Sustainable Finance Ireland

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UCD DUBLIN

QUEEN'S UNIVERSITY BELFAST

# SUSTAINABLE FINANCE WATCH

FEBRUARY 2021

*This newsletter provides a snapshot of the sustainable finance agenda, analysis of policy and regulatory initiatives, market trends, and the ongoing activities of Sustainable Finance Ireland.*

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Dear Reader,

Staying local, this month saw the publication of the Department of Finance *Ireland for Finance Action Plan 2021*. Prioritising Sustainable Finance, at Sustainable Finance Ireland we are delighted to have been tasked with delivering 7 of the Actions. With greater detail on these tasks provided in the Spotlight section, Action 1 sees us coordinate the development of Ireland's first national sustainable finance roadmap. With a greater number of jurisdictions now developing such roadmaps, the development of Ireland's own roadmap is mission critical as we seek to consolidate our emerging role as a leading sustainable finance centre of excellence.

A public-private sector effort, the goal is to have the roadmap delivered in advance of this year's **COP26, 1st – 12th November**. Congratulations to Minister Fleming, T.D. and the team at the Department for the publication of this year's excellent Action Plan.

We look forward to playing our part!

**THE SUSTAINABLE FINANCE IRELAND TEAM**

## IN THIS ISSUE:

# Sustainable Finance Ireland

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# SUSTAINABLE FINANCE WATCH

## ▶ INDUSTRY DEVELOPMENTS

### YELLEN URGES G20 COUNTRIES TO INCREASE GLOBAL COORDINATON TO ADDRESS CLIMATE CHANGE

Noting that the G20 was created out of the need for international cooperation in the face of a deep, extraordinary economic crisis, in a letter to her G20 colleagues this week, U.S. Secretary Treasury Janet Yellen highlighted that tackling the 'existential threat of our time: climate change' required greater global cooperation. Pledging to play an active role in preparing for COP26 later this year, she also highlighted that the U.S. Treasury will also co-chair this year the relaunched G20 sustainable finance working group. This group will advance and coordinate the G20's initiatives to promote transparency around climate-related financial risks, sustainable finance, and a strong, green recovery.

▷ READ MORE HERE

**COMMENT:** A TRULY COLLECTIVE AND MULTILATERAL RESPONSE IS THE ONLY REALISTIC SOLUTION TO THE GLOBAL CHALLENGE OF CLIMATE CHANGE. THE U.S. TREASURY'S CO-CHAIRING OF THE G20 SUSTAINABLE FINANCE WORKING GROUP SENDS A STRONG MESSAGE OF U.S. REENGAGEMENT ON THE CLIMATE AGENDA. NO SURPRISE, THE OTHER CO-CHAIR OF THIS WORKING GROUP IS CHINA.

### US SECURITIES AND EXCHANGE COMMISSION (SEC) APPOINTS FIRST SENIOR POLICY ADVISOR FOR CLIMATE AND ESG

SEC Acting Chair, Allison Lee, has named Satyam Khanna as the agency's first-ever senior policy adviser for climate and ESG, underscoring the elevation of ESG issues at the Democrat-led agency. In this role, Khanna will advise the SEC on ESG issues, review the agency's regulations, and "advance related new initiatives across its offices and divisions." The appointment marks Lee's biggest public move on ESG at the SEC since she succeeded Republican Elad Roisman as the agency's interim leader last month. Lee, a Democrat, has frequently pushed for more corporate disclosures related to ESG.

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**COMMENT:** THE APPOINTMENT SUGGESTS A STEP TOWARDS SEC-REGULATED CLIMATE RISK DISCLOSURES. IT WILL BE AN INTERESTING AND EVOLVING AREA TO OBSERVE DURING THE BIDEN ADMINISTRATION.

