Global Policy Outlook June 2023

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Global Overview

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While much has happened in the first half of 2023, not much has changed in the macro geopolitical trajectory since January. The same issues remain prevalent – the Ukraine-Russia war, US-China tensions, and the post-COVID-19 supply chain realignment all continue.

However, there are signs that despite the fits and starts in each of these areas, there has been a “maturing” to each or a recognition that while most in business and finance would prefer to either go back to the way things were or to rush to the other side, they are all going to be with us for some period of time as part of our new normal. And each is having a profound impact on economies and inflation across the globe, causing central banks and policymakers to scramble for solutions.

In the US, the Federal Reserve (Fed) has been hyper-focused on controlling inflation, but markets continue to be confused about when tightening will end and rate cuts begin. As long as inflation persists well above target and the economy remains resilient, rate cuts seem far off. Meanwhile, the Biden administration continues in earnest to turn the “industrial policy” legislative successes of 2021 and 2022 into implementation reality – this includes the bipartisan Infrastructure Investment and Jobs Act, the CHIPS and Science Act, and the Inflation Reduction Act. This is hard work, and it remains to be seen whether they can deliver enough results for the American electorate to notice before the November 2024 elections.

In Europe, the European Central Bank and the Bank of England are also doing their part to battle inflation, but they are also cognizant of the vulnerabilities in their economies. The EU and UK reached an agreement over Northern Ireland. Maybe this is a sign of more cooperation to come, while more likely not, it is at least a signal of some moderation in post-Brexit EU-UK tensions.

China has declared COVID-19 over. Not only is the economy open for business, but the government is on a serious charm offensive to lure foreign company investment. This is in part to combat US efforts to limit its investment in critical areas – such as semiconductors and tech with military use – and to get its allies to do the same. The US asserts that, like Europe, it is “de-risking,” not decoupling from China. But it still feels like decoupling when compared to the full economic embrace not so long ago.

US-China tensions will continue – economic, diplomatic and, unfortunately, militarily through way-too-close engagements in the air and in the sea. But in our discussions with both governments, it’s clear that both desire to cooperate and collaborate where they can. The meeting between national security advisors was a good start, and we expect more frequent and higher level discussions to take place throughout the rest of the year. At a minimum, there is a recognition that open lines of communication are needed to prevent small misunderstandings from developing into full-blown hostile economic or military engagements. Such hostilities would not only be unfortunate for the parties involved but would clearly have an outsized impact on the world economy.

Last, like many of you, we are looking closely at the “Global South” and the Middle East – emerging markets as a financial asset class – and how those countries are leveraging China’s rise as a real alternative to the US and its allies. Some have been aggressive – namely Brazil – while others have been more subtle. Either way, this “competition” between China and the US for political influence and market share in these countries is going to be with us for some time to come.

United States

Jennifer Flitton
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Political outlook:

- With the 2024 presidential election on the horizon, the primary season is starting to heat up.
- The first Republican debate is scheduled for Aug. 20, 2023, and the first state in the nation to cast a vote in the Republican primary will be Iowa on Jan. 8, 2024. The Republican Party is planning for a debate each month from August to January. The criteria for being on the debate stage is to hold at least 1% in the polls and have 40,000 unique individual donors.
- On April 25, President Joe Biden formally announced his reelection bid with Vice President Kamala Harris by his side.
- With Congress divided and a presidential election heating up, significant legislative wins will be more difficult to attain, short of annual government funding bills and must-pass authorization bills.

Fiscal outlook:

- In May, the growing US deficit took center stage, as Biden and House Republicans battled over a debt ceiling increase.
- Congress passed the debt ceiling deal, The Fiscal Responsibility Act, with bipartisan support. The deal caps discretionary spending for two years and sets overall spending limits for FY26-FY29. It also includes a mechanism to incentivize Congress to pass all 12 spending bills by Jan. 1 of the following year. There is an automatic continuing resolution with a 1% across-the-board cut to both domestic and defense spending if all 12 appropriations bills are passed by Jan. 1, 2024. This novel approach to spending reductions as a penalty for failure to process appropriations bills could be a game changer.

