

Financial Services Commission
Mauritius

Mauritius Sustainability Finance Intensive

Speech by the Chief Executive

**Managing the potential impact of ESG Risks on Financial
Stability**

13 April 2022

Mrs Hemlata Sadhna Sewraj-Gopal, Second Deputy Governor of the Bank of
Mauritius

Mr Stanley Austin — Partner, Africonomie

Representatives of the industry

Distinguished speakers and panelists

Distinguished guests

Ladies & Gentlemen

All protocol observed

I wish you a very good morning!

It is a pleasure to be here in such wonderful surroundings amongst the financial community and, in particular today, to share my views on a topic which is currently in the limelight. Let me first of all extend my warmest congratulations to Africonomie for hosting such an event as it holds an exceptional importance. All of us are joining this conference because we believe that sustainability is a critical global topic.

The COVID-19 pandemic since the last two years, has forced the financial community to reflect on the investment choices and there has been an increase in the interests of investors to invest in companies with a strong Environmental, social, and Governance (ESG) factors. The fact that these companies delivered a positive performance, showed that their responsible business practices made them more resilient in a suddenly worsening business environment.

According to the 16th Edition of World Economic Forum's Global Risk Report 2021, environmental risks remain the top threats by likelihood and impact, besides infectious diseases.

Ladies and gentlemen,

ESG Investing has grown rapidly over the past decade. Subsequently, climate change and ESG factors have come under increasing scrutiny from financial authorities given their potential to threaten financial stability. It is also observed that policymakers are moving forward to strengthen practices with respect to sustainable finance in several ways. Policy development across Europe, US and Asia offer some examples of distinct ways in which steps are being considered to make ESG practices more transparent, consistent and resilient.

As per the OECD Report on “*ESG Investing: Practices, Progress and Challenges*” the European Commission is focusing key issues for further consideration, which include:

- (i) ensuring relevance and consistency in reporting frameworks for ESG disclosure;
- (ii) opacity of the subjective elements of ESG scoring;
- (iii) improving alignment with materiality and performance;
- (iv) overcoming the market bias;
- (v) transparency of ESG products alignment with investors’ sustainable finance objectives related to financial and social returns; and
- (vi) public and regulatory engagement.

In the United States, the SEC has amended various pieces of legislation to cater for ESG disclosure in entities’ annual submissions.

On the Asian continent, in Japan for instance, the Japanese financial authorities are paying greater attention to ESG considerations as it relates to governance and sustainable finance. As early as 2018, Japan’s Ministry of Economy, Trade and Industry (METI) created a label to identify companies that are reporting on ESG performance, as part of efforts to improve corporate disclosure and the long-term investing landscape. In 2020, Japan’s Financial Services Agency has revised its stewardship code of conduct to include ESG factors. In Singapore, the MAS has developed its *Green Finance Action Plan* and in India, this month itself, SEBI has launched a public ESG consultation in the wake of including ESG disclosure by regulated entities.

We all know that ESG disclosure has undergone exponential growth, both in volume and importance. Given the importance of the topic, investors and other participants in the capital markets are increasingly demanding high-quality disclosure that can be useful in making investment and voting decisions.

Dear audience, let me now make a tour d’horizon on the status regarding the Mauritian context and what we can offer to Africa and worldwide. As you know, we are putting every effort to expand the sustainability finance sector in collaboration with stakeholders including the financial markets to help meet the challenges – through the provision of sustainable investment such as green bonds through capital markets. In commensuration with global initiatives and the United Nations Sustainable Development Goals adopted as part of its 2015-2030 Agenda for Sustainable Development, the Government of Mauritius has endorsed a roadmap for the implementation of the 2030 Agenda.

In June 2021, the Bank of Mauritius published a Guide for the Issue of Sustainable Bonds in Mauritius. The Guide was issued with a view to assisting potential issuers in better understanding the legal and regulatory requirements for the issue of sustainable bonds and the listing of these bonds on exchanges licensed in Mauritius.

In the same vein, the FSC, issued, a set of Guidelines in 2021, relating, to Green Bonds for public consultation to further supplement the Guide. The aim is to provide guidance on the regulatory framework for the issue of green bonds and consequences of green washing. Since its issuance in December 2021, the FSC continues to work with the Industry in line with new developments in this field. Several working sessions have been conducted whereby the FSC has considered further views from the industry. Subsequently, the FSC is in the process of revising part of the Guidelines to be posted on its website shortly. We already had the first issuer of green bonds – CIM Financial Services Ltd - following the release of the Guidelines by the FSC. This acted as an opportunity for other issuers to join us in our mission to make our capital market sustainable and I am pleased that other companies are showing interest in this direction.

The FSC is mindful of the risks associated with greenwashing, that is, fraudulent claims of the green attributes of financial instruments. Scandals associated with multinationals such as Volkswagen and Ikea come to mind. As regulators we remain alert to this risk.

