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The Impact of ESG Standards and Investment: Global Trends and Practices

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Abstract: In recent years, ESG (Environmental, Social, and Governance) investment has significantly integrated into investment strategies worldwide. The concept of ESG investing is not merely a fleeting trend but rather an essential tool for investors looking towards sustainable and responsible investment practices. With the evolution and adoption of ESG investments in the global market, a thorough examination of ESG investment practices reveals valuable insights. Nowadays, in economic landscape, the emphasis on ESG factors in investment decisions continues to grow, underscoring the importance of responsible investing practices in fostering long-term value creation and societal impact. This study offers noteworthy recommendations regarding ESG investment standards, aiming to drive improved ESG performance within enterprises. By adhering to robust ESG criteria, organizations can access enhanced financial prospects, paving the way for them to garner increased social recognition. Besides, this paper also put forward countermeasures and suggestions for China's ESG to improve China's ESG information disclosure system and the awareness of ESG.

Keywords: ESG Standards, Global Trends, Investment practice

1. Introduction

ESG is the abbreviation of Environment, Society and Corporate Governance, in which E represents the environment, including the goals of low carbon and climate change, and involves evaluation factors such as carbon and greenhouse gas emissions. It means that we should pay more attention to environmental issues such as carbon emission reduction and actively assume social responsibility and respond to government policies. And also increase technological innovation in research and development, improve energy efficiency, reduce energy consumption, promote energy conservation and emission reduction, reduce carbon emissions, actively promote the low-carbon development of enterprises, meet the government's requirements for green environmental protection and improve the ESG rating of enterprises. [1]

In order to make green investment adapt to more financial products and have a wider range of investment opportunities, and at the same time be more helpful to the green transformation of enterprises, ESG investment (or responsible investment), which is composed of Environment, Social and Governance, has been widely concerned by the government, industry and academia. Under the concept of ESG investment, decision makers not only focus on maximizing the expected utility of wealth or output, but also incorporate the ESG level of their investment targets into their investment decisions, and expect to obtain higher and more stable long-term investment returns by maximizing the expected utility of "ESG+ wealth".

1.1. The trend of global ESG investment

ESG can also be called sustainable socially responsible investment (SRI).

1.2. ESG investment philosophy

ESG investment philosophy has three themes. One is to consider the impact of enterprises on the environment. Some business activities have actual or potential negative impacts on air, land, water, ecosystems and human health. Corporate environmental protection activities include reducing carbon dioxide emissions, managing resources and preventing pollution, and implementing environmental reports or disclosures. The second is to consider the impact of enterprises on society. Society faces a variety of problems, such as race, sex and age discrimination, labor relations, wages, employee safety, etc. Solve these problems through the company's social activities, such as promoting employee health, encouraging labor relations and protecting human rights. Third, consider the corporate governance of enterprises. Under the situation of backward corporate governance, such as the struggle for ownership and control, the lack of effective supervision of the board of directors, executive corruption and so on, the corporate value will decrease. Corporate governance activities include adjusting the interests of shareholders and management, pluralizing the board of directors, avoiding corruption and financial fraud, improving transparency and so on.

1.3. the trend of global ESG investment development

ESG investors are increasingly interested in the factors covered by ESG, especially as more and more institutional investors begin to consider environmental, social and corporate governance principles in the investment evaluation process. At present, the responsible Investment principle (UN Principles for Responsible Investment:UNPRI) supported by the United Nations provides a voluntary ESG framework for enterprises and funds, according to which investors can make ESG related investment decisions. Since the establishment of the United Nations responsible Investment principles in 2006, as of 2017, more than 1,714 institutional investors in more than 50 countries have signed UNPRI partnerships, with assets under management exceeding US $68 trillion. According to the region, Europe has the largest number of UNPRI signatories, reaching 929,415 in North America and 101in Asia. China's Yi Fangda and Huaxia two public fund companies have also become signatories to UNPRI.

2. Analysis of mainstream ESG evaluation criteria

The international mainstream evaluation system is given by the following three organizations.

2.1. UN PRI (United Nations principles for responsible Investment).

The UN Principles for Responsible Investment (PRI) is an international organization that works to promote the incorporation of environmental, social, and corporate governance factors (ESG) into investment decision-making. Launched in April 2006 with support from the United Nations (UN), the PRI has over 4,900 participating financial institutions, as of March 31, 2021. These institutions participate by becoming signatories to the PRI’s six key principles and then filing regular reports on their progress.

