

**DISCLOSURE AND REPORTING GUIDELINES FOR ESG FUNDS**

**ISSUED BY THE FINANCIAL SERVICES COMMISSION**

**Date:** [to be determined]

Consultation

## DISCLOSURE AND REPORTING GUIDELINES FOR ESG FUNDS

### Issued under Section 7(1)(a) of the Financial Services Act 2007

#### 1. Background and Objective

- 1.1. In recent years as interest in environmental, social and governance ('ESG') related investment products has gained prominence, there is a growing need for quality and comparable information on ESG matters to supplement investors' investment decisions.
- 1.2. With the emergence of new financial products incorporating ESG principles, regulators worldwide are conscient of the importance of issuing guidelines in order to avoid concerns pertaining to "greenwashing"<sup>1</sup>.
- 1.3. In November 2021, the International Organization of Securities Commissions ('IOSCO') has, inter-alia, in its Report titled '*Recommendations on Sustainability Related Practices, Policies, Procedures and Disclosure in Asset Management*'<sup>2</sup> ('IOSCO Report'), recommended securities regulators to consider issuing guidance to improve product-level disclosure with a view to help investors better understand sustainability-related products and material sustainability-related risks.
- 1.4. As part of its statutory functions, the Financial Services Commission, Mauritius (the 'Commission') is mandated to take measures for the better protection of consumers of financial services.
- 1.5. The FSC, as the integrated regulator for non-banking financial services sector, is issuing these Guidelines with the aim for licensees to provide sufficient information on their ESG strategies and products for investors to make better informed decisions.
- 1.6. The principles laid down in these Guidelines are aligned with Recommendation 2 of IOSCO's Report.

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<sup>1</sup> In the report titled 'Recommendations on Sustainability Related Practices, Policies, Procedures and Disclosure in Asset Management', IOSCO defined "greenwashing" as "the practice of misrepresenting sustainability-related practices or the sustainability-related features of investment products."

<sup>2</sup> <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD688.pdf>

## **2. Scope**

- 2.1. These Guidelines apply to authorised Collective Investment Schemes and Closed-end Funds which use or include ESG factors as its key investment focus and strategy ('ESG scheme'). This means that ESG factors significantly influence the scheme's selection of investment assets i.e. at least two-third of the scheme's net asset value is ESG-focused<sup>3</sup> at all times
- 2.2. ESG factors include those which are aligned with one or more of the ESG criteria as per the United Nations Sustainable Development Goals ('UN SDGs').

## **3. Registration by way of continuation**

- 3.1. A scheme established in a jurisdiction other than Mauritius may be registered by way of continuation as an ESG scheme.
- 3.2. Where an ESG scheme is registered by way of continuation, it shall be subject to these guidelines/rules and other prevailing laws in Mauritius.

## **4. Name of Fund**

- 4.1. A scheme name must be appropriate and not be misleading.
- 4.2. The FSC will not expect a fund other than an ESG scheme to name or market itself as an ESG fund and use terms, such as 'Environment', 'Social', 'ESG', 'Green', 'Sustainability' or any combination thereof or similar terms, incorporated in their names.

## **5. Disclosure**

### **5.1. Offering Document**

The offering document of an ESG scheme must disclose the following:

#### **(a) Investment Objective**

- (i) Description of ESG focus (e.g. Climate change and carbon emissions, sustainability, gender and diversity).

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<sup>3</sup> For the purposes of paragraph 2.1, a scheme that only uses negative screening, or a scheme that merely incorporates or integrates ESG considerations into its investment process to seek financial returns, would not be regarded as having an ESG investment focus.

- (ii) The relevant ESG criteria, methodologies or metrics (e.g. third-party or proprietary ratings, labels, certifications) used to measure the attainment of the scheme's ESG focus.

**(b) Investment strategy**

- (i) A description of the investing strategy used by the ESG scheme to achieve its ESG focus, the binding elements of that strategy in the investment process, and how the strategy is implemented in the investment process on a continuous basis;
- (ii) A description of the relevant ESG criteria, metrics or principles considered in the investment selection process. e.g. a climate-focused fund may use climate-related indicators such as carbon footprint, weighted average carbon intensity, and greenhouse gas emissions).

**(c) Asset Allocation**

The percentage of the scheme's net asset value used to attain its ESG investment objective.

