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Practical cross-border insights into ESG law

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1 Setting the Scene – Sources and Overview

1.1 What are the main substantive ESG-related regulations?

The ESG framework in Luxembourg comprises a number of EU regulations, EU legislative measures amending existing regulatory frameworks, national legislation and regulatory guidance, including:

(i) Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the "**SFDR**");

(ii) Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing SFDR with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports (the "**SFDR RTS**");

(iii) Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment (the "**Taxonomy Regulation**");

(iv) Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks (the "**Low Carbon Benchmark Regulation**");

(v) five Commission Delegated Regulations and Commission Delegated Directives integrating sustainability issues and considerations into the following EU legislative regimes: (i) UCITS Directive 2009/65/EC, amended by Commission Delegated Directive (EU) 2021/1270; (ii) AIFMD 2011/61/EU, amended by Commission Delegated Regulation (EU) 2021/1255; (iii) MiFID II 2014/65/EU, amended by Commission Delegated Regulation (EU) 2021/1253 and Commission Delegated Directive (EU) 2021/1269; (iv) Solvency II Directive 2009/138/EC, amended by Commission Delegated Regulation (EU) 2021/1256; and (v) Insurance Distribution Directive EU/2016/97, amended by Commission Delegated Regulation (EU) 2021/1257;

(vi) the law of 23 July 2016 on the publication of non-financial information (the "**2016 Law**"), which transposed Directive 2014/95 of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups into Luxembourg law; and

(vii) the *Commission de Surveillance du Secteur Financier* (the "**CSSF**") Circular 21/773 on the management of climate-related and environmental risks for all credit institutions designated as less significant institutions under the Single Supervisory Mechanism and to all branches of non-EU credit institutions.

1.2 What are the main ESG disclosure regulations?

The main ESG disclosure regulations are: (i) the 2016 Law, which requires certain large undertakings and groups to disclose information relating to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters; (ii) the SFDR (together with the SFDR RTS, which provides technical detail and guidance on the required disclosure); (iii) the Taxonomy Regulation; and (iv) the Low Carbon Benchmark Regulation.

1.3 What voluntary ESG disclosures, beyond those required by law or regulation, are customary?

Voluntary disclosures beyond those required by law or regulation include the consideration of principal adverse impacts of investment decisions on sustainability factors. In addition, certain other ESG-related regulations have introduced voluntary disclosures; for example, the Low Carbon Benchmark Regulation has introduced two new categories of low-carbon benchmarks, namely: (i) a climate-transition benchmark; and (ii) a specialised benchmark that brings investment portfolios in line with the Paris Agreement regarding the goal to limit the global temperature increase. The categories are voluntary labels designed to assist investors who are looking to adopt a climate-conscious investment strategy. The Luxembourg Finance Labelling Agency ("**LuxFLAG**") promotes the raising of capital for sustainable investments by awarding a label to eligible investment vehicles on a voluntary basis. The categories that are covered include, among others, environment, ESG, climate finance and green bonds. Other voluntary ESG regimes include: (i) Principles for Responsible Investment; (ii) the Financial Stability Board's Task Force on Climate-related Financial Disclosures; (iii) the Global Reporting Initiative; (iv)

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the Sustainability Accounting Standards Board; (v) the Climate Disclosure Standards Board; (vi) the International Integrated Reporting Council; and (vii) CDP Global (formerly the Carbon Disclosure Project). The vast number of voluntary ESG regimes can pose challenges for companies incorporating and/or being evaluated by multiple frameworks, in particular as these are not always standardised, consistent and comparable in terms of scope, approaches to materiality and reporting standards.

1.4 Are there significant laws or regulations currently in the proposal process?

In addition to the ESG disclosure regulations noted above, there are several other legislative proposals in various stages of the EU's legislative process, and these include the EU Corporate Sustainability Due Diligence Directive, which aims to address human rights and environmental rights impacts in global value chains and foster responsible corporate behaviour, an EU Green Bond Standard (the "**EU GBS**"), the EU Ecolabel and guidelines on credit ratings and loan origination and monitoring.

