Sustainable Finance Ireland

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SUSTAINABLE FINANCE WATCH

JANUARY 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.

Dear Reader,

Despite COVID-19, in 2020 the sustainable finance agenda surged. Increasing in importance throughout the last decade, and against many predictions, the global economic crisis brought on by the pandemic has only stressed the relevance of prioritizing sustainability within financial markets, to avoid or at least soften the impacts of future global threats. Considering this and noting the significant number of requests the team regularly receive to provide an update on the sustainable finance agenda, we are delighted to bring you our inaugural monthly newsletter of 2021. Developed in collaboration with University College Dublin and Queen's University Belfast, as the agenda continues to gain in importance and Irish based firms work to adopt and apply new EU sustainable finance regulations, we hope that this monthly newsletter provides you with a snapshot of key global to local activities that can assist you with your understanding of this important topic.

On another note, and with the support of our key stakeholders, Sustainable Nation Ireland has now rebranded to Sustainable Finance Ireland. Working to position Ireland as a leader in sustainable finance, while advancing best practice across all financial service sector activities in Ireland, we look forward to continuing to work with you under this updated brand.

THE SUSTAINABLE FINANCE IRELAND TEAM

IN THIS ISSUE:

INDUSTRY DEVELOPMENTS

US TREASURY SECRETARY TO FORM CLIMATE CHANGE TEAM

President Biden's Treasury Secretary, Janet Yellen, is forming a team focussed on climate change. Yellen has said she plans to start a new Treasury "hub" to examine the risks that climate change poses to the financial system and related tax policy incentives.

READ MORE HERE

US SIGNS BACK UP TO THE PARIS AGREEMENT

In one of his first acts as president, President Biden has recommitted the US to the Paris climate agreement - a move which would take effect after 30 days. Signatories pledged to keep global warming below 2C compared with pre-industrial levels, with an ambition of limiting this rise to 1.5C. Presidential climate envoy, John Kerry, stressed that "reaching net zero global carbon emissions as early as 2050 will take a wholesale transformation of the global economy".

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BLACKROCK CHIEF PUSHES A BIG NEW CLIMATE GOAL FOR THE CORPORATE WORLD

Larry Fink is using his firm's considerable influence to pressure companies to eliminate greenhouse gas emissions by 2050, including "to disclose a plan for how their business model will be compatible with a net-zero economy." He defines this as limiting global warming to no more than 2 degrees Celsius above preindustrial averages and eliminating net greenhouse gas emissions by 2050."

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ESTABLISHMENT OF CENTRAL BANK OF IRELAND CLIMATE UNIT

Gerry Cross, Director of Financial Regulation - Policy & Risk has announced the establishment of a centralised Climate Change unit within the Irish Central Bank. The establishment of this new dedicated unit reflects the importance the Central Bank is placing on its role in relation to climate risk and the financing of a sustainable economy more generally. The unit will operate in a hub and spoke model involving for example the Bank's different sectoral policy and supervisory areas.

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AKER HORIZONS ACQUIRES MAINSTREAM RENEWABLE POWER

The Norwegian investment giant Aker Horizons has taken a 75% stake in Mainstream Renewable Power, the global wind and solar energy group founded by Eddie O'Connor in 2008. The deal, which is subject to regulatory and other approvals, values the company at up to €1 billion including earn-out.

READ MORE HERE

WORLD ECONOMIC FORUM ANNUAL RISKS REPORT

Earlier this week, the WEF released the 16th edition of their annual Global Risks Report 2021. The risk posed by infectious diseases is now ranked at number one, while in 2020 it came in 10th place. But despite the focus on COVID-19, it is climate-related matters that make up the bulk of this year's risk list, which the report describes as "an existential threat to humanity."

READ MORE HERE

FK INTERNATIONAL LAUNCHES SUSTAINABLE FINANCE & ESG DESK

Financial recruiter FK International has launched Ireland's first dedicated Sustainable Finance & ESG desk. FK International is currently engaging with key stakeholders to understand recruitment needs, identifying suitable talent pools for specific competencies and consulting with relevant candidates to understand how they can upskill.