KEY TAKEAWAYS

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- The UN Principles for Responsible Investment is an organization dedicated to promoting environmental and social responsibility among the world's investors.
- The UN Principles for Responsible Investment relies on voluntary disclosures by participating members, called signatories.
- Today, UN Principles for Responsible Investment signatories are responsible for over $121 trillion in assets worldwide, and include some of the world's largest and most influential investors.

2.2. GRI (Global reporting Initiative)

The GRI Standards are a modular system of interconnected standards. They allow organizations to publicly report the impacts of their activities in a structured way that is transparent to stakeholders and other interested parties.The GRI Universal Standards apply to all organizations and cover core sustainability issues related to a company's impact on the economy, society, and the environment. The GRI Sector Standards apply to specific sectors, particularly those with the highest environmental impact, such as Oil and Gas, Coal, and Agriculture, Aquaculture and Fishing. The GRI Topic Standards list disclosures relevant to a particular topic area. Examples include Waste, Occupational Health and Safety, Biodiversity, Energy, Diversity and Equal Opportunity.

The foundation of sustainability reporting is for an organization to identify and prioritize its impacts on the economy, environment, and people - to be transparent about their impacts. GRI 1 is the starting point for all organizations reporting using the GRI Standards in that it lays out key concepts and principles, and lists the requirements for reporting in accordance with the GRI Standards.

An organization that has determined its material topics needs to gather relevant data to report specific information on each topic. The topics in a Sector Standard list specific disclosures from the Topic Standards identified for reporting on the topic by an organization in the sector. Where relevant, additional disclosures specific to the sector are included. The disclosures in the Topic Standards specify the information that needs to be collected to report according to the GRI Standards. Together with the disclosures from GRI 2 and GRI 3, they provide a structured way of reporting this information. If an organization cannot comply with the particular reporting requirements, it is in certain instances permitted to omit the information, provided that a valid reason is given for the omission. In addition to the requirements listed under these disclosures, there are also recommendations and guidance that would add to the quality and transparency of a report.

2.3. SASB (Board of Sustainable Accounting Standards)

The Sustainability Accounting Standards Board (SASB) is an independent non-profit, whose mission is to develop and disseminate sustainability accounting standards that help public corporations disclose material, decision-useful information to investors. That mission is accomplished through a rigorous process that includes evidence-based research and broad, balanced stakeholder participation. SASB developed sector-specific Key Performance Indicators for sustainability, which complement the CDSB Framework's principles on reporting environmental information in the mainstream corporate report. SASB provides ESG guidance for different industries to help enterprises understand which ESG factors are most important in specific industries in order to improve performance more specifically.

Besides, you should have an in-depth understanding of ESG standards and best practices in the planned investment industry. Different industries may face different ESG challenges, and understanding industry-specific ESG standards can help you assess company performance more accurately. For example, the ESG standards of the FMCG industry may focus more on product

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sustainability, carbon emissions and environmental impacts in the production process, and transparency and fairness of the supply chain. For the real estate industry, ESG standards may pay more attention to corporate carbon emissions and energy efficiency, community impact and compliance with green building standards.Accurate and so on. After an in-depth understanding of industry-specific ESG standards, investors can better evaluate a company's ESG performance and incorporate it into investment decisions. In addition, understanding industry best practices can help investors identify forward-looking companies in the industry, as well as companies that perform well in the ESG field.

3. ESG Investment Market Analysis

The importance of ESG investment is mainly reflected in climate, economy, investment and market.

3.1. Climate change and environmental problems

Climate change and environmental problems are global challenges that require global solutions. ESG has helped address these challenges by supporting companies committed to reducing carbon emissions, improving energy efficiency, and promoting sustainable development such as renewable energy.

3.2. society and economy

ESG investment pays attention not only to the financial performance of enterprises, but also to its contribution to society and economy.[2] By investing in companies that excel in social responsibility, employee rights and community development, ESG investment helps to promote social justice and economic development.