1.5 What significant private sector initiatives relating to ESG are there?

There are a number of private-public initiatives relating to ESG. Two significant initiatives include: (i) the Luxembourg Sustainable Finance Initiative ("**LSFI**"); and (ii) LuxFLAG. LSFI is a not-for-profit association that designs and implements the Sustainable Finance Strategy for Luxembourg's financial centre. Its objective is to raise awareness, promote and help develop sustainable finance initiatives in Luxembourg. LuxFLAG is a non-profit organisation that aims to promote capital raising for sustainable investments by awarding a recognisable label (see above) to eligible investment vehicles. Its objective is to reassure investors that the labelled investment vehicles invest in the responsible investment sector. In addition to these ESG initiatives, there are also a number of ESG-related public sector initiatives.

2 Principal Sources of ESG Pressure

2.1 What are the views and perspectives of investors and asset managers toward ESG, and how do they exert influence in support of those views?

Investors are increasingly looking to align their investment decisions with their personal priorities. They are now not only focused on financial returns but also on non-financial outcomes and are seeking to invest in companies that have the capabilities to both achieve and maintain strong financial and ESG performance. This increased investor interest in ESG reflects the growing recognition that performance and value can be enhanced by the inclusion of ESG metrics into companies' business operations and investment decisions.

As ESG has become an integral part of the conversation between asset managers and investors and with many institutional investors actively pursuing a sustainable and responsible investing agenda, asset managers are embracing ESG in order to align stakeholders' interests and avoid short-term investments and results, in return for long-term incentives aligning investment practices with social responsibilities and principles in order to meet investor demands. Investors are also recognising the potential for ESG factors to affect the valuation and performance of companies they invest in, and this has resulted in investors pressuring companies to increase the amount of information disclosed to investors on ESG-related matters.

2.2 What are the views of other stakeholders toward ESG, and how do they exert influence in support of those views?

ESG and sustainable finance is an area that is continuously evolving and growing to meet the expectations of a wide number of stakeholders, including shareholders, policymakers, regulators and central banks. Within the EU and Luxembourg, new regulatory frameworks are being introduced to address and support the European Commission's revised Action Plan on Sustainable Finance and the Renewed Sustainable Finance Strategy. This includes a number of regulations outlined above, including the Taxonomy Regulation, the SFDR, the Low Carbon Benchmark Regulation and the supporting secondary legislation with regard to the implementation of delegated acts. There are also a number of matters in progress, including the development of the EU GBS, the EU Ecolabel for financial products, and updating corporate financial reporting under the Corporate Sustainability Reporting Directive. This is in addition to the European Green Deal, the European Commission's plan to make the EU economy sustainable, which sets out an action plan to boost the efficient use of resources by moving to a clean, circular economy, restoring biodiversity and cutting pollution with the aim of the EU being climate neutral by 2050. This is in accordance with the European Climate Law, which turns the political commitment into a legal obligation. Furthermore, shareholders have placed increasing pressure on companies with respect to social and governance issues, including gender and racial diversity on boards, requiring companies to adopt policies and commit to enhanced disclosure with respect to ESG matters.

In addition, the CSSF, as the supervisory authority of the financial sector in Luxembourg, is committed to contributing to the achievement of the objectives of the Paris Agreement. For example, it became an official member of the network of greening the financial system ("**NGFS**") in 2019. NGFS's purpose is to help strengthen the global response required to meet the goals of the Paris Agreement and to enhance the role of the financial system in managing risks and mobilising capital for green and low-carbon investments in the broader context of environmentally sustainable development. Moreover, the Luxembourg Government has also launched several initiatives to promote innovative financial ideas to fight climate change.

2.3 What are the principal regulators with respect to ESG issues, and what issues are being pressed by those regulators?

The principal financial regulator in Luxembourg is the CSSF. The Environment Agency (*Administration de l'environnement*) is responsible for protecting the environment and the quality of the local living environment and may issue fines in certain circumstances.