The offering document must also include a description as to how the scheme is investing the remaining of its net asset value<sup>4</sup>.

**(d) Reference benchmark**

- (i) Where the ESG scheme is tracking an ESG benchmark (e.g. an index fund), details of the benchmark being tracked including the characteristics and general composition of the benchmark; or
- (ii) where the ESG scheme seeks to measure its ESG focus against a designated reference benchmark, an explanation of how the designated reference benchmark is relevant to the fund.

**(e) Risks**

Description of risks associated with the scheme's ESG focus and investment strategy (e.g. concentration in investments with a certain ESG focus, limitations of methodology and data, lack of standardized taxonomy or reliance on third party information sources).

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<sup>4</sup> The remaining investment must not comprise the scheme's ESG focus.

## **5.2. Audited Financial Statements**

The Audited Financial Statements of an ESG scheme must disclose the following:

- (a) an explanation on how and the extent to which the scheme's ESG focus has been met during the financial period, including a comparison with the previous period (if any);
- (b) the actual proportion of investments that meet the scheme's ESG focus;
- (c) a comparison of the performance of the fund's ESG factors against the designated reference benchmark (if any);
- (d) any action taken by the scheme in attaining the scheme's ESG focus (e.g. stakeholder engagement activities);
- (e) explanation for non-compliance with the scheme's ESG focus (not meeting the minimum %NAV as stated in the offer documents of the scheme);
- (f) changes, if any, carried out in the methodologies or processes which are deemed relevant for achieving ESG-related objectives; and
- (g) any other information, considered necessary by the scheme.

## **5.3. Website**

Where applicable, an ESG scheme must disclose to investors or prospective investors the following on its website:

- (a) how the ESG focus is measured and monitored, and the related internal or external control mechanisms that are in place to monitor compliance with the scheme's ESG focus on a continuous basis (including methodologies used to measure the attainment of the scheme's ESG focus, if any);
- (b) a description of due diligence carried out in respect of the ESG-related attributes of the fund's underlying assets;
- (c) a description of the engagement (including the proxy voting) policies (if any); and
- (d) a description of the sources and processing of ESG data or a description of any assumptions made where relevant data is not available.

## **6. On-Going Monitoring/Sanction**

6.1. The Board of the ESG scheme or its CIS manager where appointed must:

- (a) satisfy itself that the ESG scheme is and continues to be managed in accordance with its constitutive documents.
- (b) regularly monitor and evaluate the underlying investments to ensure the ESG scheme continues to meet the stated ESG focus and requirements.

6.2. Where an ESG scheme no longer wishes to pursue its stated ESG focus, the Board of the ESG scheme or its CIS Manager must inform investors and the Commission as soon as reasonably practicable.

6.3. An ESG scheme which is no longer able to meet the requirements in these guidelines will be removed from the list of ESG scheme on the FSC's Register of ESG scheme.

6.4. The FSC may take regulatory action for failure to meet the stated investment objective and/or strategy in the offering documents of the ESG scheme.

## **7. Resources**

7.1 An ESG scheme must ensure it has adequate resources responsible for the implementation and/or oversight of ESG investment.

## **8. Certification**

### **8.1 Offering**

8.1.1 New application for Collective Investment Schemes and Closed End Funds submitted on or after the effective date of these guidelines must be accompanied with an independent third party certification or a self-certification confirming that the investments objective and strategy as described in the offer document are aligned with the UN SDGs.

8.1.2 Where an existing fund is changing its investment objective to pursue an ESG focus strategy, it must provide an independent third party certification or a self-certification confirming that the investments objective and strategy as described in the offer document are aligned with the UN SDGs.

### **8.2 Audited Financial Statements**

8.2.1 The Audited Financial Statements of an ESG scheme must be accompanied with independent third party certification confirming that investments made by the ESG scheme are compliant with its offering document.

## **9. Independent external reviewer/certifier**

9.1 For the purpose of these guidelines, an independent external reviewer/certifier may be one of the following and having the relevant and sufficient expertise in the field of ESG:

- (i) An auditor duly registered with the Financial Reporting Council;
- (ii) A credit rating agency duly licensed by the FSC or as recognised by the FSC; or
- (iii) Any other service provider duly recognised by the FSC.

## **10. Effective date**

The effective date of these Guidelines is [to be determined].