

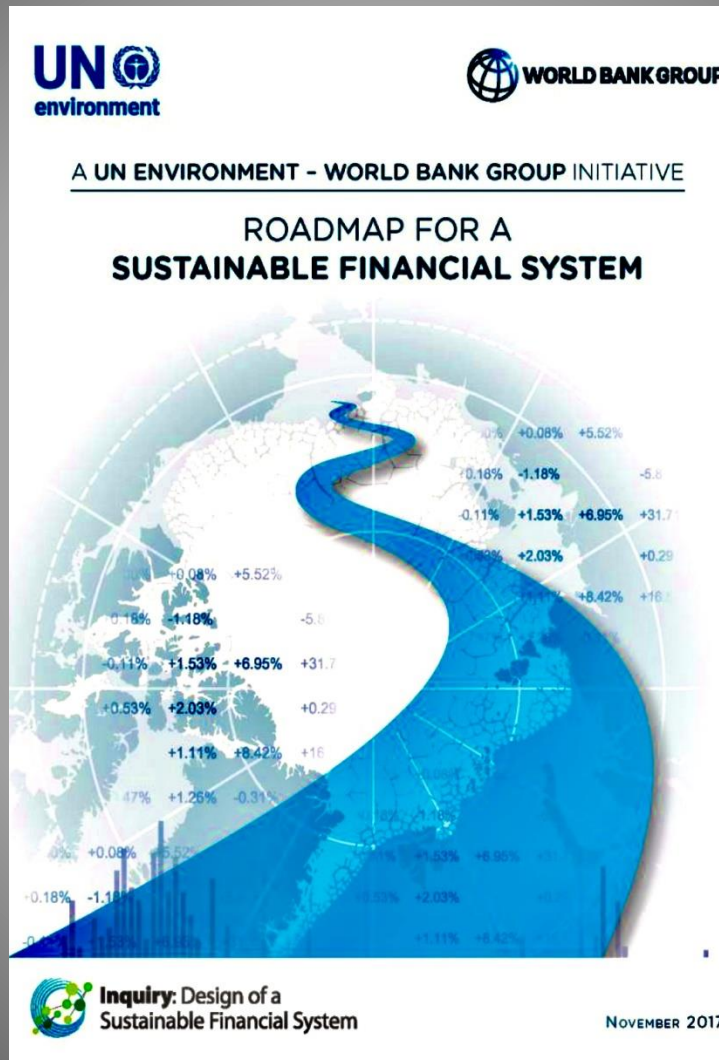
How European action on Sustainable Finance is leading to a change of mindset amongst investors

Richard Howitt

Strategic Advisor on Corporate Responsibility and Sustainability and former CEO, International Integrated Reporting Council
Sustainable Impact Summit, London, 18 March 2020



Transition to a Sustainable Financial System



UN
environment

WORLD BANK GROUP

A UN ENVIRONMENT - WORLD BANK GROUP INITIATIVE

**ROADMAP FOR A
SUSTAINABLE FINANCIAL SYSTEM**

**Inquiry: Design of a
Sustainable Financial System**

NOVEMBER 2017

The cover features a globe with a blue path winding across it. Various percentage values are scattered across the globe, including: +0.08%, +5.52%, -0.18%, -1.18%, -5.6%, -0.11%, +1.53%, +6.95%, +31.7%, +0.53%, +2.03%, +0.29%, +1.11%, +8.42%, +16.1%, +0.47%, +1.26%, -0.31%, +0.08%, +5.52%, +0.03%, +4.03%, +8.95%, +1.11%, +8.42%, +0.18%, -1.11%, +0.03%, +2.03%, +0.11%, +1.53%, +6.95%, +31.7%, +1.11%, +8.42%.