More broadly within the EU, bodies such as the European Commission, the European Securities and Markets Authority ("**ESMA**"), the European Banking Authority, the European Insurance and Occupational Pensions Authority and the Technical Expert Group (the "**TEG**") are the principal regulators with respect to ESG issues. The key issues being pressed by these bodies are covered in the action plan on financing sustainable growth, which includes: (i) developing an EU classification system for environmentally sustainable economic activities; (ii) developing EU standards (such as the EU GBS) and labels for sustainable financial products (via Ecolabel) to protect the integrity and trust of the sustainable finance market; (iii) fostering investment in sustainable projects; (iv) incorporating

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sustainability in financial advice; (v) developing sustainability benchmarks; (vi) sustainability in research and ratings; (vii) disclosures by financial market participants; and (viii) sustainability in prudential requirements, strengthening sustainability disclosures by corporates and fostering sustainable corporate governance and promoting long-termism.

2.4 Have there been material enforcement actions with respect to ESG issues?

At the broader European level, there have been a number of material enforcement actions with respect to ESG issues regarding issuers whose securities are admitted to trading on a regulated market. Investors are also increasingly demanding reliable and relevant disclosure on ESG factors. On 30 March 2022, ESMA, the EU securities markets regulator, published its annual report on corporate reporting enforcement and regulatory activities of European enforcers in 2021. The report presents the 2021 activities of ESMA and of European accounting enforcers when examining compliance of financial and non-financial statements provided by European issuers. In light of the increased importance of companies' ESG disclosures, European enforcers continued their enforcement activities on non-financial information in 2021, leading to examinations of 711 non-financial statements or 36% of the total estimated number of issuers required to publish a non-financial statement. These examinations brought about 72 enforcement actions, constituting an action rate of 10%.

2.5 What are the principal ESG-related litigation risks, and has there been material litigation with respect to ESG issues, other than enforcement actions?

The principal litigation risks arise from shareholder activism and related investor claims against companies and their directors, particularly in relation to materially false or misleading ESG disclosures or representations made in prospectuses or investor reports. We are not aware of any material decisions by the Luxembourg Courts in relation to ESG issues. Nonetheless, the trend of ESG-related litigation, which has arisen elsewhere, may surface to some degree in Luxembourg in the future.

2.6 What are current key issues of concern for the proponents of ESG?

The key issues of concern for ESG proponents are lack of transparency and lack of reporting standards as well as a series of delays with respect to the implementation dates of regulations. For example, the regulatory technical standards to supplement the SFDR will only come into effect on 1 January 2023; however, the Taxonomy Regulation in respect of the climate change mitigation and adaptation objectives has applied since 1 January 2022, which has caused implementation challenges for asset managers. In addition, a lack of uniformity with respect to the various classifications available under the SFDR is also a concern for proponents of ESG. Many asset managers for whom ESG and responsible investing have been a cornerstone of their businesses are concerned that certain competitors may be gaining an unfair advantage as a result of these new classifications. The SFDR does not prescribe how an asset manager should determine the category to which its funds belong. The lack of guidance with respect to the exact measurement methodology as well as the potential to incorrectly categorise a fund may make it difficult to compare investment options and may potentially lead to greenwashing. Furthermore, there is a concern that asset managers may not have sufficient data to support certain SFDR classifications, as data does not exist for certain asset classes.

3 Integration of ESG into Business Operations and Planning

3.1 Who has principal responsibility for addressing ESG issues? What is the role of the management body in setting and changing the strategy of the corporate entity with respect to these issues?

ESG is no longer the sole responsibility of a company's sustainability officer. Instead, in light of investors' expectations that boards and senior management are fully engaged with ESG and managing companies for long-term success, they have an essential role in ensuring compliance with various ESG-related legislation, addressing an organisation's ESG issues and assessing the potential impact of such ESG issues on the organisation's operating model. The key issue for management bodies is to identify ESG themes that are emerging as industry drivers ahead of their competitors in order to gain a competitive advantage. This requires management bodies to identify the various stakeholders, their incentives and the matters that may bring about change with respect to ESG, including obtaining insight in respect of the companies' social or environmental impact. By connecting business goals with the demands of investors with respect to ESG issues and thereby differentiating from competitors, companies can increase revenue and gain a competitive advantage. In order to set and change the strategy of a corporate entity with respect to ESG matters, management bodies should adopt strategic practices to establish accountability structures for ESG, identify and create a suitable corporate purpose and culture, enhance investor transparency, and ultimately seek to balance investors' ESG preferences against business priorities. Management bodies play a key role and are responsible for ensuring that a company's mission is achieved.

