


**Aurexia**

 Aurexia  
**Institute**

# **Sustainable Finance in CIB Impacts & Challenges**

**November 2020**

# What is ESG?

ESG is the consideration of *environmental, social and governance* elements alongside 'classic' financial factors in the investment decision-making process.

E

Climate change | Natural resources depletion | Waste & pollution

S

Working conditions | Local communities | Conflict | Health & safety

G

Executive pay | Bribery & corruption | Board diversity & structure

Tax transparency | Business ethics

1

### Negative / Exclusionary screening

Exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria

2

### Positive / Best-in-class screening

Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers

3

### Norm-based screening

Screening of investments against minimum standards of business practice based on international norms (OECD, UNICEF etc.)

4

### ESG integration

Inclusion of ESG risks & opportunities in investment analysis and decisions to enhance long-term risk-adjusted returns

5

### Thematic investing

Investment in themes or assets specifically related to responsibility (clean energy, green technology etc.)

6

### Impact investing

Targeted investments aimed at generating measurable positive environmental or social benefits

7

### Norm-based screening

Screening of investments against minimum standards of business practice based on international norms (OECD, UNICEF etc.)

8

### Corporate engagement & Shareholder action

Use of shareholder power to enter into a dialogue with companies and exercising both ownership rights and voice to effect change

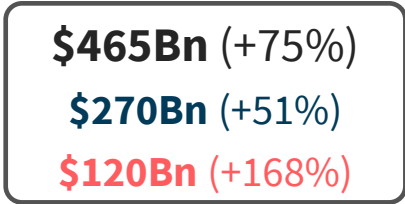


## Why is ESG investing growing?

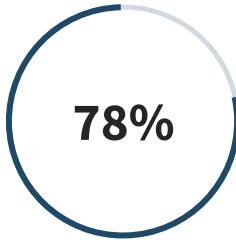
<p><b>1.</b></p> <p><b>A CHANGING WORLD</b></p> <p><i>New global challenges and risk factors are emerging:</i></p> <ul style="list-style-type: none"> <li>✓ Floods</li> <li>✓ Sea level rise</li> <li>✓ Data security</li> <li>✓ Demographic shifts etc.</li> </ul>	<p><b>2.</b></p> <p><b>A RESHAPED INVESTOR POOL</b></p> <p><i>Millennials:</i></p> <ul style="list-style-type: none"> <li>✓ 90% want to grow their allocations to responsible investments in the next 5 years</li> <li>✓ 67% believe investments 'are a way to express social, political, and environmental values' – vs. 36% of Baby Boomers</li> </ul>	<p><b>3.</b></p> <p><b>EVOLVING DATA &amp; ANALYTICS</b></p> <p><i>Enhanced data quality &amp; disclosure combined with better ESG research &amp; analytical capabilities:</i></p> <ul style="list-style-type: none"> <li>✓ More systematic, objective, quantitative and financially relevant approaches to ESG key issues</li> </ul>	<p><b>4.</b></p> <p><b>NEW TECHNOLOGIES</b></p> <p><i>Fast development of clean technologies notably due to strong competition on cost level:</i></p> <ul style="list-style-type: none"> <li>✓ Windmill efficiency</li> <li>✓ Solar panel wide adoption</li> <li>✓ Efficient water usage</li> </ul>
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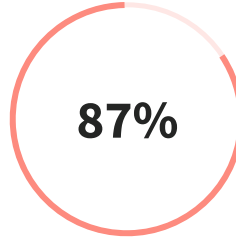
A new regulatory framework is emerging that aims at aligning the standards between sustainable finance actors.



Global Sustainable Debt issue  
Global Green Bonds issue  
Global Sustainability-linked Loans issue  
(Bloomberg, 2019 vs 2018)



Proportion of investors stating that ESG is playing a growing role or becoming an integral part of their business (BNP Paribas, 2019)



Proportion of issuers who have an ESG strategy (HSBC, 2019)



The objective of the EU’s Environmental, Social and Governance (ESG) regulatory initiatives is to divert capital to sustainable investments, and to anticipate and manage sustainability risks. The ESG regulatory agenda is designed to support the execution of the EU’s Sustainable Finance Action Plan and Green Deal, as well as the implementation of the Paris Climate Agreement.

