# A Study of the Feasibility of Achieving ESG Objectives through Indirect Regulation of Financial Market

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## Abstract

This article examines a rising phenomenon: indirect regulation of market participants to achieve "Environmental, Social, and Governance" (ESG) goals through the regulation of financial institutions, institutional investors and self-regulatory organizations. This regulatory approach is based on two key premises: the highly regulated nature of financial markets and the demand for financial services by market participants. The article argues that first, an examination of signatory institutions indicates that the government maintains substantial control over regulated financial institutions in Taiwan. However, its influence is limited when it comes to institutions that are not directly regulated. This may provide constraints on the effectiveness of certain regulatory mechanisms when unregulated entities need to be involved. Second, the government must take into account various market factors, including the commercial interests and risk management considerations of financial institutions, the dependency of market participants on financial services, the competitive market environment, and the behavioral patterns of market participants. These factors are critical in assessing the potential effectiveness and limitations of indirect regulation through financial institutions and how financial institutions and market participants may react to the government's regulatory proposals or other regulatory initiatives. Last, transaction costs—including those related to information acquisition, oversight, and the establishment of internal controls—directly affect the behaviors of both financial institutions and market participants. These costs also determine the overall effectiveness of the regulatory framework in assisting market participants in

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providing accurate and sufficient information to the market. Additionally, addressing the effective oversight (or coordination) of financial institutions in specific sectors presents another key policy challenge. Overall, to effectively leverage financial institutions in promoting sustainable goals, the government should not only emphasize the importance of financial services but also consider the impacts of market factors and transaction costs. Moreover, it should design additional regulatory mechanisms that are specifically tailored to meet particular objectives, creating a more comprehensive approach to regulation.

**Keywords: Financial regulation, "Environmental, Social and Governance" (ESG), Sustainable Development, Indirect Regulation, Equator Principles, Principles for Responsible Investment, Stewardship Code**