3.2 What governance mechanisms are in place to supervise management of ESG issues? What is the role of the board and board committees *vis-à-vis* management?

The structures and processes in place to supervise management of ESG issues depend on the nature and scale of each individual company. Boards play an important role in driving ESG development within their companies, and board oversight on ESG issues can help businesses better manage their ESG-related risks and opportunities. This includes a board's oversight responsibilities. Boards also play an essential role in assessing an organisation's environmental and social impacts and understanding the impact of ESG issues on the organisation's operating model. Boards have a crucial role in ensuring that companies are aware of, and able to navigate, the ever-changing landscape and exercise oversight in this respect; such oversight should be informed, strategic and aligned with the company's business model to create long-term value. The board will also play a role in identifying the issues, holding management accountable for the implementation of the company's ESG strategy as well as evaluating and recommending steps to be taken with respect to ESG issues.

Investors are increasingly turning towards the boards of companies for accountability. Key performance indicators ("**KPIs**") are also in place to supervise the management of ESG issues, used as a tangible measurement to quantify the extent to

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which a company is achieving its goals. Investors expect board members to be competent in the area of ESG matters.

With regard to providing oversight and supervision in this area, consideration should be given to allocating oversight responsibilities to consider: (i) which activities should be overseen by the board and those that should be delegated to a committee, for example a sustainability committee, which could include providing guidance to management; (ii) disclosure of information with regard to information that should be shared between the board and management including, for example, KPIs and metrics in order to understand the importance of certain ESG issues; and (iii) ESG as part of the board's oversight and strategy by incorporating ESG initiatives into the overall company strategy, and establishing metrics to include ESG initiatives to assess these performance indicators against the overall company strategy and ensuring oversight of ESG integration.

3.3 What compensation or remuneration approaches are used to align incentives with respect to ESG?

Compensation or remuneration incentives can be used to align executive compensation with shareholder interests with respect to ESG. Examples of such policies include paying bonuses only when shareholder return targets are reached for a number of years in succession, the desired outcome being that the company will increase transparency for shareholders and create more responsible standards for achieving long-term company growth and shareholder value over executive pay. One approach used to align incentives with respect to ESG is to have bonuses depend largely, or solely, on executives' success in respect of strategic opportunities related to sustainability, while continuing to monitor and disclose aspects of ESG performance and insisting on seeing ESG metrics to ensure executives act responsibly, mitigate risk and comply with regulations. Compensation committees can use their discretion to adjust pay after the fact for sustainability performance in these areas. In order to integrate ESG issues into executive pay, companies should first adopt a clear process for identifying appropriate ESG metrics that relate to sustainable shareholder returns and company strategy. Linking ESG metrics to a reward system in a manner that forms a substantial component of the overall remuneration framework and integrating ESG targets within a particular time frame that corresponds with the business strategy will ensure that such ESG factors are used to incentivise high performance. It should also be noted that there are requirements around disclosures on remuneration from a regulatory perspective, for example pursuant to SFDR financial market participants and financial advisors are required to include information in their remuneration policies as to how these policies are consistent with the integration of sustainability risks, and to publish that information on their websites.

3.4 What are some common examples of how companies have integrated ESG into their day-to-day operations?

ESG is fast becoming an inextricable part of how companies do business and in order to remain competitive and respected, companies must establish an ESG strategy. To this end, companies are taking proactive steps to integrate ESG into their business operations. One example of this is the creation of reward systems that link performance with ESG metrics and tying this in with employee compensation. This, in turn, may lead to the attraction and retention of talent. Other examples include ensuring ESG considerations form part of the company's strategic objectives, as well as offering ESG-focused solutions to existing and future challenges.

In addition, with regard to social issues such as insufficient diversity of talent as well as gender and racial inequality, companies have addressed this through their recruitment process, putting in place committees and policies to improve diversity and inclusion. Companies are also setting measurable goals (with a defined timeline) to increase diversity among senior leadership.

Environmental matters have also been integrated into the day-to-day operations of companies by reducing the amount of energy and resources used by companies, with certain companies committing to net-zero carbon emissions by 2040.