## Diverting Capital to Sustainable Investments

- Corporate Disclosures**
  - Non-Financial Reporting Directive
  - Guidelines on reporting climate-related information
  - Credit Rating Agencies Disclosures Guidelines
- End-Investor Disclosures**
  - Sustainable Finance Disclosure Regulation
  - Green Bonds Prospectus and Standards
- Benchmarks**
  - Low Carbon Benchmarks Regulation
- Sustainability Preferences**
  - Taxonomy Regulation
  - MiFID II, PRIIPs and IDD changes

## Anticipating and Managing Sustainability Risks

- Risk Management and Supervision**
  - CRD/CRR and IFD/IFR changes
  - Undue short-termism initiatives
- Integration of Sustainability Risks**
  - MiFID II, PRIIPs and IDD changes
  - Sustainable Finance Disclosure Regulation



1

## DATA COLLECTION

- Huge difference between the ways in which ESG data providers collect company data.
- Each company has data that is publicly disclosed and can be collected using traditional information-gathering techniques.
- **There is a certain part of undisclosed data.**

2

## DATA COLLECTION

- Ensuring that sources are trustworthy, ensuring that sources are diverse, and ensuring that sources are up-to-date
- To obtain reliable and accurate data, ALTO must ensure that it only purchases ESG data from reliable and proven sources
- **There are ESG Data providers who only collect data from the websites of the companies being scored and from internal reports, which is not impartial.**



## RATINGS RELIABILITY

### *Rating transparency*

- ESG data providers have their own rating system
- ESG Data Providers make their own determinations based on more or less reliable observations.
- This is where the lack of transparency comes into play, as ESG scoring companies rarely reveal how they arrived at these determinations.
- **Lack of transparency creates an obstacle in the process of selecting an ESG data provider.**

### *Rating models*

- Models are created by collecting data from similar companies and by observing market trends, which are considered industry benchmarks
- **These are biased judgements that data providers make when they work to acquire data for the rating.**

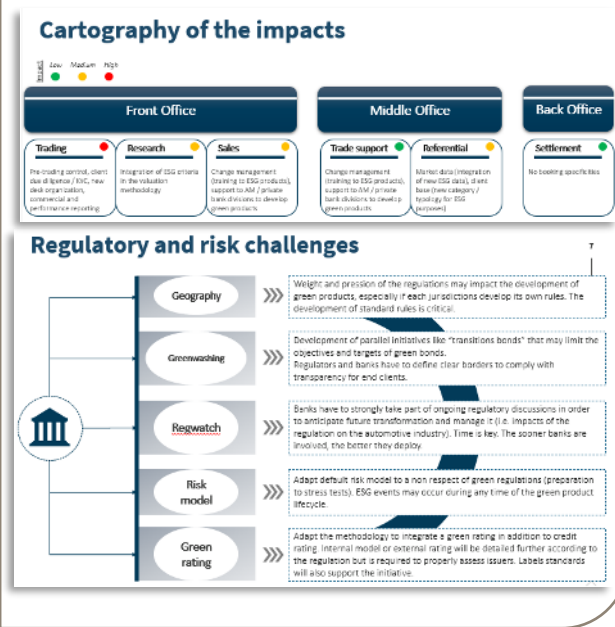
## EXISTING PRODUCTS AND CURRENT ORGANIZATION OF FINANCIAL ACTORS

- ✓ Existing “Green” product universe
- ✓ ESG organization framework within CIB departments



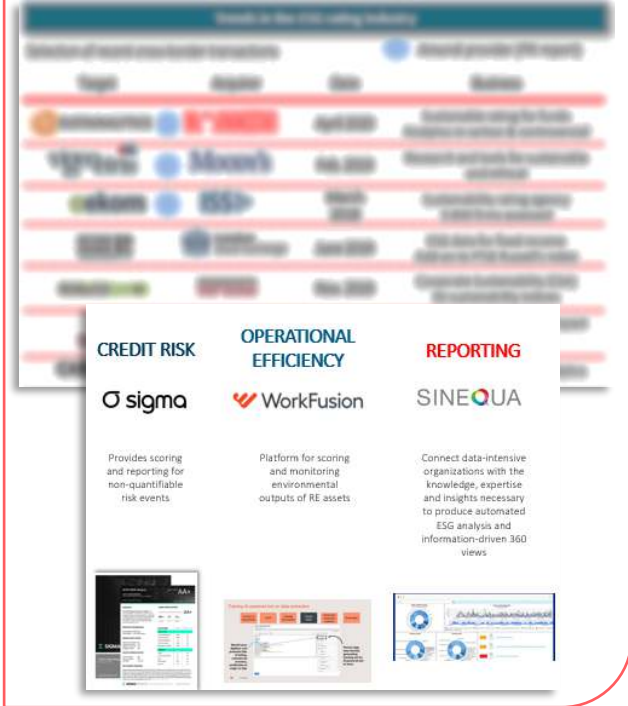
## OPERATIONAL AND REGULATORY CHALLENGES

- ✓ Integration of ESG criteria in business activity: impact analysis on the value chain.
- ✓ Regulatory and operational risks and challenges by category.



