

SUSTAINABLE FINANCE

How to find your way through ESG risks?

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ESG is a framework that helps stakeholders understand how an organization manages risks and opportunities around sustainability issues, focusing on the dimensions of Environmental, Social and Governance risks.

What is at stake for banking and insurance industry?

- 1 Losing financial support from ESG investors
- 2 Causing reputational harm
- 3 Violating regulatory and legal requirements

Different types of ESG related-risks



Transition risk

- ▶ Adjustment process towards a low-carbon economy
- ▶ Market demand and policy changes



Physical risk

- ▶ Extreme weather events (e.g. heat waves, floods, wildfires)
- ▶ Gradual environmental change (e.g. rising sea level)



Social risk

- ▶ Company integrity & ethics
- ▶ Working conditions



Governance risk

- ▶ Board structure & diversity
- ▶ Bribery & corruption prevention
- ▶ Executive remuneration



Legal risk

- ▶ Litigation and liability risks
- ▶ Regulatory compliance and conduct



Strategic risk

- ▶ Inconsistent ESG definitions
- ▶ Reputational risk
- ▶ Shareholder activism



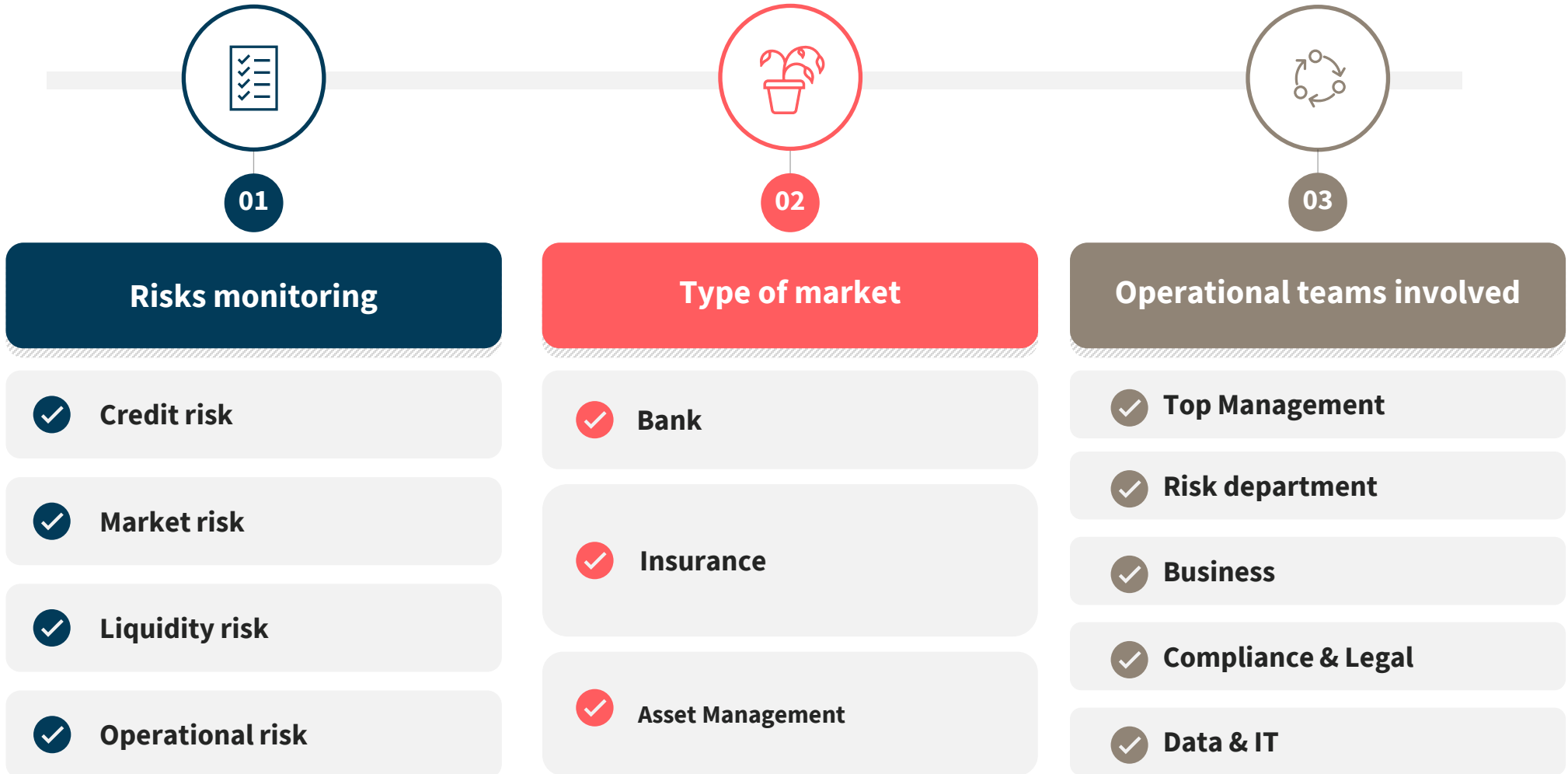
Legal and strategic risks encompass all risks of financial and reputation resulting from lack of awareness, disregard, denial of ESG stakes in its policies, is essential as any failure to consider other ESG risks will have legal and strategic risks impacts and is often minimized.