3.5 How have boards and management adapted to address the need to oversee and manage ESG issues?

The increased focus on ESG and sustainable finance has created additional considerations for boards and management. With no real guidance available, boards and management have had to chart their own course to ensure they are fully engaged on ESG and to support delivery of the ESG strategy of their business.

In order to address the evolving ESG landscape and regulatory framework and to meet the expectations of the wider group of stakeholders, boards and management are critically evaluating the potential implications of ESG and the materiality thereof on their companies and connecting business goals with the ESG-related demands of investors and other stakeholders. They are developing oversight structures (which, depending on company size, may rest solely with the board or be allocated between the board and a dedicated ESG committee), implementing ESG policies and practices, and adopting strategic practices to establish accountability structures for ESG, all with the aim of creating long-term value and success for their company. Furthermore, they are creating, and more importantly, utilising internal teams with ESG expertise to identify vulnerabilities, ESG-related risks and opportunities, investor demands, etc. These teams are often supported by external partners such as outside legal counsel, ESG experts and other consultants.

The approach to oversight and management of ESG issues may change over time and boards and management will need to remain agile with respect to the ever-changing ESG landscape.

4 Finance

4.1 To what extent do providers of debt and equity finance rely on internally or externally developed ESG ratings?

Issuers of debt and equity finance rely not only on financial data, but also on internally and externally developed ESG ratings in order to add value by both improving performance and reducing volatility returns. In the past decade, there has been a significant increase in the use of ESG information in the investment process with providers of debt and equity finance and investors alike recognising that ESG ratings have real value in driving investment performance. ESG ratings can complement existing factors such as liquidity, volatility and performance. Investors are increasingly considering a company's ESG rating when making investment decisions. Companies that produce low ESG ratings can be subject to criticism, whereas companies that produce high ESG ratings may see an increase in investor demand and investment flows.

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4.2 Do green bonds or social bonds play a significant role in the market?

Both green bonds and social bonds play a significant role in the market. Green bonds are debt securities issued to finance or refinance green projects with positive environmental outcomes while social bonds tend to be used to finance or refinance projects with positive social outcomes.

In 2007, the Luxembourg Stock Exchange (the "**LuxSE**") listed the world's first green bond. Since then, the LuxSE has become the leading venue for this asset class. The Luxembourg Green Exchange ("**LGX**"), the world's first platform dedicated to green bonds, was launched in 2016. Today, LGX is the world's leading centre for the listing of green bonds and the European leader in responsible investment fund assets. LGX has now expanded to include social, sustainability and sustainability-linked bonds.

4.3 Do sustainability-linked bonds play a significant role in the market?

Sustainability-linked bonds ("**SLBs**") play an increasingly significant role in the market. SLBs aim to further develop the key role that debt markets play in funding and encouraging companies that contribute to sustainability. However, unlike green bonds and social bonds, there are no restrictions on how the proceeds from SLBs may be used. SLBs are any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves the predefined sustainability/ESG objectives within a set timeline. They represent a source of financing for companies (from any sector) that set clear and ambitious science-based targets to become more sustainable.

4.4 What are the major factors impacting the use of these types of financial instruments?

The green bond principles ("**GBPs**"), social bond principles ("**SBPs**") and sustainability-linked bond principles ("**SLBPs**") published by the International Capital Market Association (the "**ICMA**") provide guidelines relating to green bonds, social bonds and SLBs, respectively, including disclosure and reporting guidelines, and are a major factor impacting the use of these financial instruments. The GBPs, SBPs and SLBPs are voluntary for issuers and their advisors in structuring, disclosing and reporting on green bonds, social bonds and SLBs that outline the best practices to incorporate forward-looking ESG outcomes and promote integrity in the development of the SLB market, as well as providing issuers with guidance on the key components involved in SLBs. The GBPs, SBPs and SLBPs emphasise the required transparency, accuracy and integrity of information that will be disclosed and reported by issuers to stakeholders through core components and key recommendations.

