations. Six respondents (5% of total respondents) highlighted the significant role of technology in data collection, monitoring, and reporting related to ESG factors.

Furthermore, 34 respondents (29% of total) mentioned the importance of technology in streamlining processes, improving efficiency, and integrating ESG into decision making; five respondents (4%) indicated that they use specific tools and systems such as Bloomberg, Refinitiv, or proprietary scorecards, for ESG analysis. Three respondents are in the process of developing or implementing technology/systems to enhance their ESG practices.

4.3.2. Current voluntary frameworks

As shown in Figure 12, Most investment providers (55%) already subscribe to international and local frameworks, while 45% of respondents indicated that they do not subscribe to any ESG frameworks. The investment providers that subscribe to international and local frameworks stated that they voluntarily adopted frameworks such as Morningstar ESG ratings, UNPRI, International Corporate Governance Network, TCFD, Code for Responsible Investing in South Africa (CRISA), Cape Town Stock Exchange Impact Board, and Integrated Reporting standards. Some respondents align with specific legislated frameworks, such as BBBEE.

Figure 12: Number of organisations subscribed to voluntary ESG frameworks



Respondents highlighted regulatory compliance, with mention of adherence to regulations like Regulation 28 of the Pension Funds Act, which requires investment strategies to consider ESG, and the JSE's Sustainability and Climate Disclosure Guidance. Additionally, there is a focus on reporting transparency, with respondents mentioning the use of frameworks like TCFD, GRI, and SDGs in their sustainability reports. Some respondents are signatories to multiple initiatives, including Climate Action 100+ and the UK Stewardship Code.

4.3.3. Investment providers readiness for disclosure

Regarding readiness, 35 of the 119 respondents stated they are not ready to start disclosing ESG factors. Opinions range from a willingness to provide ESG disclosure, to a reluctance to do so; with opinions being split on whether disclosure should be voluntary or mandatory. Some respondents have concerns about disclosure and reporting. Doubts about the reliability of external data providers pose challenges to implementation. Thus, priority on governance with ESG requirements following global best practices is recommended.

Respondents provided suggestions and recommendations, citing a need for flexibility in requirements to accommodate industry variations. They recommended tailored guidelines, particularly for smaller organisations with limited resources, and suggested phased implementation of an agreed framework as well as collaboration with stakeholders. There is emphasis on regulating investor education and understanding of ESG products.

Respondents cautioned against overregulation and greenwashing risks, should ESG inclusion become mandatory. Clear guidelines from the FSCA would be necessary, including recommendations for standardised reporting templates and collaboration with stakeholders. They advocated for alignment with global frameworks like TCFD and SDGs for consistency.

4.3.4. Possible regulation tools for the FSCA

This survey report reflects a range of opinions regarding the role of the FSCA in facilitating ESG and sustainable investing practices. Most respondents are in favour of the FSCA providing guidance on sustainable finance. They believe such guidance would enhance readiness by standardising practices and ensuring clarity within the industry. While there is widespread support for a standardised ESG rating system, concerns were raised about the potential for greenwashing and the creation of a mere checklist activity. Some respondents' expressed doubt about the feasibility and accuracy of current ESG information for effective product-level assessment.

Views are divided on the extent of FSCA involvement in standardising ESG ratings. While some argue for regulatory intervention, others caution against potential overreach, advocating for a principles-based approach instead.

Respondents stressed the importance of aligning any rating system or guidance with global standards and frameworks like Sustainable Finance Disclosure Regulation (SFDR) and Sustainable Disclosure Requirement (SDR). This alignment would ensure consistency and comparability across markets. Furthermore, respondents acknowledged the challenges involved in achieving standardisation due to the diverse nature of ESG approaches and reporting practices. A flexible approach, they believe, may be more effective than rigid standardisation.

4.3.5. The extent to which investment providers prioritise transparency

The survey results showcase a proactive approach among respondents toward assessing environmental claims made by organisations in their investment portfolios. By adopting voluntary frameworks, engaging with investee entities, and conducting thorough due diligence, investment providers are demonstrating a commitment to RI practices and addressing ESG considerations in their investment decisions. Despite challenges, there is a clear commitment to continuous improvement and alignment with evolving industry standards.

Figure 13: Investment providers that include ESG or sustainability-related clauses

Regarding disclosure, only 26 of the 119 respondents (22%) indicated that they include ESG or sustainability-related clauses in their marketing material.

Many investment providers demonstrated a nuanced approach to ESG disclosures, considering regulatory requirements, regulatory information, and sustainability clauses in marketing materials, influenced by both regulatory mandates and voluntary standards. Two (1.7% of total) respondents stated that they publish ESG information on their websites; however, these publications are not legally binding. Three respondents (2.5%) stated sustainability-related clauses are legally binding under the governance ambit and sometimes ESG positions may form part of fund legal agreements. Seventeen respondents (14%) highlighted voluntary commitments like UN PRI, acknowledging their non-legally binding nature, but recognising reputational consequences for non-compliance. Four out of 119 respondents (3.4%) use independent assessments of ESG scoring.