Geopolitical outlook:

- In May, Biden visited world leaders in Japan at the G7 summit, where he announced an agreement to provide Ukraine with greater critical systems and training for the counter-offensive.
- With respect to US-China relations, Biden says that he plans on speaking with Chinese President Xi Jinping, though he cautioned that it may not be anytime soon. It was also reported in the run-up to the summit that other high ranking US officials, including Secretary of State Antony Blinken and Treasury Secretary Janet Yellen, are considering visits to Beijing sometime in the coming months.
- Meanwhile, bipartisan, bicameral pressure from Congress is being applied to ensure this administration continues a strategy of strength vis-à-vis China through greater oversight hearings and percolating legislation.
- Senate Majority Leader Chuck Schumer (D-NY) has indicated that his China 2.0 legislative package will limit the flow of advanced technologies to the Chinese government, boost domestic economic investments, provide an alternative to China's infrastructure project known as the Belt and Road Initiative, limit the flow of investments to China, and deter Beijing's aggression toward Taiwan.

Policy and regulatory outlook:

Banking reform

- Over the last few months, much of the hot air in the Capitol building has been directed at the Silicon Valley Bank, Signature Bank, and First Republic Bank failures.
- Unsurprisingly, Democrats are laying the blame at the feet of the Trump administration's regulatory rollback, which eased restrictions on banks with less than $250 billion in deposits, and are calling on the Federal Reserve and Federal Deposit Insurance Corporation (FDIC) to issue new rules with substantially enhanced capital and stress-testing requirements.
- Republicans argue that Biden's bank supervisors were asleep at the wheel and have lambasted his administration for engaging in yet another costly and reckless government bailout.
- The banking crisis has already been featured in several hearings with regulators from the Federal Reserve, Treasury Department, and FDIC. It has spawned dozens of letters from lawmakers demanding answers and calling for reforms.
- Several pieces of legislation have also been introduced. While it is too soon to know whether they will gain any momentum, legislation to provide the FDIC with explicit "clawback" authority and to create an independent inspector general for the Federal Reserve appear to have bipartisan support.
- The FDIC recently issued a proposed rule that sets the assessments for banks to replenish the Deposit Insurance Fund and excludes community banks from footing the bill.
- The Fed is prioritizing its holistic review of bank capital requirements and is expected to issue a proposed rule that would establish stronger capital and liquidity standards for firms over $100 billion.

United States

Energy

- **Energy-permitting reform.** As part of the debt ceiling agreement, House Speaker Kevin McCarthy was able to extract significant concessions on energy-permitting reform from the Biden administration, including reforms of the National Environmental Policy Act (NEPA), legislative approval of the Mountain Valley Pipeline, a study of interregional electric transmission, and a provision aimed at expediting approval of major energy storage infrastructure. Meanwhile, the Senate Energy Committee and Environment and Public Works Committee hope to mark up some combination of each of their bills into a bipartisan package sometime before the August break.
- **Renewable energy.** The Environmental Protection Agency (EPA) recently delivered its final SET rule that requires 2023, 2024, and 2025 Renewable Fuel Standard blending obligations to be submitted to the White House Office of Management and Budget (OMB). The OMB review marks the final stage before the promulgation of rulemaking. The OMB's description of the rulemaking does not indicate whether it will contain provisions related to electric Renewable Identification Numbers (eRINs). eRins were addressed in the proposed rule, but recent reports suggest the EPA may exclude or separate eRINs provisions from the pending rulemaking.
- The proposal foresees electric vehicle (EV) manufacturers generating as many as 600 million eRIN credits in 2024. Under the rule, one eRIN would be generated for every 6.5 biofuel-powered kwH in an EV battery.
- **New utilities emission limits.** On May 11, the EPA announced a proposed rule limiting carbon emissions from the electrical grid. The rule will take effect in the 2030s and apply to gas- and coal-fired generating plants. If the new plan goes into effect, the operators of those plants will either need to carbon capture or replace a large fraction of their fuel with hydrogen.
- **Solar tariffs.** On May 16, Biden vetoed a Congressional Review Act resolution that would have undone his two-year moratorium on solar tariffs. We don't expect Congress to override the veto.
- **Carbon capture.** With countries committing to net zero by 2050, Carbon Capture Utilization and Storage (CCUS) will be increasingly utilized. In late March, the White House Council on Environmental Quality announced members of new task forces that will provide input to inform the development of CCUS.
- **Nuclear.** In March, a bipartisan group of Senators (Risch, Barrasso, Manchin, Heinrich, Lummis, and Coons) introduced the Reduce Russian Uranium Imports Act, which ensures domestic uranium fuel production in the US. The House is moving a companion bill to ban Russian uranium. Republicans are concerned that there is not enough copper for EVs, batteries, and transmission lines, which will likely force the Biden administration to give up the zero-carbon level it has been aiming for.