READ MORE HERE

▶ SPOTLIGHT

2020 SUSTAINABLE FINANCE SURGE

Even in the midst of the COVID-19 pandemic, 2020 saw a significant surge in capital allocation directed towards sustainable finance activities. ESG and Sustainable Development Goals (SDGs) aligned ETFs grew from under $59bn at the end of 2019 to just over $174bn at the close of 2020. Equities were not alone as debt instruments like green and ESG bonds reached record highs at both a national and global level. The Green Bonds market grew to $1.002 trillion in cumulative issuance to date with a record $269 billion of which issued in 2020. Closer to home, Dublin's ESG bond listings for 2020 surpassed €28 billion in cumulative issuance – the highest annual figure to date, this was spread over a record 108 issuances, of which €7.6 billion was listed in Q4. 2020 also saw the emergence of social, sustainability and sustainability-linked bond listings on the Euronext Dublin exchange. More content and reading resources can be found in the **MSCI, 2021 ESG Trends to** read report here.

ARE YOU READY? On the 10th March, the EU Regulation on sustainability related disclosures in the financial services sector (SFDR) comes into force.

The SFDR was published in December 2019 with the first provisions coming into force, 10th March 2021. It is one of the first set of regulatory measures by the EU Commission seeking to incentivise the flow of capital towards sustainable economic developments, A key regulation, it requires financial market participants (e.g., fund managers, insurance-based investment product providers, banks, pension product providers and institutions providing portfolio management solutions) to formulate and implement policies with respect to the adverse impacts of their investment decisions on sustainability factors. SFDR further requires asset managers to make a business decision for each financial product that it makes available, whether to either: (a) assess the likely impacts of sustainability risks on the returns of each financial product; or (b) explain why it does not consider sustainability risks to be relevant to a particular financial product. During Climate Finance Week Ireland 2020, Maples Group gave an excellent masterclass webinar on the SFDR which provided attendees with an in-depth analysis of the legal, regulatory, management, and practical skills needed to understand the regulation and come into compliance ahead of the deadline. Opened by the Central Bank of Ireland's Gerry Cross, Director of Financial Regulation – Policy & Risk, the webinar can be found here. Please scroll to 04:00:00 for this session.

STAYING WITH THE EU, the newly appointed EU Platform on Sustainable Finance ramps up its activities.

Established by the European Commission in October 2020, the Platform on Sustainable Finance is tasked with developing the key components needed to achieve a 'European Green Deal', and will advise on the EU's Green Taxonomy (EU's classification of sustainable economic activities) and on the usability of sustainable financial datasets. Also advising on the monitoring and reporting on capital flows towards sustainable investments in Europe, over the coming months the platform aims to reach out to a wide range of stakeholders through both public consultations and targeted outreach. Professor Andreas Hoepner, of UCD Michael Smurfit Graduate Business School, and Dr Theodor Cojoianu, of Queen's Management School, are the only finance professors elected to the EU Commission's Platform on Sustainable Finance. Sustainable Finance Ireland Advisors, they were appointed based on their world-class expertise related to sustainable financial data science and environmental management. Their work in University College Dublin has also been at the forefront of using AI to detect greenwashing.

SPOTLIGHT

EU JITTERS OVER US RETURN TO PARIS AGREEMENT

With US President Joe Biden planning to inject $2 trillion into clean energy during his 4-year term, almost double the figure of the EU budget for 2021-2027, this article notes that such a stimulus could overshadow the EU's own efforts in decarbonising the energy system. Commenting, European Commission President Ursula von der Leyen admitted that although it was "great news" to see the US re-join the Paris Agreement, it was "further reason for Europe to speed up its effort to get moving and to keep the 1st mover advantage." On the flip side, there is significant scope for EU-US cooperation in projects like a carbon border tax, reforestation and carbon capture.

▷ READ MORE HERE

FINANCIAL CENTRES SET THE STAGE FOR SUSTAINABLE FINANCE'S EXPONENTIAL GROWTH

On the 20th of January the UN-convened Financial Centres for Sustainability (FC4S) published their latest market trends report – *Shifting Gears II*. Providing an unmatched global reference of where the world's leading financial centres stand in terms of sustainability, and the role they can play in supporting the global economic recovery, this report presents the findings from an in-depth assessment of actions in 24 FC4S members, which together represent + 2,000 ESG or green labelled investment funds, and over $1T in listed green & sustainable debt instruments. Among the key messages, the report notes that debt capital markets persist as the most mature sector, and equities are following closely as a result of the broad development of ESG data, though diverging methodologies between providers still hamper comparability. Sustainable banking and insurance solutions still have the furthest to go. Highlights include that financial centre commitments - including banks, institutional investors, and insurers - are increasing, demonstrating that additional allocations on green and sustainable finance are being increasingly targeted and that pledges to ban or exclude firms engaged in coal activities and fossil fuel financing are multiplying. In addition, data quality and availability are a persistent challenge. More consistent, granular, and comprehensive data is both a regulatory and market requirement. Current advances in data analytics can help embrace ESG data inherent complexities. Inadequate investment pipelines and the lack of sustainable products are still challenges for scaling-up sustainable finance.

