Sustainable Finance is here to stay...

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Sustainable development over time

The debate on environmental issues and sustainable development dates back to the 70’s and the attention given to the topic has increased exponentially over the last decade. This has led to a series of global commitments and initiatives that promote changes in the current institutional, economic and financial models.

1972
Club of Rome

“The Limits to Growth”

Publication of a report on the computer simulation of exponential economic growth with a finite supply of resources
- The earth’s resources cannot support present rates of economic and population growth much beyond the year 2100

1987
Brundtland Report

42nd UN General Assembly, New York
“Our Common Future”

Defines the concept of sustainable development
- “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

1992
Agenda 21

UN conference on Environment and Development - Earth Summit, Rio de Janeiro

Non-binding action plan with regard to sustainable development
- Focuses on developmental and environmental objectives

1997
Kyoto Protocol

3rd Climate Change Conference (COP3 - UNFCCC), Kyoto

Entered into force in 2005, commits its country parties by setting non-binding emission reduction targets
- Countries must meet their targets primarily through national measures and/or market-based mechanisms

2000/2001
Millennium Development Goals (MDGs)

55th UN General Assembly / Millennium Summit, New York

Sets 8 goals to be achieved by 2015
- Aims at combating poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women

2009
Copenhagen

15th UN Climate Change Conference (COP15 - UNFCCC), Copenhagen

Reached the conclusion that climate change is one of the greatest challenges to be faced and actions are required
- Recognises the scientific case for acting on global warming

2015
Sustainable Development Goals (SDGs)

69th UN General Assembly / UN Sustainable Development Summit, New York

The UN 2030 Agenda sets out 17 goals to be achieved until 2030
- The SDGs cover several social, economic and environmental issues with the aim to promote prosperity while protecting the planet

2015
Paris Agreement

21st UN Climate Change Conference (COP 21 – UNFCCC), Paris

First-ever universal, legally binding global climate deal adopted by 195 countries
- Aims at limiting the global temperature rise this century well below 2°C above pre-industrial levels and at pursuing efforts to limit the temperature increase even further to 1.5°C

2018
EU Action Plan on Financing Sustainable Growth

EU Commission

The Action Plan is part of a strategy to integrate environmental, social and governance considerations into the financial policy framework and mobilise finance for sustainable growth

2019
European Green Deal

EU Commission

New EU growth strategy with four objectives:
- Climate neutrality by 2050
- Reduction of environmental pollution
- Global leadership in clean products & technologies
- Ensuring a fair and inclusive transition

Definitions

Sustainable Finance

> *"Sustainable finance is the provision of financing to investments taking into account Environmental, Social and Governance (ESG) considerations.*

European Commission (2019)

Responsible investment

> *"Responsible investment is an approach to managing assets that sees investors include environmental, social and governance (ESG) factors in:*
> - *their decisions about what to invest in*
> - *the role they play as owners and creditors*
>
> *It aims to combine better risk management with improved portfolio returns, and to reflect investor and beneficiary values in an investment strategy. It complements traditional financial analysis and portfolio construction techniques.*

UN Principles for Responsible Investment (UN PRI)

What defines Responsible investment?

- Importance of environmental, social and governance (ESG) factors
- Long-term sustainable returns
- Stable, well-functioning and well governed social, environmental and economic systems

What does "ESG" stand for?

Environmental issues	Social issues	Governance issues
• Climate change • Greenhouse gas emissions • Resource depletion (incl. water) • Waste and pollution • Deforestation	• Working conditions (incl. child labour) • Local communities • Health and safety • Employees relations and diversity	• Executive pay • Bribery and corruption • Political lobbying and donations • Board diversity and structure • Tax strategy

SDGs

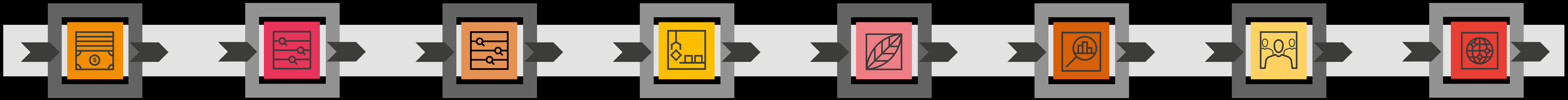
17 Goals to transform our world

The SDGs seek to improve the world by setting 17 investible targets

Main responsible investment strategies

Financial institutions increasingly adopt one or a combination of more responsible investment strategies. The approaches are quite diverse and offer multiple ways of addressing sustainability issues, depending on the level of commitment of an organisation and on the relative weight of financial performance or impact orientation.