Greenwashing does not only bring disrepute to the jurisdiction but also shakes the integrity of the financial system. The Guidelines issued by the Commission highlights the legal arsenal that the FSC will deploy against the outliers and offenders to maintain the integrity of the financial system.

Our next step is to implement a framework for ESG disclosures and ESG Risk Management with the aim of satisfying, amongst others, the following:

- (i) ESG performance across key environmental & social metrics;
- (ii) ESG compliance; and
- (iii) ESG disclosures (data, reporting).

The proposed framework will undergo a public consultation, as is the case with any major initiative. Various international organisations, including the World Economic Forum and the International Organization for Securities Commissions (IOSCO) amongst others, are working with major accounting bodies to develop frameworks, standards and metrics with respect to sustainability that consider ESG aspects and long-term value creation, in order to foster transparency and comparability in disclosures. In the same line, the FSC will be engaging with the industry stakeholders, to align and standardise ESG reporting. These initiatives are not without challenges and keep evolving in the face of new environmental and social developments, but form part of a long journey with a view to influencing choices that businesses and investors make.

Ladies and Gentlemen,

The proposed ESG framework will aim to consolidate the reporting framework and help companies make a positive impact on the financial landscape in Mauritius and beyond. Reporting on ESG has been shown to have other benefits for the companies. For example, strong ESG policies:

- a) can help companies reduce energy, water, and waste costs and drive more strategic resource allocation.
- b) meet the aspiration of consumers who are putting more and more pressure on businesses to be socially and environmentally responsible.
- c) meet the expectation of investors who are increasingly considering ESG as a standard aspect of the investment process.

It is important to note here that sustainable investment asset under management, worldwide, grew by over 50 percent between 2016 and 2020, and reached a value of around 35 trillion U.S. dollars in 2020. A report by Bloomberg advanced that *'Global ESG assets are on track to exceed 53 trillion US Dollars by 2025, representing more than a third of the 140 trillion US Dollars in projected total assets under management.'*

With such amount involved, it is important to ensure that the stability of the whole financial system is not undermined.

One of the objects of the FSC Mauritius is to ensure, in collaboration with the Bank of Mauritius, the soundness and stability of the financial system in Mauritius. The Second Deputy Governor of the Bank of Mauritius has just before me, beautifully enumerated the risks to the Financial Stability. I would add that the Commission also employs a range of surveillance tools to achieve this object. It has already turned the spotlight on greenwashing in its Guidelines for the Issue of Corporate and Green Bonds.

Other surveillance tools include

- The review of systemically Important Financial institutions (SIFIs)
- Close supervision of conglomerates
- Review of financial soundness and governance of financial institutions against prudential benchmarks such as related party transactions, solvency and the code of corporate governance.

Ladies and gentlemen, Mauritius IFC serves as a gateway for cross-border investments into Africa and is ranked favourably for ease of doing business on the continent and internationally. We evolve within a robust legal environment with enforceable capabilities, the absence of foreign exchange controls, an educated and bilingual workforce and not to forget our commitment to fight money laundering and terrorist financing, as evidenced by the recent recognition by the FATF. Mauritius also benefits from a tax treaty network and IPPAs with our African neighbours. Ladies and Gentlemen, our ambition is also to lead the way in the field of sustainable finance on the continent.

A number of financial institutions including Developmental Financial Institutions (DFIs) and the European Investment Bank (EIB) have major ESG projects for Africa in the pipeline. Given our unique proposition, these institutions can structure the financing of such projects out of Mauritius. They can set up vehicles to raise capital by issuing green bonds to other investors sharing the similar goals. This is a win-win opportunity for these institutions, the African countries and for Mauritius alike.

I would like to conclude by going back to our larger purpose, why this is important, and why we are having this ESG event today. Across the globe and in Mauritius, more and more people are paying close attention to climate change and its impact. Climate change is the ultimate challenge for humankind, and has become a rallying cry to inspire people to take collective action for the common good of our planet. Reconciling environmental

sustainability and economic growth is essential for our survival and also an opportunity to be seized. There is no better time than now to focus on sustainability in our recovery from the pandemic. To do this, we can harness the power of finance, innovation and technology to drive transformation in all sectors of society and improve our lives.

From facilitating capital flows and offering trusted, quality, end-to-end solutions, to supporting the market with capacity building and market innovation, the FSC aims to accelerate the growth of climate-aligned markets.

Africonomie has put together an excellent programme spanning over these two days, covering the pressing topics. I wish you all fruitful discussions and hope they will spur collective action and tangible outcomes.

With these words, ladies and gentlemen, I would like to wish you a very fruitful deliberation ahead and thank you for your kind attention.

Dhanesswurnath Thakoor

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