Environmental, social, and governance (ESG), and climate disclosure

- **SEC Environmental, social, and governance requirements.** Last year, the Securities and Exchange Commission (SEC) issued proposed rule changes that would require registrants to include climate-related disclosures in their registration statements and periodic reports – including information about climate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition – and certain climate-related financial statement metrics in a note to their audited financial statements. The required information about climate-related risks also would include disclosure of a registrant's greenhouse gas emissions, which have become a commonly used metric to assess a registrant's exposure to such risks.
- While the SEC previously indicated it was aiming to release its final rule on disclosure of climate-related financial risk by issuers in April 2023, it failed to meet this target. Release of the rule is not expected to occur until fall 2023 – it's been delayed by internal debates on how to structure the rule to avoid legal peril, particularly in regard to the requirements on the disclosure of Scope 3 emissions.
- The SEC's proposal continues to generate a great deal of controversy in Congress and among many in the public issuer community. The rule is expected to face legal challenges upon its finalization. These challenges are likely to focus on the Scope 3 requirement, but the rule will still be subject to litigation however it is crafted.
- Although SEC staff is heavily focused on the climate disclosure rule, the proposed rule on human capital management disclosure is expected to be released this summer or early fall.
- In an effort to push back against ESG investing, several states have introduced or passed legislation to limit state money or state pension funds from being invested in ESG funds.

Regulatory push and House oversight

- With a Republican House majority, Biden continues to turn to the executive branch regulatory agencies to pursue his climate ambitions with many examples of his agencies' regulatory activity described above and even more rulemaking actions to come.
- Without explicit Congressional authority, major regulations are facing legal challenges, and should Republicans control the White House in two years, any politically contentious rules are at risk of being reversed.
- Republicans are conducting intense oversight of the administration's climate policy, calling the secretary of the interior, the secretary of energy, and the EPA administrator to testify before congressional committees in many recent hearings.
- House Republicans are also focusing on subagencies that facilitate permitting or approval of energy projects, including the Bureau of Ocean Energy Management, the Bureau of Safety and Environmental Enforcement, and the US Fish and Wildlife Service, as made evident in recent hearings.

European Union

Elizabeth Gillam
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Political outlook:

- The countdown to the next round of EU-level elections has begun. Voters across the EU's 27 member states will go to the polls from 6-9 June 2024, to elect their representatives in the European Parliament. Historically, the European Parliament has been led by a pro-EU coalition of the centre-left Socialist and Democrats Group (S&D) and the centre-right European People's Party (EPP), enabled by the centrist Liberal Democrats (Renew Europe). However, recent national elections, such as in Italy and Finland, as well as regional elections in Germany, suggest that certain EU countries are shifting politically to the right, a trend which could be reflected in the composition of the next European Parliament to the detriment of the centre-left and, more broadly, to the historic pro-EU coalition.
- While such an outcome would, of course, have implications for the European Parliament's contributions to the EU's legislative process, it would also have wider ramifications for the formation and appointment of the next European Commission, which has the exclusive right of legislative initiative. As Europe faces up to some of the most difficult economic, social, and geopolitical challenges it has faced in recent decades, it can ill afford further political fragmentation within its administrative institutions. To overcome these challenges, it will be imperative that the EU's political class can, in the next 12 months of campaigning, prove to voters that their needs are best served by voting for those who support the EU project rather than those who rail against it.