### GROWING SUPPORT BEHIND EU LABEL FOR GREEN INVESTMENT FUNDS

A new European Commission survey has found that 52% of respondents agreed that the EU should continue to develop an 'Ecolabel' for retail-based financial products, while 56% were in favour of widening it to cover funds aimed at professional investors. The new criteria which will be voted on in March sets an overall 'green' threshold of 50% for mixed and bond funds, 40% for equity funds and 70% for alternative investment funds. There are two types of company that can be considered green: those "investing in green growth" and those "investing in transition".

▷ READ MORE HERE

**COMMENT:** SUCH AN ECOLABEL COMES AS A FOLLOW-ON FROM THE EU ECOLABEL ATTRIBUTABLE FOR EUROPEAN CONSUMER PRODUCTS WHICH ABIDE BY HIGH ENVIRONMENTAL STANDARDS. AN EXTENSION OF THIS FOR EUROPEAN FINANCIAL PRODUCTS WILL BRING GREATER TRANSPARENCY TO THE MARKET IN TERMS OF WHAT IS AND WHAT IS NOT CONSIDERED TO BE 'GREEN'.

### ESG TO BECOME A CORE PART OF STRATEGY AT GOLDMAN SACHS

On the 12 February it was announced that Goldman Sachs settled an $800 million sustainability bond marking the start of a process that CEO of Goldman Sachs Bank USA, Carey Halio thinks "will only grow over time". Goldman Sachs expect to issue ESG bonds every 12-18 months in a bid to deploy $750 billion in sustainable financing, investing and advisory activity by 2030.

▷ READ MORE HERE

**COMMENT:** MANY OF THE TOP WALL STREET BANKS HAVE BEEN ISSUING ESG BONDS AMID PRESSURE FROM THE PRIVATE SECTOR TO DO MORE TO PROMOTE ESG ISSUES. JPMORGAN CHASE & CO., THE BIGGEST U.S. BANK BY ASSETS, PRICED A $1 BILLION SOCIAL BOND THIS MONTH AND RAISED A SIMILAR AMOUNT OF GREEN DEBT LAST YEAR. PROMINENT ESG ISSUERS SUCH AS GOLDMAN SACHS CAN HOPEFULLY HELP DRIVE THE SUSTAINABILITY AGENDA FORWARD AND HELP BORROWERS BECOME MORE ESG LITERATE GIVEN THE EXTENSIVE DATA POINTS A COMPANY MUST PROVIDE TO UNDERPIN A SUSTAINABILITY THEMED BOND.

### UK TO FUND £10M GREEN FINANCE RESEARCH CENTRE

The global rush for credible detailed information on climate financial risk has prompted the UK government to fund a new £10m green finance research centre ahead of the UN climate summit COP26 to be held in Glasgow this year. The joint initiative with the University of Oxford and other institutions aims to provide information to investors and financial institutions to better map climate risks, from physical threats, such as storms, to what are described as "transition" risks, such as potential litigation against companies and governments.

▷ READ MORE HERE

**COMMENT:** DATA QUALITY AND ACCESS ARE A PERSISTENT CHALLENGE. ONE OF THE KEY CHALLENGES FACING THE WORLD'S LEADING FINANCIAL CENTRES, INSTITUTIONAL INVESTORS AND INSURERS. AT THE SAME TIME, MANY COMPANIES STRUGGLE TO SATISFY THEIR REPORTING AND DISCLOSURE REQUIREMENTS DUE TO THE VAST RANGE OF DIFFERENT REPORTING STANDARDS AND SUSTAINABILITY METRICS – A TOPIC WE EXPLORE IN THIS MONTH'S BIG READ.

## ▶ SPOTLIGHT

### HOW IRELAND IS FUTURE-PROOFING SUSTAINABLE FINANCE

Ireland is building on stellar work in developing the sustainable finance agenda and positioning the country as a top-tier location for sustainable investment and funds. The latest part of that programme came earlier this month when Financial Services Minister Seán Fleming, T.D. launched the *Ireland for Finance* Action Plan for 2021. With four key pillars underpinning activity in 2021, Ireland will continue to strengthen its credentials as a destination of choice for specialist international financial services.

**The four pillars for 2021 are** 1) Operating Environment, 2) Technology and Innovation, 3) Talent and 4) Communications and Promotion.

