

# Navigating the Surge of ESG Investing in a Dynamic and Challenging Regulatory Framework



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Driven by increased awareness of climate change, corporate governance, and social inequality, investments based on ESG criteria have surged. Investors are moving towards sustainable and ethical practices, recognising the broad impacts of their financial choices. This shift is part of a global response, including commitments to international accords like the Paris Agreement and rigorous regulations aimed at reducing greenhouse gas emissions and phasing out fossil fuel dependency.

However, the ESG investment landscape is complicated by rapidly evolving and diverse regulatory frameworks across different countries. This complexity is exacerbated by the lack of standardised ESG metrics and inconsistent reporting standards, which challenge accurate corporate performance evaluations, particularly for smaller or privately owned companies.

2023 has seen an uptick in stricter ESG-related regulations, pushing companies and investors to apply the same rigor to ESG considerations as to financial reporting, necessitating advanced technical expertise and external audits to ensure data reliability (*Harvard Corp Gov*). Despite varying and sometimes conflicting ESG ratings from different providers, many institutional investors have started conducting their own ESG research in-house (*Thomson Reuters: Clarifying the complex*).

The field of ESG investing, while facing significant challenges, is also marked by considerable opportunities. Advances in digital and AI technologies are enhancing ESG data analysis, facilitating more informed decisions. Additionally, rising investor interest in sustainable investments is fostering the development of sophisticated ESG-focused funds and strategies (*Grant Thornton*).

As the ESG landscape evolves, addressing data quality and regulatory compliance hurdles is paramount. The pathway to more sustainable and responsible investment practices is clear, calling for concerted efforts across the financial sector to establish standardised reporting frameworks, enhance ESG data quality, and maintain transparency in ESG evaluations.