## INNOVATION IN ESG DATA MARKET

- ✓ ESG data market state of play : current actors and their specialization
- ✓ Innovation : what is the role of fintechs

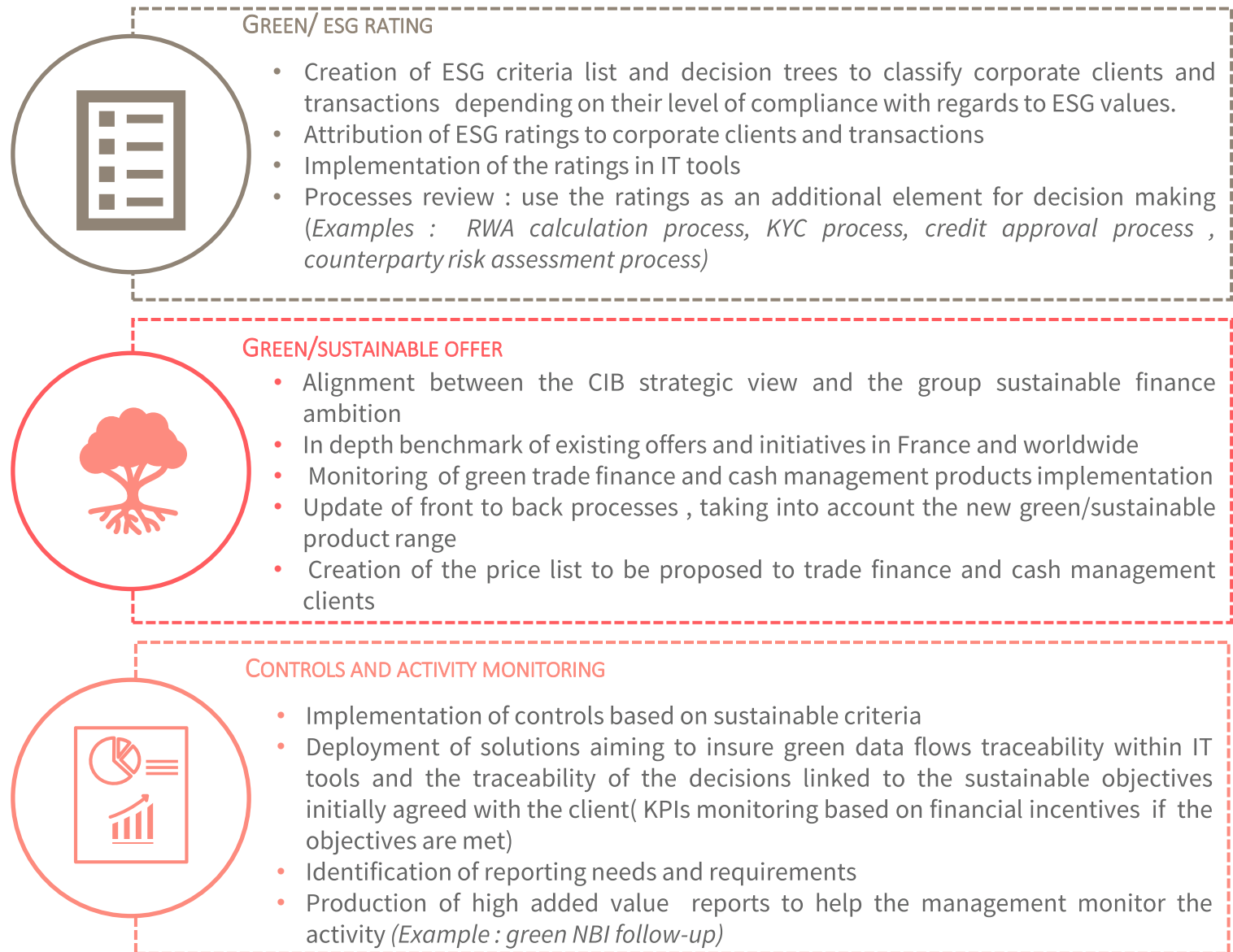


**WE CAN WORK WITH YOU ON YOUR SUSTAINABLE FINANCE PROJECTS**

Aurexia sustainability team includes a **strategy watch group** that works on **sustainable finance** topics, among which how to **integrate ESG criteria in financing and investment strategies**

In the CIB area, our **analysis** of the main French banks strategic position within the sustainable sector , allows us to **understand your challenges** and to **apprehend the issues that needs to be solved.**

Our offer (*detailed on the right*) aims to **support your sustainable initiatives** and help you sort out **operational issues.**



# L'équipe Sustainability d'Aurexia à vos côtés



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# Aurexia

Bringing value, together