



13 April 2022

To: All Regulated Funds

Supervisory Issues and Information Circular

RE: Environmental, Social and Governance (“ESG”) and Sustainable Investing

The Cayman Islands Monetary Authority (“the Authority”), similar to other regulators in various jurisdictions around the globe, recognizes that Environmental, Social and Governance (“ESG”) considerations, or sustainable investing, is increasingly becoming the fastest growing investment strategy within the financial services sector. Investment funds in particular, regardless of their size and/or complexity, are pursuing this investment strategy.

The ESG strategy, as a rapidly evolving investment approach, can contribute significantly to addressing specific prevalent issues, such as climate change and sustainable investment objectives. Investors and stakeholders have already started to place significant value on ESG-related investment opportunities, and it is likely that this trend will continue. However, as with any emerging trend, regulators are required to balance establishing regulatory responses that encourage growth and innovation, while simultaneously addressing the various challenges being encountered, during the transition, to regulate ESG and sustainable funds in various jurisdictions. There is an urgent need for robust investor education related to the evolving risks and issues associated with ESG-type investments, inter alia, collecting and managing data required for risk modelling and establishing consistent transparency and disclosure requirements.

Sustainable investing is a complex and developing subject and the expectations and practices around ESG-related risks are also quickly evolving. As such, there is a growing need for regulated funds to better understand the impact of ESG-related risks in their implementation of this investment strategy. At a minimum, those charged with governance of regulated funds should have clear roles and responsibilities in managing and mitigating the risks from climate change and other ESG-related risks in line with the fund’s set investment objectives and should start establishing reliable approaches for identifying, measuring, monitoring, and managing material ESG-related risks. Additionally, funds are required to ensure clear and ongoing disclosures in the context of their reporting requirements.

As part of its supervisory mandate, the Authority will continue to undertake reviews, including assessing the available information, such as best practices undertaken in other key financial jurisdictions, with the aim of developing a suitable regulatory and supervisory approach for climate-related risks and other ESG-related risks.

Should you have any questions, please contact the Authority at ContactInvestments@cima.ky.