IRISH TCFD CAMPAIGN

During Climate Finance Week Ireland November 2020, Minister for Finance, Paschal Donohoe T.D., noted Government's support for the work of the Task Force on Climate-related Financial Disclosures (TCFD). Press release here. With the TCFD providing clarity to companies reporting on climate risks and increasing the transparency required to meet the Paris Agreement goals, globally it is viewed as an important framework for firms to report against. The recommendations promote more informed financial decision-making by investors, lenders and others. Aiming to increase the number of Irish TCFD supporters and users of the framework, Sustainable Finance Ireland is undertaking a campaign to accelerate Irish firms' commitment to reporting their approach to climate change via the TCFD framework. The campaign will be using the model of the Japan TCFD Consortium as a template to add more firms to the current list of Irish located firms already signed up as TCFD supporters. This list includes AIB, Euronext, CRH, Bank of Ireland, KBI Global Investors and Kingspan.

▶ THE BIG READ – FINANCING BIODIVERSITY [2]

Climate Change and Biodiversity Loss are often presented as the two environment-related issues with a potential to undermine humankind. In the public eye, climate change is now a household word and international cooperation to address climate change is now very sophisticated. Climate finance is now an established field, attracting some of the best minds in the financial world.

If biodiversity finance is still far behind that curve, the planetary threat of biodiversity loss and ecosystem degradation has sharply moved to centre stage, especially in the past year or two. As it has, the link between the workings of the financial system and the damage to nature and natural resources has become a central topic in promoting the sustainable finance transition.

Initiatives examining biodiversity finance have proliferated, and many have taken a systemic view of the changes needed to align the financial system with the needs of a healthy planet. A basic question has emerged: *"what reforms are needed to the rules governing financial and capital markets to ensure that these align with the requirements of a healthy planet?". More immediately, the question is "how can biodiversity risk and impact be made material in the decisions taken by financial institutions and actors?"*

Mainstream financial sector actors need to understand the opportunities and challenges that this new phenomenon offers and ensure that they are equipped to take advantage of the opportunities as they pursue their own sustainable finance transformation strategies.

IN EXPLORING THIS AGENDA FURTHER, KEY FACETS OF THE ISSUE INCLUDE:

INVESTMENT

Years of concerted effort have tried to bring together investors keen on nature-related impact investment, and those with ideas for such investments. Despite these efforts, a large gap remains. Most of the projects offered fall short in terms of meeting the risk and return requirements of the investors. The latter (with the exception of Deep Impact investors) are reluctant to loosen their criteria in exchange for the impact alone. And neither side has the capacity to work on bridging the gap.

SEVERAL INITIATIVES – e.g., the Credit Suisse Conservation Finance Conferences or the Coalition for Private Investment in Conservation (CPIC) have been working on closing this gap for years, with some success. Others, like the Nature Conservancy's NatureVest specialize in developing investor-grade impact project relating to nature.

With biodiversity investment becoming a centre of attention, financial sector actors should have a clear understanding of the challenges and opportunities and enjoy full access to best practice. For example, how can mainstream investors be helped/advised/compelled to use their proxy votes to signal the importance of biodiversity to investee companies? What tools can help them to identify companies that are doing particularly badly or particularly well on biodiversity, which in the former case might lead to engagement on the topic? What indicators on the biodiversity performance of companies, currently or potentially available to investors, could be integrated by ESG-integrated investment managers into their investment processes, in the same way that carbon footprint can be integrated today? What kinds of corporate behaviour related to biodiversity are so egregious that companies involved should be entirely excluded from portfolios (i.e., what is the biodiversity equivalent of tobacco production or coal mining/generation)?

