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Three ESG policy trends to watch in 2021

Blog post by Practice Lead Elizabeth Beall, 26 January 2021

2020 marked a step change in how both corporates and investors consider ESG, driven in large part by policy and regulatory changes. 2021 is set to be a year where ESG will start to have real bite. With greater regulatory and market scrutiny, increased reporting and thus greater data, the bar on what is considered as 'good' ESG performance will continue to rise.

Three policy themes will frame how the ESG landscape takes shape over 2021 with varying impacts for corporates and investors.

The first is the growing prominence of 'positive' ESG screening, exemplified by the EU's new taxonomy. A lot of the previous approach to ESG screening has been on weeding out clear ESG negatives. The focus is shifting increasingly to how to reallocate capital to activities considered to have positive ESG impacts. Negative screening or exclusion of specific activities such as tobacco and weapons, has been replaced with positive or impact screening on a range of issues from climate to community impact. This is the approach that has been taken by the EU taxonomy with its focus on green over brown. This means that inclusion in ESG funds and ESG mandated assets will not only be based on exclusionary criteria, but also minimum thresholds for positive impact. As the bar rises for consideration as a positive ESG investment, the investable universe will also shrink – at least in the short-term which may result in a rebalancing of requirements.

The second is accelerating regulation on disclosure and reporting. Mandatory ESG reporting requirements have increased to 600 globally, up from 383 in 2016. A number of initiatives which began as voluntary or as taskforces three years ago, are now being turned into mandatory requirements. The EU alone has three significant pieces of legislation in the Sustainable Finance Disclosures Regulation, the Taxonomy Regulation and the revised Non-Financial Reporting Directive which will all come into force this year with requirements for corporates and investors to report on the percentage of activities which meet ESG and 'green' criteria.

The third is the return of the US to a much more assertive approach to climate change mitigation at the federal level. Europe has been leading on setting the ESG regulatory agenda, but the election of Biden in the US and the selection of Janet Yellen as Treasury Secretary and Brian Deese, former BlackRock global head of sustainable investing, as Director of the National Economic Council, indicates that Biden may make ESG a priority for his administration. Biden's pledge to lower or eliminate subsidies on fossil fuels and channel the funds to renewables will have a significant impact. Diversity reporting already

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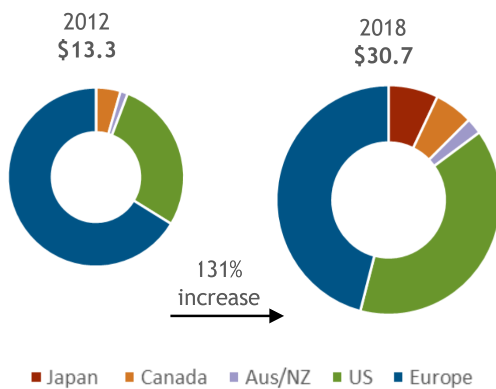
has widespread appeal in the US following the Black Lives Matter movement in 2020 and could be an entry point for legislation mandating wider ESG disclosure and reporting.

For corporates and investors these three policy trends mean the rules of engagement on ESG are shifting with new obligations, new expectations, new levels of scrutiny and new players which may upend things further. While the pace of change may encourage some to wait on the side-lines until there is further clarity, there's a real risk of getting left behind and at the same time an opportunity to engage on how the rules take shape.

Fig 1: Global growth in sustainable investments

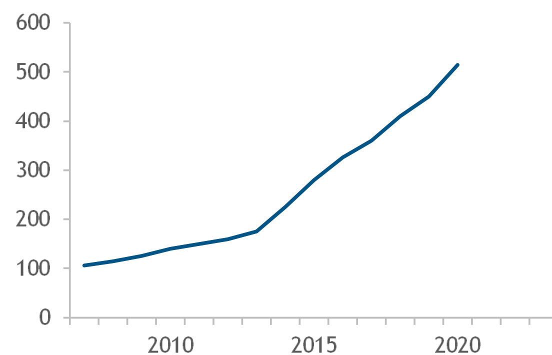
USD, Trillion



Source: Global Sustainable Investing Alliance

Fig 2: Culminative number of ESG policy interventions globally (reporting requirements and more broadly)

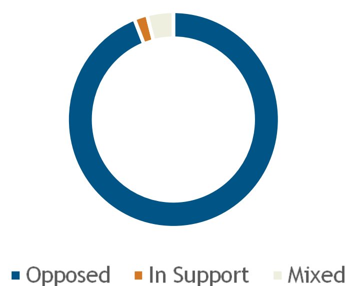
Per year, counting individual revisions separately



Source: PRI Responsible investment regulation database, PwC Analysis

Fig 3: Public comments on US Dept of Labor proposed ESG rule change

Comments from investment professionals



Source: U.S. Department of Labour