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European response

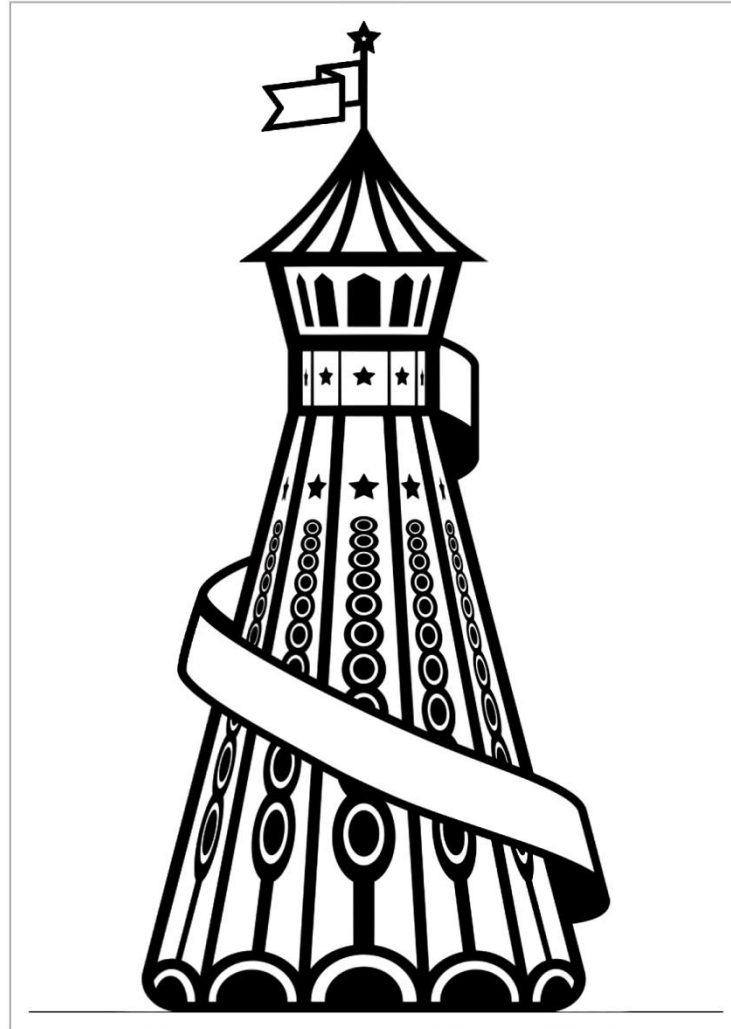


Four pillars of the EU Sustainable Finance Action Plan



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An unprecedented level of activity



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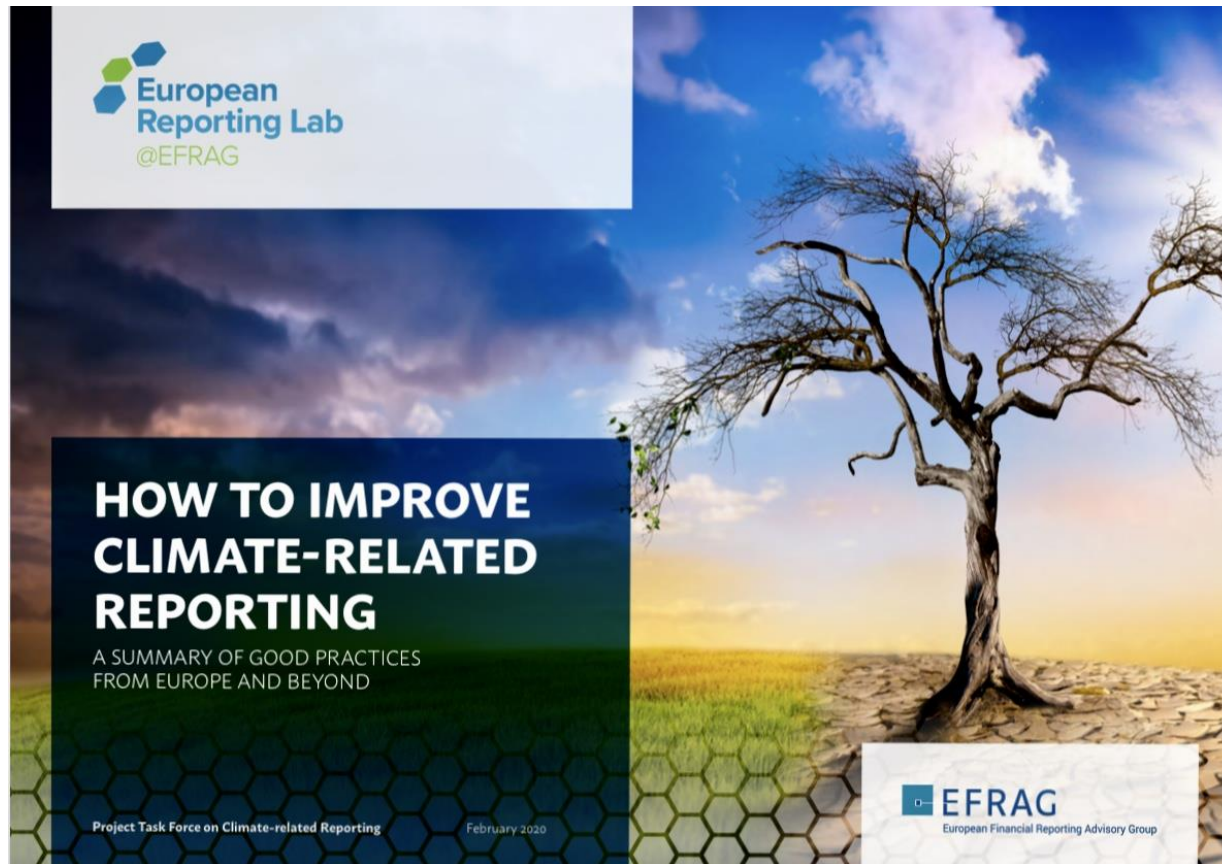
Regulation on sustainability-related disclosure