3.3. Society and economy

ESG investment emphasizes the long-term sustainability and stability of the enterprise. Those enterprises that perform well in ESG tend to have stronger risk management ability and lower operational risk. Therefore, ESG investment helps to reduce investment risk and improve the stability of investment return. society and economy. At the same time, the development of ESG investment also promotes the reform of the capital market. More and more financial institutions begin to attach importance to the ESG factor and incorporate it into their investment strategy and risk management framework. This will help to promote the sustainable development of the capital market and improve the transparency and fairness of the market.

ESG investment has become an important trend in the global financial market. Enterprises should actively promote the concept of ESG investment, strengthen the research and practice of ESG investment, and contribute to the realization of global sustainable development goals. At the same time, the government, enterprises and investors should also make joint efforts to strengthen cooperation and promote the development and completion of ESG investment.

4. ESG Investment practice

4.1. The combination of charity and the development of economic industry

Corporate social responsibility is an important part of economic development. Usually, when an enterprise develops to a certain extent, it should shoulder social responsibility in order to seek sustainable development. Therefore, some enterprises that actively explore the environment, society and innovative business models are commendable. These enterprises actively promote social

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progress through philanthropic activities and social responsibility projects. At a time when ESG investment is increasingly becoming a global trend, the tables of these companies are now likely to attract investors seeking sustainable investment opportunities.

At the same time, the communication power of social media will also be combined with public charity. Through these network platforms, famous figures in different fields, such as artists, sports personages, e-sports team, etc., can spread charitable information and public welfare power to a wider audience. the reform of this mode of communication has also brought new vitality and innovative ways to the field of public welfare.

In addition, the charity event also plays an exemplary role and influence on various industries, and each "annual charity event" has become an activity with exemplary effect and extensive influence in the industry. [3] It not only pays tribute to the strength of the philanthropic community, but also inspires more enterprises and individuals to devote themselves to philanthropy. The charitable spirit and strength shown in the ceremony has a positive demonstration effect on the combination of philanthropy and industrial economy, and plays a positive role in promoting charitable participation and public welfare innovation in all fields of society.

4.2. Climate ESG investment

Under the dual influence of climate change and social development, sustainable investment is increasingly concerned by investors, such as now has gradually become one of the mainstream investment strategies. In recent years, with the record-breaking investment scale of ESG, asset managers are scrambling to launch new products, and more and more money is flowing into sustainable investment funds, reflecting the change of investors' values. At the same time, a large number of studies show that sustainable investment has a certain long-term excess return, and both the degree of attention and performance return promote the phased development of ESG.

Sustainable investment combines ESG indicators with traditional financial data for comprehensive evaluation, and conducts in-depth research and analysis on the future fundamentals of enterprises combined with many topics that are difficult to quantify, such as "energy efficiency, community relations, corporate governance", so as to improve the rate of return on investment for investors and promote the rapid development of high-quality enterprises through asset allocation. Promote the transformation of society to green, low-carbon and high-quality development as soon as possible.

With the increasing "green washing" of sustainable assets by asset managers and fund managers, regulators and standard-setters have turned their attention to how to help investors identify sustainable investment products and effectively promote sustainable capital investment to achieve zero-carbon goals. At present, the global sustainable investment information disclosure framework and standard system is becoming more and more perfect, and there has been a trend of integration, which is conducive to the promotion of industry norms and further promote the mainstreaming, scale and globalization of ESG investment. The global sustainable fund investment model is constantly expanding, and the ESG investment concept rises around the world and drives the global sustainable fund asset regulation model to show a trend of increasing year by year.In the last quarter of 2023, global sustainable funds experienced net outflows of USD 2.5 billion, marking the first time they entered negative territory. Despite the overall decline, European sustainable funds remained resilient and attracted USD 3.3 billion of net new money in Q4, primarily driven by passive funds. On the other hand, U.S. sustainable funds saw net outflows of USD 5 billion, contributing to a total of USD 13 billion outflows for the year.

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4.3. ESG emerging investment

For this emerging thing of ESG has never stopped, and there are endless voices of support and doubt. Mainly because there is not a unified definition of ESG fund in the world, and the ESG investment strategy adopted by each fund may be different, which leads many companies to take the concept of ESG or attention to the environment as a publicity gimmick. In fact, how to define the label of green financial products or sustainable investment funds is also a "green" problem that national regulators and ESG investment institutions are trying to solve.