As Figure 13 shows, the majority of respondents, 93 out 119 or 78% of total respondents, do not include ESG clauses in their marketing material. Reasons cited for not disclosing ESG include lack of formal integrated ESG policy, distrust in ratings, absence of regulatory mandates, limited resources, client preference, and historical irrelevance.

Overall, the responses reflect a complex landscape where investment providers navigate regulatory requirements, voluntary commitments, and practical constraints in integrating ESG considerations into their operations and disclosures.

As shown in Figure 14 below, a total 52 of 119 respondents (44%) provide ESG-related disclosures to clients or stakeholders. Out of this group of 52 respondents, 43 disclosed ESG policies, annual RI reports, and quarterly ESG performance reports. Four respondents follow TCFD guidelines and publish sustainability or impact reports.

Figure 14: Investment providers providing ESG-related disclosures to stakeholders

Common disclosures include proxy voting outcomes, engagement highlights, specific ESG metrics, carbon statistics, and proprietary scores for organisations. Five respondents engage in pre-emptive management discussions on ESG issues. Various ESG metrics are disclosed annually, and some organisations conform to ESG ratings by external entities like MSCI ESG Research LLC. UNPRI assessments are also conducted annually by some respondents.

There is emphasis on transparency with information available on request, and respondents comply with codes such as CRISA and PRI, governance requirements, BBBEE certification, and regulatory disclosure requirements. Furthermore, they respond to due diligence questions, conduct client meetings, and provide deeper dives into RI approaches.

4.3.6. Internal and external learning engagements regarding sustainable finance

Out of 119 respondents, 46 indicated that they did not provide training on sustainable finance and ESG. The remainder of the responses reflect a diverse range of approaches to staff training on ESG, with a focus on continuous learning, practical application, and alignment with organisational objectives. Thirty-three respondents have a formal upskilling programme, and 40 respondents sponsor staff to attend relevant courses and workshops. Practical guidance and application of ESG measures within portfolio organisations were highlighted as beneficial aspects of training.

The survey findings also provide insight on customer education regarding ESG products and services. Most respondents (82 out of 119) believe that there is limited customer interest, with priority placed on financial aspects over sustainability.

There are various approaches to customer education on ESG. The responses in this regard suggest that organisations are actively considering ESG factors in their operations, even if direct customer education efforts may vary.

Many retail customers may not be well-informed about ESG products, but organisations go to the effort of keeping them up to date through various channels. ESG information is made visible on company websites for easy access for customers and advisors.

ESG considerations are integrated into investment decision-making processes, even if specific ESG products are not offered. Organisations dealing with institutional clients engage in ESG discussions during feedback sessions or address specific ESG requirements. Eleven respondents stated that they host forums, conferences, and seminars to educate customers about ESG options.

Four respondents provide staff training and offer resources like brochures and sustainability reports. Six respondents disclose ESG-related information on their websites, including policies, proxy voting outcomes, and stewardship reports while nine respondents comply with UK and EU standards on ESG reporting and provide education as part of their global programmes. Implementation of ESG initiatives is ongoing for some respondents, including continuous efforts to enhance customer awareness.

The findings in this section indicate a growing awareness of ESG considerations within the investment industry, with organisations adopting varied approaches to disclosure and education.

While some are actively engaging in ESG practices and disclosures, others face challenges such as resource constraints and regulatory uncertainties. Collaboration among stakeholders, alignment with global standards, and phased implementation can facilitate smoother transitions towards sustainable investing practices.

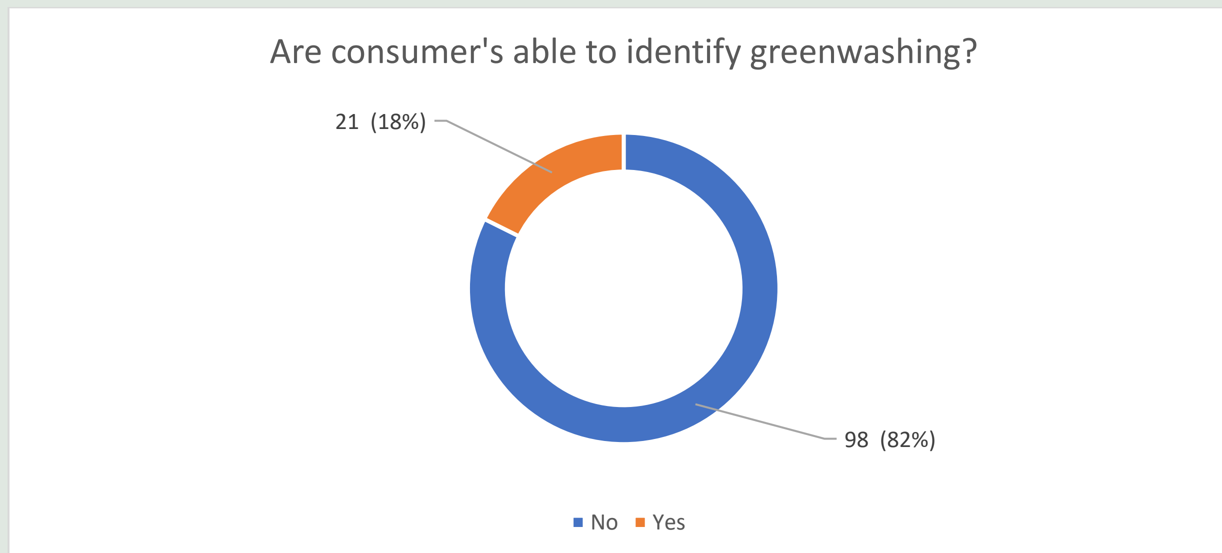
5. Greenwashing and challenges experienced in implementing ESG practices