NORMS

The gap identified above is unlikely to be filled by expecting investors to show more flexibility, or by the development of more robust projects. Some

[2] UN-convened FC4S Financing Biodiversity paper

▶ THE BIG READ – FINANCING BIODIVERSITY

development of norms and regulations is likely to be required. These range from extending liability for damage to biodiversity to the financial community, development of the trend to recognize the "legal personhood" of nature, and new principles such as "No Net Loss" of biodiversity in the course of corporate or financial operations, including up and down the value chain.

DATA

One of the highest obstacles to making biodiversity loss material to financial decision-making is the lack of sound data presented in a form that can be readily used by financial actors. Ironically, most of the data needed is in the public domain. Commercial data giants like Refinitiv aim to become the "Bloomberg" of biodiversity, but there is a gap in translating the raw data into what shows up on the terminal. Efforts are underway to fill this gap in the pre-competitive space with an open-source platform for biodiversity data relevant to financial decision-making. Financial sector actors need to understand and track developments in this space.

NEW INSTRUMENTS – Nature Performance Bonds, explosion of green bonds

It is well known that the Green Bond market has expanded dramatically over the past few years, again looking at a near doubling in 2020 alone. Though "use of proceeds" bonds like Green Bonds are only comparatively rarely used for nature-related projects, the proportion is growing, and new instruments are emerging in this space. One interesting initiative is the development of Nature Performance Bonds. Designed to alleviate extreme indebtedness of developing countries, they offer relief (e.g., in the form of a lowered interest rate) to countries in exchange for specific monitored and verified performance on biodiversity conservation efforts set out in advance. They have the potential to move to scale in a short time.

TNFD and disclosure of both risk and impact

Along with data, the importance of disclosure by financial institutions of key information relating to biodiversity has been recognized in the creation of an Informal Working Group to explore the establishment of the Task Force on Nature-related Financial Disclosure (TNFD). Modelled on the earlier Task Force on Climate-related Financial Disclosure (TCFD) it differs both in its intention to address not only risk-related disclosure (as was the case with TCFD) but also disclosure enabling a better understanding of impact.

FINTECH

Digital financial technology is revolutionising financial decision-making and, in many cases, the balance of power. Fintech applied to biodiversity finance is a new field. Financial sector actors could benefit from a comprehensive briefing on developments in biodiversity-related fintech, along with the challenges and opportunities that lie in this new and rapidly developing field.

ACTION

During Climate Finance Week Ireland 2020 (CFWI20), a panel on this topic - Unlocking Financing for Biodiversity by private investors was held. This panel session discussed key priorities and opportunities to mobilise the Irish located financial sector in support of biodiversity action, while exploring outstanding issues with assessing and managing biodiversity impacts, dependencies and risks for the financial sector.

Building on the CFWI20 panel discussion, in Q1 2021 Sustainable Finance Ireland is developing a research paper on this topic exploring the agenda and its potential impact on Irish located financial service sector actors. In this work, Sustainable Finance Ireland is leveraging off the leadership work of the UN-convened Financial Centres for Sustainability (FC4S) network. FC4S has established a working group of members to explore this topic and its impact on the financial services sector. Dublin is a member of this working group.

APPOINTMENTS

KBI Global Investors' Eoin Fahy, Head of Responsible Investing and Chief Economist is the incoming chair of the CDP Ireland Committee. An international, not-for-profit organisation providing the world's leading global platform for companies and cities to measure, disclose, manage and share vital environmental information, the CDP Ireland Network represents the CDP's interests in Ireland.

ESG STORIES:
ADVENTURES IN RESPONSIBLE INVESTING 2021 **PODCAST SERIES**

The Sustainable Finance Ireland ESG Stories: ***Adventures in Responsible Investing 2021*** podcast series kicks off in February. Exploring new and emerging trends in sustainable finance, the podcast series provides a platform to shine a light on the many challenges and opportunities presented to the world's financial system by climate change, and the wider ESG agenda. A snapshot of our 2020 podcasts are below.

CLIMATE AND THE CENTRAL BANK OF IRELAND

ED SIBLEY, Deputy Governor Prudential Regulation of the Central Bank of Ireland

▷ LISTEN HERE

THE SOCIAL LICENCE

COLIN HUNT, CEO, AIB

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HARNESSING THE "DAVID ATTENBOROUGH AFFECT"

SARAH NORRIS, Investment Director, Aberdeen Standard Investments

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