And there is plenty to excite this year with the EU's Renewed Sustainable Finance Strategy (June); the continued rollout of the European Green Deal and COP26 in November – the pandemic-delayed but much anticipated UN climate talks in Glasgow.

Under this year's Action Plan, Sustainable Finance Ireland has been tasked with delivering 7 key measures.

Under the Operating Environment pillar, action 1 is centred on the creation of Ireland's first national Sustainable Finance Roadmap. This exciting initiative will further help Ireland to become a leading sustainable finance centre of excellence. In advance of COP26 the goal is to launch the roadmap during Climate Finance Week, from October 11 to 15.

Action 11 focuses on the continued efforts to raise awareness of the ESG agenda. Sustainable Finance Ireland will also promote the merits of the TCFD recommendations and support action on biodiversity finance. TCFD work will continue to Climate Finance Week 2021. It is expected that a biodiversity scoping paper will be finalised by April. A deep dive on the ESG data agenda will also be completed by early Q2.

Under the pillar of **Technology and Innovation**, the rollout of Ireland's sustainable finance innovation programme will continue. Supporting the development of new IFS ESG products and services (Action 18), the delivery is supported by the Sustainable Finance Skillnet.
Pillar Three deals with **Talent**: action 32 tasks the Sustainable Finance Skillnet to deliver training programmes in sustainable finance and responsible investment. This work will build on the success of the Sustainable Finance Skillnet in 2020 - it supported 1,400+ Irish-located professionals to raise awareness of or add to their existing sustainable finance knowledge.

Finally, under Pillar 4 **Communications and Promotion**, action 44 tasks Sustainable Finance Ireland with the continued support of the UN-convened Financial Centres for Sustainability (FC4S) global activities. With the European node of FC4S based in Dublin, a significant focus for 2021 will fall on the EU's Renewed Sustainable Finance Strategy.

In June, the second Sustainable Finance Day Summit (Action 45) will take place. Organised in partnership with the Department of Finance, the Department of Foreign Affairs, the World Bank, other multilateral agencies and the UN-convened FC4S, this event will showcase Ireland's commitment to the Paris Agreement and UN SDGs. During the 2019 event, the World Bank announced a return to the Irish market after 25 years by listing a $1.5BN green bond on Euronext Dublin. The 2020 event was cancelled due to the pandemic.

In closing, action 46 focuses on the **Climate Finance Week Ireland 2021 (#CFWI21), 11th – 15th October**. Now in its fourth year and held only a few weeks before this year's COP26 summit, the event offers an unmissable opportunity to bring together senior international decision makers and thought leaders to discuss and action how best to support and accelerate Irish efforts in this space. Ahead of this event, Action 46 sees Sustainable Finance Ireland tasked with delivering an Irish Road to COP26 programme. It will help Irish-located financial services firms prepare for this vital summit. It will be launched end March 2021.

### HOW CARBON PRICES WILL REVOLUTIONISE BALANCE SHEETS

A carbon price of $100 per tonne is being cited by many as the required price level on CO2 emissions by 2030 if attempts to limit temperature rises to 2C above pre-industrial levels are to be met. This FT article reports that such price changes would have significant effects on cost structures and profit margins. Some firms could lose more than their total EBITDA if they were subject to a $100 per tonne tax on carbon emitted holding current their total carbon emissions.

In Ireland, the current price on CO2 emissions is €33.50 per tonne for auto fuels. By May of this year, it is expected this will be extended to include solid fuels (currently taxed at €26

## ▶ SPOTLIGHT

per tonne of CO2 emitted). In line with many environmental economists' suggestions that a tax on carbon should be set at $100 per tonne of CO2 emitted, Ireland is starting from a higher carbon price level than many other jurisdictions. Government's Climate Action Plan sets a goal for its carbon tax to be set to at least €80 ($96.88) per tonne of CO2 emitted by 2030.