Most respondents agree that South African investors lack the knowledge to identify ESG practices and greenwashing. As Figure 15 shows, only 21 of the 119 respondents stated that their consumers are able to identify greenwashing. The 21 respondents believe this is thanks to their efforts – like podcasts and online campaigns – to educate investors.

Respondents mentioned that clear disclosure of strategies, management and measurement is regarded as crucial for customers to identify greenwashing. Institutional customers with active consultants may fare better in identifying greenwashing, but retail engagement varies. Four respondents indicated that they offer training in responsible investment and run awareness campaigns to empower customers.

The majority (82%) of the respondents mentioned that they do not have any processes in place that can identify or mitigate greenwashing risks.

Figure 15: Consumers' ability to identify greenwashing



Subtle greenwashing poses challenges, especially when information access or disclosure is lacking. The lack of regulatory standards makes it challenging for customers to identify greenwashing. Survey respondents believe that the availability of green bonds and certifications may aid financial customers in identifying sustainable investments. This as investors seem to struggle to differentiate between offerings, especially where there are no clear standards.

Respondents highlighted difficulties in identifying greenwashed products due to a lack of clear standards, data consistency, as well as the existence of skills gaps skills gaps. Respondents have diverse views on their industry's awareness of greenwashing, with some expressing uncertainty about the level of awareness.

The majority of respondents mentioned the following challenges in implementing ESG practices:

- Lack of resources that aid in providing entities a clear guide for incorporating sustainability as part of their mandate.
- Inadequate access to data and/or the unreliability of data caused by limited research.
- Lack of investment opportunities in the local market for ESG investment products.
- Insufficient finances to upskill employees.
- Lack of harmonisation among investors and investee organisations.
- Regulatory uncertainty creates challenges in forecasting/modelling for ESG impacts.

Some respondents said that they have KPIs to measure greenwashing, but did not elaborate further, while others stated that they conduct due diligence on potential investments to ensure they align with established ESG criteria.

Respondents submitted various suggestions on how to counteract greenwashing and remedy challenges experienced in implementing ESG practices:

- The FSCA should introduce clear guidelines, definitions, standardised reporting, and third-party verification.
- Industry should collaborate to develop best practice and promote investor education and/or continuous training on greenwashing risks.
- Leverage existing frameworks like the EU Taxonomy and SFDR for similar requirements in South Africa.
- Introduce clear disclosure requirements, independent verification, penalties for greenwashing and/or promoting greenwashed products, and establish a dedicated whistleblowing hotline for reporting greenwashing.
- There should be thorough due diligence by investment providers.

6. Recommendations for the FSCA to consider

Given the survey findings, the FSCA should consider implementing the following recommendations:

- Develop a clear and comprehensive regulatory framework for sustainable finance that outlines the regulatory requirements, standards, and guidelines for financial institutions and market participants. This framework should incorporate internationally recognised principles and standards while also considering the country's specific socio-economic context and development priorities. There is also advocacy for aligning with global frameworks like TCFD and SDGs for consistency.

- Collaborate with international partners to help strengthen regulatory frameworks, enhance institutional capacity, and promote harmonisation of sustainable finance standards and practices across borders.

- Invest in capacity-building initiatives and awareness-raising campaigns to enhance the knowledge and skills of regulators, financial institutions, investors, and other stakeholders on sustainable finance principles and practices. This includes providing training programmes, workshops, and educational materials to foster a deeper understanding of ESG issues and their implications for financial decision-making. These initiatives should also focus on distinguishing between traditional investment and investments with ESG features (and subcategories thereof).

- To prevent greenwashing, ensure transparency and accountability when promoting investor protection, as part of treating customers fairly (TCF), where sustainability is concerned.

- Encourage innovation and support emerging markets and SMEs in the journey of sustainable goals for long-term value creation.

- Create and foster an enabling environment for innovation and market development in sustainable finance by incentivising the adoption of ESG integration practices, green financing solutions, and impact investing initiatives. This may involve offering financial incentives, tax breaks, or regulatory support for sustainable finance projects and initiatives that contribute to the country's sustainable development goals.

APPENDIX 1: Questionnaire
Double click on the image below to view the questionnaire:

* Required

Investment Provider Details

***In line with POPIA number 1-3 is optional

1. Investment Provider Name

APPENDIX 2: List of respondents

Respondents were differentiated by the size of their assets under management (AUM) for the 2024 financial year:

- 15 entities with AUM between R0 and R39 million
- 50 entities with AUM between R39 million and R63 billion
- 41 entities with AUM between R63 billion and R709 billion
- 13 entities opted not to disclose

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