Organisation	Requirements
Financial Institutions	<p>At entity level, financial institutions must disclose:</p> <ul style="list-style-type: none"> ■ Details of their policies on the integration of sustainability risks into investment decision-making and sustainability in remuneration policies. ■ Whether and how they consider the principal adverse impacts of their investments on sustainability (comply or explain for smaller firms). <p>For all products, financial institutions must disclose:</p> <ul style="list-style-type: none"> ■ How sustainability risks are integrated in investment decisions, their likely impact on the financial product (comply or explain). ■ Whether and how a financial product considers principal adverse impacts on sustainability factors (comply or explain). <p>For funds targeting sustainability objectives, financial institutions must disclose:</p> <ul style="list-style-type: none"> ■ A description of the sustainability objectives of the product, details of how they are met, and the overall sustainability impact of the product.
Financial advisors	<p>At entity level, financial advisors must disclose:</p> <ul style="list-style-type: none"> ■ Details of their policies on the integration of sustainability risks into investment and insurance advice, and how sustainability is integrated into remuneration policies. ■ Whether and how adverse sustainability impacts are considered. <p>For all products, financial advisers must disclose:</p> <ul style="list-style-type: none"> ■ How sustainability risks are integrated into their investment or insurance advice, their likely impact on the financial product (comply or explain).



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Reporting lab on climate-related reporting



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EU taxonomy on sustainable activities



Six environmental objectives defined in the
taxonomy



Climate benchmarks

EU Climate Transition Benchmark (EU EU Paris-aligned CTB)

The main users of EU CTBs are institutional investors such as pension funds and (re)insurance companies with the objective of protecting a significant share of their assets against various investment risks related to climate change and the transition to a low-carbon economy, labelled as transition risks by the **TCFD**.

Benchmark (EU PAB)

The main users of EU PABs are institutional investors which aim to display more urgency than CTB investors and want to be at the forefront of the immediate transition towards a +1.5°C scenario.



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European Investment Bank – world's first climate bank



Fossil fuel divestment

**European Investment Bank to
phase out fossil fuel financing**



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Revision of the Non-Financial Reporting Directive

