

P.R.I.M.E. Finance

Panel of Recognized International Market Experts in Finance



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Climate Change and Sustainable Finance

Role of the Investor

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P.R.I.M.E. Finance Annual Conference 2020
3 February 2020, The Hague

ESG Investing

- **Different investment approaches to Sustainable Finance/ESG**
- **Negative screening - e.g., no investment in companies that produce fossil fuels**
- **“Integration” of ESG factors and risks – including climate change**
- **More and more “integration” is mainstream - regulatory drivers will continue to push in this direction**
- **Spectrum of Capital is a useful framework**



Choices and strategies for investors on the “spectrum of capital”



Approach	TRADITIONAL	RESPONSIBLE	SUSTAINABLE	IMPACT DRIVEN		PHILANTHROPY		
Financial goals	Target competitive risk-adjusted financial returns			Unchartered returns	Below-market returns	Partial capital preservation	Complete capital loss	
Impact goals	<div style="background-color: #008080; color: white; padding: 5px; margin-bottom: 5px;">Avoid harm and mitigate ESG risks</div> <div style="background-color: #008080; color: white; padding: 5px; margin-bottom: 5px;">Benefit all stakeholders</div> <div style="background-color: #008080; color: white; padding: 5px;">Contribute to solutions</div>							
Description	Limited or no regard for ESG practices or societal impact	Mitigate risky ESG practices, often in order to protect value	Adopt progressive ESG practices that may / are expected to enhance value	Address societal challenges that generate competitive financial returns for investors	Address societal challenges where returns are unknown, or investors risks largely unknown	Address societal challenges that require a below-market financial return for investors	Address societal challenges by supporting non-commercially viable models, inc. guarantees	Address societal challenge with donations or with the expectation of full capital loss
				The 'impact economy'				

Source: Bridges Impact+ and the Impact Management Project.



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Key legislation

- **Sustainability Taxonomy**
 - Political deal on Green Taxonomy reached in triologue
 - “Sustainable activities” + DNH + Social baseline
 - Review clause – 2021 includes Social Taxonomy
- **Sustainable Finance Disclosure Regulation (SFRD)**
 - Text published in 2019; Level 2 from ESAs by end Q1 2020
 - Focus on material adverse impacts will inform other work
- **MiFID 2 ESG Suitability Delegated Act;**
UCITS/AIFMD/MiFID entity changes based on ESMA
work – expected in Q2 2020
- **Non-Financial Reporting Directive (NFRD) – EC changes**



Future focus

- **Global convergence on measurement/reporting regulation**
 - **Global organisations: OECD/IOSCO/FSB**
 - **FSB Task Force on Climate-related Financial Disclosures**
 - **EU is first mover: SFRD/NFRD**
 - **Other Initiatives: UNPRI/GRI/SASB/GIIN/IMP**
- **Standards/Labelling work**
 - **BSI/ISO**
 - **EU Ecolabel**
- **Benchmarks**
 - **EU carbon reduction benchmarks – 1.5%/2.0%**
 - **World Benchmark Alliance**