		Definition	Type of impacts
Legal risk	Inconsistent ESG definitions	Lack of awareness / transparent information when communicating on ESG risks	Greenwashing
	Reputational	Leading bank to deliver ambitious ESG commitments, ambitious roadmap to decarbonize...	Damaging the company's reputation if fail
Strategic risk	Regulatory and conduct	Regulation compliance / growing wave of ESG regulations, market practices and standards	Transparency issues
	Shareholder activism	Shareholders aiming to influencing / persuading the way ESG commitments are considered within company's strategy	"Say on climate" commitments
	Liability	ESG liabilities brought against banks (e.g. "big oil" financing)	Legal actions

Best practices to apprehend legal risk

1. Ensuring alignment on ESG regulatory requirements
2. Implementing measures of transparency to anticipate greenwashing litigations (awareness, communicating on ESG commitments...)
3. Defining internal processes, controls associated to prevent from legal risk

We expect ESG risks' main impacts in different areas, (1) in relation to financial and non-financial risks, (2) by market, and (3) on operational impacts.



Regulators and supervisors are extending the regulatory requirements and driving improved transparency around ESG risks

	2023	2024 and beyond
Transparency, disclosures and supervisory reporting	Pillar 3 on ESG risk disclosure, SFDR, EU Green Bond Standard Regulation, non-financial disclosing KPI on taxonomy, MIFID, IFR/IFD, TCFD, TNFD	Publication of Second PAI (with reference period); KPI on Taxonomy; CSDR reporting, SSB, launch of regular supervisory reporting on ESG
Risk management and supervision	Incorporation of ESG risks in ICCAAP/ILAAP and SREP guidelines (investment firms and credit institutions); EBA Guidelines of ESG internal stress testing	Application of ECB Guidelines for credit institutions to include climate risk; EBA Guidelines updated
Prudential treatment of exposures	ESG risks include into 2023 ESEP; Climate change stress test; Implementation of Basel IV, FAQs issued by BCBS on the impact from climate risk on prudential ratios and RWA/ capital requirements	Application of CRR3 and CRD6 ; Joint climate stress test across the EU
Standards and labels	EBA guidelines regarding EU green bond Standard Regulation; EBA offer to monitor EU green synthetic securitization market; Publication of “use of process”, EU Ecolabel for Retail Financial Products	EBA guidelines on green loans and mortgages; report on green securitization transactions
ESG risks and sustainable finance	Launch of ESG risk monitoring framework, collaboration of European institution to monitor climate financial stability risk	Development of standardized, public data and information tool



Contact us to address and assess your stakes around ESG risks



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**AUREXIA SUSTAINABLE: OUR LABEL
DEDICATED TO SUSTAINABLE FINANCE**

SUSTAINABLE BUSINESS STRATEGY

ESG RISKS, REGULATION AND
REPORTING

ESG INTEGRATION WITHIN
OPERATIONAL PROCESS

ESG DATA AND SCORING

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