4.5 What is the assurance and verification process for green bonds? To what extent are these processes regulated?

Industry-accepted GBPs developed by the ICMA ensure that such "green bonds" meet the rules of the GBPs. There are also standards such as the Climate Bonds Standard and Certification Scheme, an investor-focused organisation that seeks to mobilise investors, industry and government to catalyse green investments at the speed and scale required to avoid dangerous climate change and meet the goals of the Paris Agreement. The Certification Scheme allows investors, governments and other stakeholders to identify and prioritise "low-carbon and climate-resilient" investments and avoid greenwashing. In addition, following the establishment of the TEG on sustainable finance in 2018 by the European Commission, the TEG has made recommendations to establish the EU GBS. The TEG has proposed that any type of listed or unlisted bond or capital market debt instrument issued by a European or international issuer that is aligned with the EU GBS should qualify as an EU green bond. The TEG has also published the "EU Green Bond Standard Usability Guide" (the "**Guide**"), which offers recommendations from the TEG on the practical application of the EU GBS. The Guide aims to support potential issuers, verifiers and investors of EU green bonds. The TEG proposes that the use of the EU GBS remains voluntary and builds on market best practices such as the GBPs developed by the ICMA. At present, issuers having an EU green bond voluntarily verified by an external verifier has become common practice. Guidance on voluntary verification has been available thanks to the ICMA's Guidelines for External Reviews. The EU GBS builds on these foundations while formalising it and requiring additional processes and will be open to all issuers of green bonds, including private, public and sovereign issuers, and includes issuers located outside of the EU. It institutes mandatory prior verification of the alignment of green bond issues. The TEG has also recommended that oversight and regulatory supervision of external review providers eventually be conducted via a centralised system organised by ESMA.

With respect to Luxembourg specifically, LuxFLAG launched a label for green bonds in 2017. The "Green Bond Label" is granted to eligible instruments that finance green projects but only after a rigorous assessment. It evaluates true investment strategy commitments and helps investors in the selection of products, and applicants must submit independent third-party assurance reports.

5 Trends

5.1 What are the material trends related to ESG?

Demand for ESG products and the number of investors expressing an interest in such products has already increased markedly and is set to continue on an upward trajectory. The inflows in ESG products are increasing with the launch of new funds, as well as the repurposing of non-ESG funds, and this has continued despite the impact of COVID-19 and geopolitical events. In the fixed income market, green bonds are the fastest-growing market. Asset managers are increasingly looking to integrate ESG factors in portfolio selection and investors are increasingly asking ESG questions as part of their discussions with asset managers. In addition, socially responsible and ESG exchange-traded funds have become an increasingly popular area of focus for investors and asset managers alike. Following COVID-19, new opportunities may arise for categories of impact funds such as health and wellbeing as key areas of the response to the pandemic. COVID-19 seems to be further widening the scope of strategies. The pandemic has also brought human capital and the broader group of stakeholders (including employees) into sharp focus, and board and workplace diversity and inclusion will be a critical consideration for companies going forward. For example, certain institutional investors have already articulated their expectations in relation to board and workplace diversity and inclusion, including requests for companies to provide specific disclosures with

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respect to matters related to diversity and inclusion. There may also be a greater drive for a more meaningful integration of ESG targets in executive remuneration packages.

5.2 What will be the longer-term impact of COVID-19 on ESG?

Early indicators show that COVID-19 is accelerating the demand for sustainable investing, introducing a renewed focus on climate change, increasing the importance of the social element of ESG and requiring both asset managers and investors to focus on a sustainable approach to investing. As a result of the impact of COVID-19 on the global economy, policymakers and investors are looking at alternative investments, including those relating to climate change, and ways to define and integrate social performance into investment frameworks. COVID-19 may be pivotal for ESG investing alongside traditional financial investing in the long term. Recent studies have highlighted the fact that investors see COVID-19 as increasing investor awareness in other areas such as climate change and societal issues, which should have a positive impact on ESG, particularly in the long term. The COVID-19 crisis is likely to increase the measures taken by boards and markets to factor in systemic risk, including disclosures related to ESG. It is also likely to increase pressure on companies to consider their wider group of stakeholders and enhance efforts around issues such as diversity and inclusion and community engagement. COVID-19 has led to enhanced scrutiny from investors in respect of ESG metrics. ESG products have performed strongly relative to non-ESG products during the market downturn, and it is expected that investors will add these relative performance metrics to their asset selection preference. To date, with respect to investment funds, much of the focus has been on environmental products, but the impact of COVID-19 on society is likely to see growth in social impact funds.

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