The revision of the Non-Financial Reporting Directive



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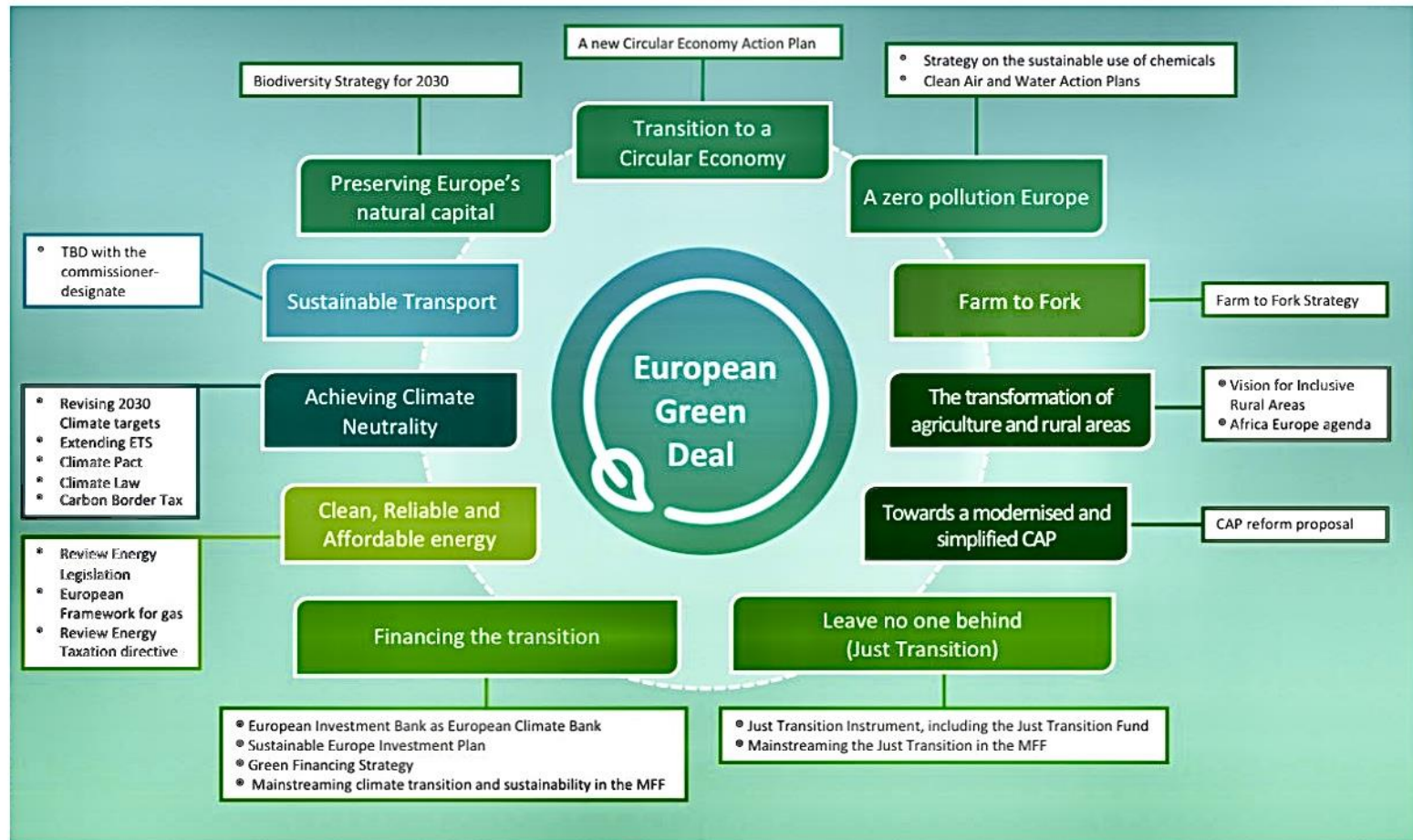


Circular Economy Action Plan



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The “Green Deal”



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Forthcoming measures

- Green Bond standard
- European Securities and Markets Authority sustainability technical standards
- Carbon border tax

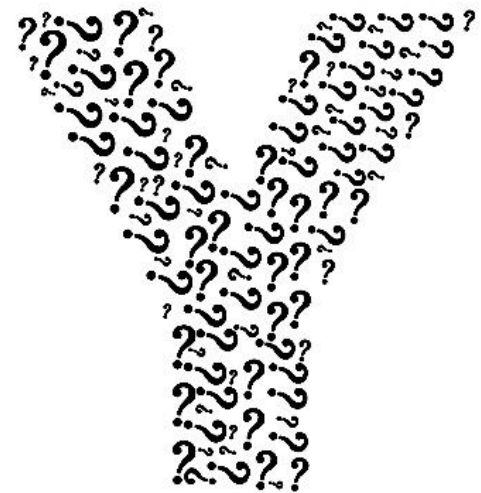
To achieve the revised, more ambitious 2030 target, by June 2021 the Commission will then propose reviews of the:

- European Emissions Trading System (EU-ETS) Directive;
- Effort Sharing Regulation;
- Land use, land use change and forestry (LULUCF) Regulation;
- Energy Efficiency Directive;
- Renewable Energy Directive;
- CO2 emissions performance standards for cars and vans;

Several other initiatives in preparation under the European Green Deal will also help achieve the objectives of the Climate Law, including making a proposal for a “carbon border adjustment mechanism” for selected sectors, launching a new EU Adaptation Strategy and the European Climate Pact.