Sectors such as oil, gas and aviation will need to offset emissions and to do so they will need a transparent, verifiable and robust voluntary carbon market, one that promotes genuine action of high environmental integrity. Led by Mark Carney, the establishment of a Taskforce on Scaling Voluntary Carbon Markets (TSVCM) aims to deliver such a mechanism and help corporates adjust their business models to develop credible transition plans to net-zero emissions by 2050.

▹ READ MORE HERE

### BIODIVERSITY FINANCE AND THE INVESTMENT COMMUNITY

Responsible Investor and Credit Suisse, supported by IUCN, ZSL and the Nature Conservancy, launched a report this month which takes stock of where investors currently stand in terms of addressing biodiversity. As reported in our January newsletter, initiatives examining biodiversity finance have proliferated and are quickly moving centre-stage. That's because an estimated investment gap of up to $824 billion will need to be bridged each year if the decline in biodiversity is to be reversed by 2030[1].

A key finding from the study is that although 84% of respondents are very concerned about biodiversity, 72% of respondents have not yet measured the impact of their investments on biodiversity. The survey also noted that by 2030, more than 50% of respondents feel biodiversity will be one of the most important topics in the investment community. In addition, 70% of respondents believe a lack of available data is a key barrier to making investments supporting biodiversity. Finally, 22% of respondents fear that investments supporting biodiversity will hurt their financial performance. With the creation of an Informal Working Group to explore the establishment of a Task Force on Nature-related Financial Disclosures (TNFD) it is expected that such issues will be explored through market-led solutions.

Still at a relative early stage, it is clear that the biodiversity financing agenda is of growing importance to the financial industry. However, not enough is yet being done to assess the effects of investments on biodiversity. Expect this to change in the coming months.

▹ READ MORE HERE

## ▶ PODCAST

### RESPONSIBLE INVESTMENT: WHAT DOES THE FUTURE LOOK LIKE?

This month **Stephen Nolan** chats about responsible investment, the global outlook, BREXIT and the road to COP26 with **Daniel Brooksbank**, Head of Strategic Content and former Editor-in-Chief of the globally respected publication Responsible Investor.

**DANIEL BROOKSBANK**

Head of Strategic Content, Responsible Investor

▹ LISTEN HERE

## ▶ THE BIG READ – DEMYSTIFYING THE ESG DISCLOSURE AGENDA

**WHY IS ESG DISCLOSURE IMPORTANT?**

Disclosure of environmental, social and governance (ESG) information by companies of all kinds has increased substantially in recent years.

This is driven by several factors - first, a realisation by companies of the need to communicate with their investors and stakeholders and to account for their intangible assets as well as externalities. These can reap significant benefits towards enhancing their legitimacy and reputation.

Second, institutional investors and banks are putting more and more pressure on asset managers to manage material ESG risk in their investment process, which further triggers the need for investee companies to disclose their material ESG risk exposure, their actions to mitigate these risks as well as the opportunities associated with pursuing Sustainable Development Goals (SDG)-aligned business models.

Third, regulators are increasingly recognising the financial implications of ESG factors at a systemic level and institutions such as central banks and financial supervisors are increasingly considering the introduction of green finance policies, which have become more and more prevalent in many parts of the world. At the latest count, UN-convened FC4S estimates there are now more than 500 green finance policies in place worldwide.

**VOLUNTARY DISCLOSURES**

There are a wide range of voluntary ESG disclosure guidelines. Some voluntary initiatives have significant influence over the development of regulations, indeed some even transition to mandatory reporting requirements. For example, the Task Force on Climate-Related Financial Disclosures (TCFD) was set up in December 2015 by the Financial Stability Board (FSB). The TCFD has developed voluntary, consistent climate-related financial disclosures. It essentially takes the perspective of an investor and asks the reporting entity to report on issues such as the physical and transition risks and opportunities it is facing. To do so, it uses a forward-looking scenario analysis.