In April 2021, the EU formally introduced the anti-"green" rule-the Sustainable Financial Information Disclosure regulations (Sustainable Finance Disclosure Regulation, SFDR), which requires fund managers to evaluate and disclose the sustainability characteristics of their financial products, that is, fund managers must classify fund products in accordance with EU SFDR standards. According to the ESG situation, SFDR divides financial products into three categories: "unsustainable financial products" that "do not take into account any ESG factors", "pan ESG financial products" that "seek to promote the development of ESG" , and "ESG financial products" that "aim at sustainable investment or have the primary goal of reducing carbon emissions" . The main goal of the EU SFDR is to improve the transparency of environmental and social characteristics and the sustainability of financial markets, making it harder for asset managers to "green" their products-in other words, they cannot simply label their products as ESG or sustainable. In this way, it can avoid the "green" of fund products and help investors to make decisions in line with their investment objectives.

One pattern that we will see for the future is that it is becoming more and more common for rules originally focused on Europe to be extended to other regions. At present, the United Kingdom, the United States and other influential countries have also begun to turn their attention to the introduction of similar regulatory systems.

In recent years, China's ESG market has also ushered in a substantial increase in scale, but at present, the definition of ESG fund in China still lacks a strict and clear definition, which is still dominated by "pan ESG fund", and the investment concept of "pan ESG" is more reflected in the choice of industry themes and less related to ESG evaluation at the corporate level.

4.4. ESG investment market

At present, there are many participants in ESG investment market, and there are many factors that affect the development of ESG. Only there are hundreds of ESG rating agency service providers, and there are different methods of data collection and processing, resulting in great differences in rating results. However, the ESG investment methodology is still in the exploratory stage in China, and we need to effectively learn from the experience of ESG investment development in major global markets, but some specific ESG indicators and investment strategies should be selected and improved according to the market characteristics of our country, so as to meet the sustainable development goals set by the country and the needs of investors.

As one of the early fund companies involved in the field of ESG in China's public offering fund industry, Southern Fund has taken the lead in setting up ESG evaluation system and investment system since 2018, and has been committed to exploring the localization of ESG investment system. The ESG rating system of Southern Fund includes three major rating themes: environment, society and corporate governance, among which they are subdivided into several sub-themes to achieve comprehensive and detailed coverage. Through the combination of financial technology and active research, Southern Fund has creatively solved the traditional problem of lack of domestic ESG rating data. By the end of 2022 it has achieved ESG rating coverage of more than 4381 A-share stocks and 6484 bond entities, which is one of the most extensive ESG rating systems in China. At

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the same time, Southern Ke Jin actively pays attention to the major issues of social development and incorporates them into ESG indicators. A very practical case is that in 2021, Southern Fund launched the South China Securities Yangtze River Protection theme ETF, which provides investors with instrumental products to participate in the portfolio investment of listed companies under Yangtze River protection, and is also a concrete manifestation of actively implementing the concept of green finance.

However, at present, the definition standard of ESG products in our country is still vague. According to the White Paper on the Development of ESG in China in 2023 issued by Caixin, according to the difference between investment objects and investment methods, ESG public offering funds are divided according to ESG theme and pan ESG theme. In terms of the current market, more and more traditional gold products are labeled as "pan ESG", and investors are confused by the unclear definition of sustainable fund products. Therefore, in the future, China should launch clearer ESG disclosure standards as soon as possible, strictly define any products with sustainable components, so that investors can make better investment decisions. With reference to the EU SFDR exposure method, funds with pan-ESG labels are required to disclose relevant information to explain how to achieve these environmental characteristics when promoting their environmental characteristics, and if there is a specific index as a reference standard, it should indicate whether and how the index is in line with the environmental characteristics of the financial product. Financial market participants are also required to disclose the method of calculating the index.

5. The international practice of ESG investment

In recent years, the scale of overseas ESG investment has increased significantly, the investment system has been gradually improved, the investment rating standards have been enriched, and institutional investment strategies have shown diversified development.[4] The international practice of ESG investment shows three characteristics: first, the scale of global responsible investment management assets is constantly expanding. To date, UN PRI has established cooperative relations with more than 4000 signatories in more than 60 countries.