Fiscal outlook:

- The suspension of the EU's Stability and Growth Pact will be lifted at the end of 2023, meaning that EU member states will be expected to return to a sustainable fiscal footing in line with the European Commission's expectations or else face corrective action. As such, EU leaders have between now and the end of the year to agree on what such budgetary discipline looks like in a post-COVID-19, post-energy crisis world and in the face of continued geopolitical and economic uncertainty stemming from Russia's invasion of Ukraine.
- Europe will not simply return to pre-pandemic budgetary restraint, however. The European Commission is planning an interim solution that would put EU member states back on the path towards a common fiscal policy over the medium term while also reengaging excessive deficit procedures in Spring 2024 for those countries unable to sufficiently rein in spending.
- Meanwhile, the EU is soon expected to launch a European Sovereignty Fund – the EU's answer to the US Inflation Reduction Act – which aims to support growth in Europe's green/clean tech industries. However, given the significant economic pressures facing EU capitals, we do not expect that the European Sovereignty Fund will be able to match the fiscal firepower of the US act, at least not in the short term.

Geopolitical outlook:

- The Russian invasion of Ukraine remains front of mind for EU leaders, having recently announced an 11th package of sanctions since the war began. As Europe continues to provide economic and military support to Ukraine and has, for the time being at least, brought the energy crisis under control (see below), attention is now turning to the establishment of a recovery fund for Ukraine.
- Discussions regarding the size of the fund are at an early stage; however, initial estimates suggest that around EUR 400 billion could be raised through a mixture of EU borrowing and, potentially, the deployment of Russian assets seized by the EU. Progress towards EU member states' return to fiscal sustainability will no doubt play a role in these discussions, but political support for Ukraine across the bloc remains resolute.
- Meanwhile, the EU's relationship with China continues to become ever more stressed despite diplomatic efforts to de-escalate tensions. US-led discussions within the G7, which aim to impose export restrictions on China and reduce critical supply chains dependent on China, are complicating the EU's idiosyncratic ambitions to improve market access for European companies in China and to advance trade in support of the climate transition.

European Union

Policy and regulatory outlook

Banking reform

- While the European banking sector proved resilient in the face of recent crises in the US and Switzerland, the EU intends to enact legislation that would broaden the application of resolution tools, including for small and medium-sized banks, and further harmonise the way in which national deposit guarantee schemes (DGSs) are used during crisis periods, including in respect of uncovered deposits.
- Despite a renewed emphasis on ensuring the continued resilience of the banking sector, the EU's ultimate goal of creating a European Deposit Insurance Scheme (EDIS) remains elusive, and it will fall to the next European Commission to determine the best way to achieve this ambition during the 2024-2029 political cycle.

Energy

- The EU is emerging – tentatively – from the energy crisis which engulfed the region following the Russian invasion of Ukraine. Having diversified its energy supplies, replenished gas storage reserves, and implemented a targeted energy price cap, political attention is now turning to preparations for the coming winter and the imminent operationalisation of the EU's recently established Energy Platform – a mechanism facilitating natural gas and LNG (and in the future hydrogen) demand aggregation and joint purchasing by companies from the EU and the Energy Community, and a key component of the EU's plans to ensure energy security.
- Significant resources will also be allocated to implementing key elements of the EU's Fit for 55 agenda – an initiative that would see the EU reduce its greenhouse gas emissions by at least 55% by 2030. This includes hugely ambitious measures to increase the use of renewable energy while reducing energy consumption and to introduce a Carbon Border Adjustment Mechanism (CBAM), which will apply a carbon price to certain imports (e.g., cement, iron, fertiliser, electricity, etc.). The EU hopes to finalise all 17 measures before the European Parliament elections next year.

ESG

- Having introduced far-reaching ESG and sustainability-related rules at breakneck speed over the past few years, the EU will attempt to focus on implementation and, where necessary, clarification of its ever-expanding regulatory framework.
- This includes finalising the technical standards underpinning the EU's corporate sustainability reporting framework and achieving a political agreement on sustainability due diligence requirements for firms, which aim to put an end to corporate activities that give rise to adverse environmental and human rights impacts.
- Notwithstanding this apparent pause for breath, in the near term, we still expect the European Commission to bring forward a proposal to regulate ESG rating providers and, more broadly, publish further technical amendments to the EU taxonomy for sustainable activities ahead of firms' reporting obligations starting in 2024.

