Climate Change and Sustainable Finance
Role of the Investor

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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”

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<th>Approach</th>
<th>Traditional</th>
<th>Responsible</th>
<th>Sustainable</th>
<th>Impact Driven</th>
<th>Philanthropy</th>
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- **Avoid harm and mitigate ESG risks**
- **Benefit all stakeholders**
- **Contribute to solutions**

The ‘impact economy’

Source: Bridges Impact+ and the Impact Management Project.
Key legislation

• Sustainability Taxonomy
  ➢ Political deal on Green Taxonomy reached in trialogue
  ➢ “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