European activism



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Implications for UK-based investors



March 03, 2020 03:04 PM

SEC revisits 'names rule' to address growth of ESG, other funds



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ESG moving in to the mainstream



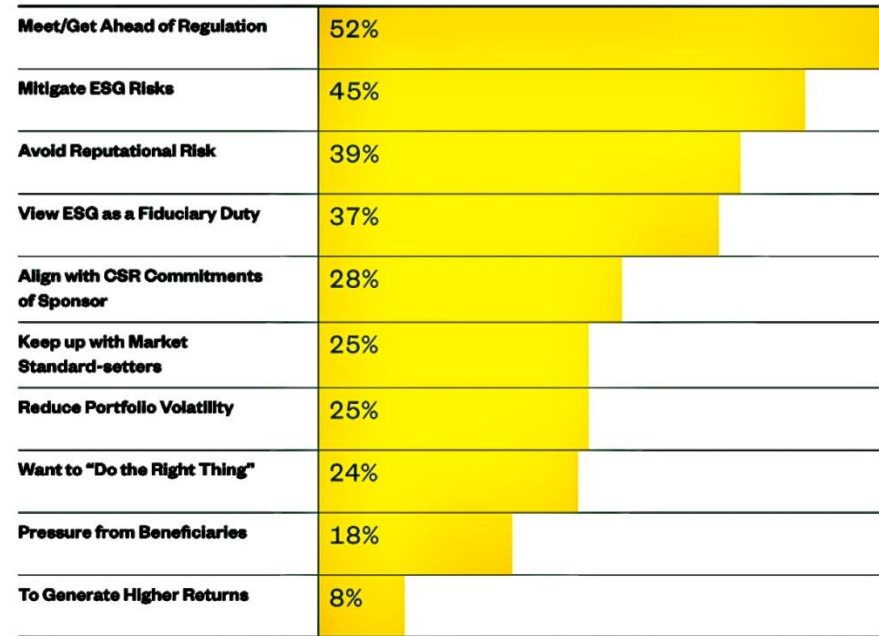
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Moving towards integrated investment

The evolution of sustainable investing

Values-Based, Ethical-Investment	Socially Responsible Investment, "SRI"	"Materiality" – Based ESG-Analysis
Negative Screening	Focus on ESG-disclosures	Sector-specific ESG-analysis, risk management, "HOW"
"SIN" sector-exclusions	"Best-in-Class"	"ESG-integration"
Personal preferences, "subjective"	"Glossy CSR-reports" Risk of "Greenwash"?	Analytical, risk focused, "objective"
Ethical indexes, funds	Sustainability indexes, "FTSE 4Good"	Standardisation: GRI, SASB, IR
Unclear evidence of outperformance	Some links to LT outperformance	Clear links to LT outperformance
Originally religious, later retail investors	European investors, mainly retail	European and US investors, institutional and retail

Factors leading to ESG adoption in Europe:



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Becoming part of 'fiduciary duty'



value
balancing
alliance

We integrate business into society and nature for a better future.

mission

Our standardized model empowers de-
cision-makers to create and protect
long-term value.

Cookie Policy



Impact monetisation

Help to shape consensus via our online forum,
Managing Impact

IMPACT MANAGEMENT PROJECT

Harvard Business Review | Idea Lab



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ESG Standardisation is on its way



Investment Association Launches New Attempt to Standardise ESG Definitions

EC to initiate work on European non-financial reporting standards



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And what if we don't?

Ignore environmental, social and governance risks at your peril

Alexandra Britton

Thursday, February 1, 2018 - 1:15am



ESG problems can interfere with high financial performance.



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Thank-you!

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