United Kingdom

Graham Hook
Head of UK Government Relations and Public Policy

Political outlook:

- 2024 will almost certainly be a general election year in the UK, with an autumn date most likely. Following a painful set of local election results for the Conservatives in May, Prime Minister Rishi Sunak is under pressure from his Members of Parliament to show he can close the gap on Labour's 15+ point poll lead before then.
- Sunak will look to use the Tories' annual conference in October and the autumn economic statement to pitch his election message to voters. He'll argue that his medicine for the UK economy is working, with higher growth and lower-than-forecast borrowing enabling him to dangle the carrot of future tax cuts if voters stick with him.
- The Labour leader, Keir Starmer, is under pressure too from a media narrative that has shifted from the widespread expectation of a Labour majority at the next election to the probability of a hung Parliament and a Lib/Lab coalition. While Labour still enjoys a big polling lead, support for the Labour leader remains soft, suggesting many voters remain unconvinced by his leadership.
- For both Starmer and Sunak, gaining political momentum in the next six months will be critical to their electoral chances next year.

Fiscal outlook:

- Having endured International Monetary Fund (IMF) spring forecasts that predicted a recession this year and the lowest GDP growth in the G7, the revised UK outlook for the rest of the year is now marginally brighter: Government borrowing is now forecast to undershoot official forecasts by £15 billion, despite the impact of inflation on index-linked debt, and the IMF is now predicting annual growth of 0.4% rather than a 0.3% contraction.
- With a general election in the offing, this year's autumn economic and fiscal statement becomes more significant, with Chancellor Jeremy Hunt likely to signal scope for personal tax cuts, both as an election sweetener and a riposte to internal party critics railing against the current level of taxation – the highest in the UK's recent peacetime history.
- However, the chancellor will also need to factor in continuing headwinds from the effects of ongoing public sector strikes over pay settlements, energy prices and a recent, albeit small, uptick in unemployment as he deliberates over the government's election offer.

Geopolitical outlook:

- Following recent years of fracture and friction, UK-EU relations are finally on an upward trajectory – Agreement of the Windsor Framework – resolving outstanding differences on the implementation of the Northern Ireland Protocol – has removed a major obstacle to enhanced UK-EU cooperation. In the minds of many political leaders on both sides, Brexit is now "done", and they can turn to the future. Immediate benefits include the unlocking of formal financial services regulatory cooperation and renewed talks on UK participation in the EU's Horizon scientific research programme.
- The UK will continue to apply diplomatic pressure to allies to supply Ukraine with more advanced weaponry in its defence against Russian aggression. Having won the argument on the supply of main battle tanks, the UK has successfully switched focus to the supply of F-16 jets, with US support. The UK government calculates that Russian options for escalation are limited and that a successful Ukrainian counteroffensive is the necessary pre-condition for a successful resolution to the conflict.
- On China, the UK will continue to attempt to balance national security concerns with economic interests. But through accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and a recent bolstering of defence cooperation with Japan and Australia in particular, the UK is inching towards supporting an economic and security strategy of China containment, together with the US and regional allies.

Policy and regulatory outlook:

Banking reform

- The fate of Silicon Valley Bank's UK subsidiary aside, the UK sector has also proved resilient in the face of a sharp tightening of monetary policy. The verdict from the Bank of England is that UK banks are "well-capitalised, liquid, and able to serve their customers."
- However, given that the pace of customer withdrawals was a factor in SVB's demise, the government and regulators will continue to review whether the UK's current £85,000 limit on deposit insurance needs to be raised, alongside a review of their stress-testing parameters.
- Relatedly, regulators will continue to assess the systemic risks to financial stability posed by non-bank financial intermediaries, working with international counterparts through the Financial Stability Board to develop proposals for reform.