Both New Zealand and the UK have announced that they are introducing mandatory TCFD requirements. In Ireland, AIB, Euronext Dublin, Kingspan, CRH, Bank of Ireland and KBI Global Investors are among supporters of the TCFD. Sustainable Finance Ireland is leading a campaign this year to get more Irish-located firms to sign up to the TCFD.
Not all disclosure is relevant either, as some ESG factors are more material for some industries and not others, as well as more prominent for some companies depending on their context. Given the myriad of evolving voluntary initiatives, there have been attempts to standardise ESG disclosures, for example, the Sustainability Accounting Standards Board (SASB). The SASB sets industry-specific standards that enable companies to make financially material disclosures, with companies using their own judgment as to which is financially material.

**GREENWASHING**

However, the voluntary nature of the ESG disclosure initiatives does allow companies, should they wish, to respond in an incomplete way. But incomplete disclosures mean companies can seem to respond to shareholder pressures to disclose ESG factors, without providing levels of information that allow for any meaningful accountability. Such selective disclosure is perhaps the most frequent form of what we call 'greenwashing'. Greenwashing is the practice by companies of using biased, inaccurate or even misleading claims about their environmental and social performance. In addition to selective disclosure, greenwashing can take the form of symbolic management, deflection of public attention and the disconnect between claims of companies and their lobbying and investment activities.

There has been a global clampdown on greenwashing in recent years by policymakers and regulators. In a report released this month on the potential risks in the securities markets, the Central Bank of Ireland announced that it will increase scrutiny on funds and firms raising money internationally through the State for eco-friendly investments, to prevent greenwashing. The Central Bank said it will focus this year and beyond on the implementation of incoming international regulatory changes aimed at working out what financial products are "truly eco-friendly". This positive move will add to Ireland's growing profile as a leading sustainable finance centre of excellence.

**MANDATORY EU DISCLOSURES**

Given the challenges associated to greenwashing of voluntary disclosures across numerous channels, regulators around the world are seeking to bring more clarity to the high-growth sustainable investment space. The EU has proposed three broad regulations which impact companies, institutional investors as well as numerous other players across the investment value chain.

## THE BIG READ – DEMYSTIFYING THE ESG DISCLOSURE AGENDA

**STANDARDISATION**

For companies, the most prominent disclosure requirements are the Non-Financial Reporting Directive (the **NFRD**) and the EU Taxonomy. The EU Taxonomy also falls under the remit of the asset management industry. However, another key disclosure driver is the Sustainable Finance Disclosure Regulation (**SFDR**), which has a very broad scope. Below, we summarise the key features of these mandatory disclosures and conclude with implications for the Irish financial services and corporate community.

**NON-FINANCIAL REPORTING DIRECTIVE (NFRD)**

The NFRD has been in place since 2014. It sets out rules on disclosure of non-financial, ESG and diversity information by large EU public-interest companies (PICs), being a company with more than 500 employees. As part of the European Green Deal, in December 2019 the European Commission committed to reviewing the NFRD. With review results expected in Q1 2021, the objectives of this review are two-fold: first, to improve disclosure of climate and environmental data by companies to better inform investors about the sustainability of their investments and, second, to give effect to changes required by the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation.

**EU TAXONOMY**

The EU Taxonomy, which will apply from December 31 2021, is a common classification system establishing a list of environmentally sustainable economic activities across a wide range of industries. It mandates certain companies to report on and disclose the extent to which their business activities are aligned with the Taxonomy's definition of sustainable. While the current focus is mainly on environmental issues, the EU is working on details towards a social taxonomy. The Taxonomy applies directly to Member States, who are prohibited from introducing domestic rules that would compromise the integrity of the Taxonomy regime. Any market participant can use the Taxonomy on a voluntary basis to classify their economic activities as sustainable. However, reporting is mandatory for (1) Financial market participants offering financial products within the EU; and (2) PICs.

**SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)**

For the asset management industry, the SFDR and the Taxonomy (which supplements the SFDR) have enormous scope and application. Indeed, the SFDR introduces obligations on investors and asset managers to disclose how they integrate ESG factors into their decision-making and risk processes, as part of their duties towards investors and beneficiaries. The disclosure requirements are wide-ranging, and there are 50 sustainability measures to consider, of which 30 are mandatory. The majority of the SFDR provisions come into effect on March 10 2021. These apply at both firm and product level in respect of all financial products. Firms and advisers will be subject to additional disclosure obligations when: (i) the financial product promotes environmental and social characteristics (Article 8 of the SFDR) or (ii) has sustainable investment as part of its objective or (iii) has a reduction in carbon emissions as its objective (Article 9 of the SFDR). The Taxonomy Regulation supplements the disclosure obligations relating to products that fall under Articles 8 and 9 of the SFDR and that, in each case, invest in an economic activity that contributes to an environmental objective under the Taxonomy Regulation. The Delayed Regulatory Technical Standards for ESG disclosures (the RTS) will give more detail on what information the various disclosures should contain and how this should be presented. The RTS are likely to apply from January 1 2022.

**IMPACT OF AND OPERATIONALISING DISCLOSURE REQUIREMENTS**

These important developments – the NFRD, the Taxonomy and the SFDR - are likely to substantially impact sustainable financial products as well as the underlying sustainability profile of these investments. Given that the timing of these initiatives is not necessarily synchronised, the next three years require a significant investment in data pipelines to ensure the robust integration of these sustainability policies in investment processes as well as in data collection and disclosures of companies. The Taxonomy itself links disclosure requirements for both financial organisations and PICs and introduces a new methodology of quantifying substantial contribution to environmental objectives by focusing on one or more economic activities undertaken by an investable entity, rather than focusing on the aggregate exposure of an investable entity.

In this light, operationalising these disclosure requirements would require further significant investment in human capital, to ensure that the measurement of underlying sustainability factors and the ultimate public disclosures which result.

COVID-19 has amplified ESG awareness and expectations amongst investors, shareholders, policymakers, regulators and other wider stakeholders. We should expect no sign of a slow down by the European Commission on ESG disclosures as it seeks to further the European Green Deal.

## JOBS

**ESG ANALYST ROLE AT IRISH LIFE INVESTMENT MANAGERS (ILIM)**

Managing assets of over €80BN, ILIM provides investment products and solutions to both institutional and retail clients, offering a full range of active and indexed fund management products. Within ILIM, the ESG Team supports all investment teams and concentrates on the formal and systematic methods of integrating ESG factors, sustainability research and stewardship across all asset classes and investment strategies. An exciting opportunity has arisen for an Analyst role reporting to ILIM's Head of Responsible Investing.

▹ Further information can be found here

## EVENTS

**CDP IRELAND CLIMATE CHANGE REPORT 2020, 14:00 – 15:00, 4TH MARCH**

CDP Ireland Network is launching its Climate Change Report 2020 which provides insight into how leading companies in Ireland and around the world are responding to the challenge of climate change in their businesses, products and supply chains. This report highlights the performance of a rapidly growing number of Irish companies who responded to CDP in 2020 despite the challenges of COVID-19, and outlines the progress they are making on this critical issue. The report will be officially launched by Minister Eamon Ryan, T.D.

▹ To attend Register here

**2021: BUSINESS STEPS UP TO THE CLIMATE CHALLENGE, 11:00, 10TH MARCH**

In the lead up to this year's COP26 event in November, the role of business is increasingly under the spotlight. Recognising this and discussing the role businesses have in the #RaceToZero campaign, on the 10th March Davy's are hosting a virtual session with Nigel Topping, UN High Level Champion for Climate Action at COP26.

▹ To attend Register here

## APPOINTMENTS

Formerly of the NTMA and most recently Bank of Ireland, Deirdre Timmons has recently joined PwC where she is focusing on working with clients on their Sustainable Finance agenda. With her experience in investment management, asset management and treasury across the banking, insurance and sovereign wealth sectors, coupled with ESG and sustainability qualifications and experience, Deirdre has already been engaging with clients. A long-standing friend of the Sustainable Finance Ireland team, we wish Deirdre all the best in her new role.