Second, ESG investment is mainly promoted spontaneously by institutions and international organizations. For investment institutions, investing in ESG projects can not only avoid the possible financial losses caused by climatic environmental and social risks, but also create a good image of attaching importance to social responsibility. For enterprises, implementing the concept of ESG will greatly increase investment in the short term (such as establishing relevant departments, improving disclosure standards and monitoring information, etc.), but good ESG performance can reduce financing cost, improve risk identification ability, and expand investment attraction, and the final benefits will cover the upfront costs. Under the spontaneous promotion of investment institutions and non-profit organizations, the United Nations and other international organizations have gradually constructed the relevant principles and framework of ESG, and formed a relatively perfect ESG investment system.

Third, the global ESG rating system is not yet unified. At present, there are differences in the specific content and assessment focus of ESG rating among different agencies. Take the international popular Morgan Stanley Capital International (MSCI) and Thomson Reuters ESG evaluation system as an example, the former focuses on the impact of corporate governance indicators on enterprises and industries, while the latter increases the score of corporate disputes.

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6. Countermeasures and suggestions for China's ESG

6.1. Constructing an ESG evaluation system with Chinese characteristics and international standards

As soon as possible the standardization of the ESG evaluation system is the basis of ESG research. Due to China's national conditions and institutional background, the current stage of economic development and industrial structure are different from those of developed countries, not only the balanced development between regions should be considered, but also the changes of production and life style and technology should be superimposed. And the international ESG rating organization is a long-distance research on Chinese enterprises, so it is difficult to ensure that it fully reflects the real situation of Chinese enterprises' ESG. For example, blindly using the ESG evaluation criteria applicable to developed countries is not conducive to the development of Chinese enterprises. Therefore, China should establish a set of recognized evaluation system that not only accords with international practice but also has Chinese realistic characteristics, establish and improve China's ESG standards, pay attention to the development of China's ESG rating agencies, improve the quality and accuracy of rating, and realize the ESG evaluation system of "domestic unity and international integration", so as to make ESG develop for a long time in theory and practice, and promote the high-quality and green development of enterprises.

6.2. To further improve the ESG information disclosure system

The regulatory authorities should, on the basis of fully considering the actual situation in China, comply with the law of the development of the capital market, formulate standard ESG information disclosure standards, and further standardize the concept of ESG development.[5] The combination of voluntary and compulsory methods can be adopted to help enterprises establish the concept of ESG development as soon as possible, improve the management's attention to ESG, enhance the awareness of ESG information disclosure, and guide the enterprise industry to substantially disclose ESG information. Strengthen the supervision of ESG information disclosure, standardize enterprise behavior, produce binding force, and make ESG information disclosure more standardized. For enterprises that actively disclose ESG information and have good ESG performance, they can give affirmation and appropriate reward to fully play a leading role.

6.3. Improve the awareness of ESG and form the cycle mechanism of "performance ESG investment"

The government should strengthen the publicity of ESG concept and actively play the role of standardizer and leader to make the enterprise management and more stakeholders understand the meaning of ESG concept, cultivate ESG consciousness, form the cycle mechanism of "performance ESG investment", popularize ESG concept, guide green investment, and promote the development of ESG concept in our country. For investors, establish the concept of ESG investment, actively consider ESG factors when making investment decisions, and actively promote enterprises to improve their ESG ratings with the concept of ESG, so as to achieve the effect of "also benefiting the world" and play a positive exemplary role.[6] For companies, we should attach importance to integrating the concept of ESG into internal corporate governance, establish a comprehensive institutional framework of ESG, comprehensively consider the three dimensions of environment, society and corporate governance, and strengthen the training of relevant talents to continuously improve their own level of ESG performance to help achieve the goal of "double carbon".

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7. Conclusions

The global adoption of ESG standards in investment strategies represents a fundamental shift towards sustainable and responsible investment practices. This trend not only reflects evolving market dynamics but also underscores an increasing awareness of the long-term benefits of incorporating ESG factors into investment decisions. The ongoing evolution of ESG investments highlights the potential for organizations to drive enhanced financial performance while creating positive societal impacts. Moreover, the emphasis on ESG criteria serves as a catalyst for organizations to improve their ESG performance, thereby bolstering their financial viability and social standing. By offering valuable insights and recommendations, research in this area plays a crucial role in guiding the development and implementation of effective ESG standards and practices, ultimately contributing to a more sustainable and socially responsible investment landscape.

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