United Kingdom

Energy policy

- In recent years, UK energy policy has suffered from political instability as successive prime ministers have adopted different approaches. As we move toward the next general election, policy stasis is likely to set in. For example, major investment announcements on new nuclear – both large scale and small modular reactors – look set to be pushed to the other side of the election.
- In the spring budget, the chancellor committed to "complete our response" to the US Inflation Reduction Act in the forthcoming autumn statement. However, given that any fiscal headroom will likely be used to fund pre-election tax cuts, the response is unlikely to encompass meaningful expenditure in the short term.
- Nonetheless, in the coming months, we are likely to see some incremental policy progress in areas such as the government's approach to bioenergy with carbon capture and storage and proposals for a UK Carbon Border Adjustment Mechanism.

ESG

- Following a March 2023 refresh of its Green Finance Strategy, we expect a flurry of policy announcements and consultations in the second half of the year from both government and the financial services regulators.
- The government plans to review the UK's non-financial corporate reporting framework at the same time as proposing a mechanism by which new global baseline sustainability reporting standards and net zero transition plans can be incorporated into corporate disclosures.
- Following several years of hiatus, we expect the government to bring forward proposals for a UK Green Taxonomy in the autumn. However, the electoral timetable likely means that the taxonomy won't go live until after the next election.
- In the meantime, the government plans to bring ESG ratings providers within the scope of the Financial Conduct Authority's regulations, and the FCA will finalise its proposals for sustainability labels and disclosures for investment products, having postponed publication of its final rules until the autumn.

Asia Pacific

Cindy Wong
Head of Legal,
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Political outlook:

- The approval rating of Japanese Prime Minister Fumio Kishida has shot up 9%, and his image as a global leader has also been enhanced since the G7 summit began on May 19. However, the recent dismissal of his executive policy secretary (who is also his eldest son) over the secretary's use of the prime minister's private residence for a private party suggested intermingling public and private interests, sparked public outrage, and eroded support for the Japanese leader. The likelihood of riding on his improved approval rating after the G7 summit and holding a quick election to cement his support has dimmed.
- The approval rating of President Yoon Suk Yeol of South Korea has also been sliding recently due to his hard-pushed labour reform and eradication of labour union corruption, as well as dropping demands that the Japanese government compensates Korean forced labour victims during the Japanese colonial period. Although his critics accused him of being soft on Korea's historical enemy, the reconciliation with Japan could allow South Korea to foster a closer relationship with like-minded allies in the region and position South Korea as a pivotal player in maintaining the international order, and not just a small regional power concerned only with affairs on the Korean Peninsula.
- Thailand's reformist opposition, the Move Forward Party (MFP), has secured a landslide victory in the May general election after voters outright rejected the military-backed parties that ruled Thailand for nearly a decade. Although the MFP may face opposition persuading the new parliament to endorse its leadership, voters have clearly sided with reform. Whichever major party leads the next government, military rule is most likely over, and the election result affirms a desire among voters to strengthen democratic institutions and impose more accountability on the military. More assertive foreign policy may be pursued by the next government, and a reassessment of Thailand's relations with autocratic regimes will likely follow.

Fiscal outlook:

- With the advent of new Bank of Japan Governor Kazuo Ueda, the market expects the removal of Japan's negative interest rate policy and normalization of Japan's monetary policy to follow, even though these plans have likely been delayed due to the fallout of the Silicon Valley Bank (SVB) failure and the ensuant market volatility.
- China's GDP grew by 4.5% in Q1 2023 on the back of an economic rebound after ending its zero COVID-19 policy. However, the job market remains fragile, with youth unemployment at a record high of 20.4%. Consumer prices barely grew whilst borrowing by households and companies also slumped in April. The official Purchasing Managers' Index also fell to 48.8 in May. Against this backdrop of weak economic data, further fiscal stimulus or monetary policy easing from the People's Bank of China could be in store.

Geopolitical outlook:

- There have recently been some positive signs for increased US-China engagement, including the meeting between China's Foreign Minister Qin Gang and US Ambassador Nicholas Burns, and the meeting between China's Minister of Commerce Wang Wentao with US Secretary of Commerce Gina Raimondo and US Trade Representative Katherine Tai. The focal point of these engagements is trade.
- Although Beijing declined Washington's proposal for US Defense Secretary Lloyd Austin to have an official meeting with his Chinese counterpart Li Shangfu, the two spoke briefly on June 2 during the Shangri-La Dialogue in Singapore.
- These senior official contacts can hardly be said to be sustained rapprochement between the two countries, but they hopefully are the first steps to keeping an open dialogue.
- Taiwan remains the key hurdle in the normalisation of relations between China and the US. The recent inking of a trade agreement between Washington and Taipei has added another damper to the already vulnerable US-China relations.
- It is expected that tension in the Taiwan Straits will likely continue to rise as Taiwan gets ready for the January 2024 presidential election.

Policy and regulatory outlook:

Banking reform

- The key jurisdictions in Asia Pacific managed to survive largely unscathed from the banking crisis triggered by the collapse of SVB. Banking and financial regulators in the region (including Australia, Japan, and Singapore) rushed to issue statements to the press confirming that their respective banking systems remained resilient and had minimal exposures to the failed banks in the US and to Credit Suisse and that their banks remained well-capitalized with healthy liquidity positions.
- Since the banking system in Asia remains largely resilient and was minimally impacted by the fallout of SVB and other regional banks in the US, banking regulators in the APAC region have not rushed in to propose banking reforms.
- Likewise, Chinese financial regulators' response to the US banking crisis was largely muted. Although no immediate impact of the SVB fallout was felt in the Chinese banking system, the matter served as a warning shot to Chinese financial regulators to further reduce financial risks and to prioritize risk prevention and control.
- Li Yunze, a career banker who has been working for decades at China's state-owned banks, was appointed as the chief of the newly established National Financial Regulatory Administration, which replaces the China Banking and Insurance Regulatory Commission and brings supervision of the industry, excluding the securities sector, into a body directly under the State Council. The appointment of Li sends a clear signal that China will steadily push forward to improve the efficiency and quality of the financial sector in serving the real economy and to safeguard China's financial security to deal with potential financial risks amid a volatile external environment.

Asia Pacific

Energy policy

- Chinese water supply authorities recently warned that the country is expected to face more frequent extreme weather events, including droughts, this year. Extreme climate events such as heavy rainfall and heat waves could hit the country in the summer. Operating with extreme weather in mind, power producers in China are expected to increase the use of high polluting and cheap coal. The recent weak economic data may also spur an increase in coal use, given local authorities are incentivized to keep power costs as low as possible for businesses and industries to expand.
- Russia's invasion of Ukraine has pushed Japan to reevaluate its energy strategy, as a sharp rise in the price of LNG has renewed Tokyo's commitment to phasing out Russian coal and oil imports. In February, Japan's Cabinet formally adopted a policy to allow the operation of nuclear reactors beyond their current 60-year limit alongside the building of new units to replace aging ones. This represents a major shift in the energy policy of Japan which was scarred by the Fukushima nuclear reactor meltdown and was once an ardent advocate for phasing out nuclear power.

ESG

- Hong Kong, Singapore, and Japan have each introduced mandatory requirements for financial services firms to disclose and manage climate-related risks in line with the Task Force on Climate-related Financial Disclosures (TCFD) framework; however, the Singapore rules go further and also include broader environmental risks. Australia recently announced its intention to introduce mandatory climate risk reporting in line with the TCFD.
- A number of jurisdictions, including Singapore and Taiwan, have introduced rules regarding standards and disclosure for ESG products. Meanwhile, Japan has also proposed requiring ESG investment trusts to provide a clear narrative description of their investment strategy and the manner in which their ESG investment trust status is reflected in their investment portfolio, or they can no longer carry "ESG" in their product name. While the requirements are largely principles-based and therefore avoid the prescription of the EU regime, many of these frameworks are notable in that they explicitly call out exclusionary ESG strategies as not being sufficient to be designated as ESG products.
- China has had a green bond catalogue for some time, and the People's Bank of China's latest issuance of the Green Bond Endorsed Projects Catalogue in 2022 was a renewed effort to bring standards of domestic green bond issuances closer to international practices. We have also been seeing other jurisdictions in Asia Pacific starting to explore the idea of green taxonomies, including Singapore, an ASEAN project, and Australia, albeit most of these initiatives are currently voluntary both for companies and for market participants.

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