Financial performance



Traditional investing	Seeks financial returns regardless of ESG factors
Exclusion / negative screening	Excludes certain industry sectors, entities or countries (tobacco, weapons etc.)
Norm-based screening	Screening of investments according to their compliance with international standards and norms (UN GC, ILO etc.)
Best-in-class selection	Investments that target companies or industries with better ESG performance
Thematic investing / sustainability themed	Investments that specifically target sustainability themes (clean energy, etc.)
ESG integration	Explicit inclusion and analysis of ESG factors as part of investment decision making
Stakeholder engagement / voting	Engagement activities and active ownership through voting of shares and engagement with companies on ESG matters
Impact investing	Investments that target social and environmental impact alongside financial return

Impact-oriented

Main voluntary initiatives

Financial institutions can become signatories or adopt several different principles and initiatives that support sustainable development and foster transparency and disclosure of information.

Key drivers of Sustainable Finance

Sustainable finance is not merely a regulatory requirement but rather an increasingly demand-driven business opportunity. Risk is also a quite common driver that pushes financial institutions to invest responsibly, alongside other factors such as market trends and the willingness to create new fields of income.

1

Spotlight on New business oportunities

Sustainable finance offers attractive opportunities for business development, including the creation of new income streams and the increase of market share due to first or early mover advantages.

- **New products / services / business models**
- **New client segments**

‣ The significant **increase in client demand** for sustainable products and services is one of the key factors that is driving the growing commitments in the field of sustainable finance

2

Spotlight on risk

Inclusion of ESG criteria in analysis and decision making processes and in **internal risk management** to manage especially **climate change related risks** and improve returns

- **Credit default risk**
- **Loss of value of collaterals**
- **Indirect social and ethical risks** (e.g. associated with pollution, exploitative or unethical customers)

3 Spotlight on existing and upcoming requirements

Existing requirements

Topic	Description	Requirements	Status	Type
Non-Financial Disclosure Directive	It aims at **increasing transparency and performance** in respect of ESG matters	Large public-interest companies need to **include a non-financial information statement in the management report on the company's current activity in ESG matters**	In force	Mandatory
Shareholder Rights Directive II (SRD II)	It seeks to **improve corporate governance** by encouraging more long-term shareholder engagement	**Stronger shareholders rights** (incl. identification requirements) • More transparency (with regards to ESG) • Right to vote on remuneration policy and remuneration report	In force	Mandatory
IORP II Directive	It aims at **facilitating the development of occupational retirement savings**	**IORPs (Institutions for Occupational Retirement Provision) are required to take into account ESG factors**	In force	Mandatory

Upcoming requirements: EU Action Plan on Financing Sustainable Growth

Topic	Description	Requirements	Entry into force	Implementation	Type
Taxonomy	It sets out uniform **EU-wide criteria** for determining whether an economic activity is **environmentally sustainable**	• **Financial market participants** need to be compliant with the taxonomy when offering financial products as environmentally sustainable investments or as investments having similar characteristics	Still unknown (expected 2020)	From 1 July 2020 until 31 December 2022	Mandatory
Disclosure	It **increases overall transparency**, by reducing the asymmetry of information between end-investors and financial entities	• **Financial market participants, insurance intermediaries and investment firms need to publish on their websites** written policies on the integration of sustainability risks and information on their sustainable financial products (if any) • Information on sustainability risks need to be included in **pre-contractual disclosures**	29 December 2020	From 10 March 2021 to 30 December 2022	Mandatory
CO2-Benchmark	It establishes the **EU Climate Transition Benchmark (EU CTB)**, which is a low-carbon benchmark, and the **EU Paris-aligned Benchmark (EU PAB)**, which is a positive carbon impact benchmark	• **Benchmark administrators** are subject to the requirements if they choose to label their benchmark as EU CTB or EU PAB • They **have to publish or make available information on the methodology used and on how ESG factors are reflected**	10 December 2019	From 30 April 2020 to 31 December 2022	Mandatory
Sustainability in MiFID II	Amendment to include the customer's ESG preferences in the criteria and practical details to be taken into account by **investment firms** providing financial advice and portfolio management **when assessing the suitability of products and services for their customers**	• Investment firms providing financial advice and portfolio management needs to **ask clients about their ESG preferences in the suitability assessment** • They have to **include ESG factors and client's preferences** when giving information about financial products • They have to explain to clients how their ESG preferences were taken into account	Still unknown	12 months after entry into force	Mandatory
Sustainability in IDD	Amendment to include the customer's ESG preferences in the criteria and practical details to be taken into account **by insurance intermediaries** and insurance undertakings **when assessing the suitability of insurance-based investment products for their customers**	• Insurance intermediaries providing advice on an insurance-based investment product need to **take into account their client's ESG preferences in the investment and advisory process**	Still unknown	12 months after entry into force	Mandatory
Sustainability in UCITS And Sustainability in AIFMD	Technical advice by ESMA to amend the **Undertakings for Collective Investment in Transferable Securities Directive (UCITS)** and **the Alternative Investment Fund Managers Directive (AIFMD)** Level 2 frameworks	• UCITS management companies and AIFMs should include sustainability in the list of material risks to be managed and integrate sustainability risks into investment decision-making procedures • They should also take into account sustainability risks when complying with **due diligence requirements** and when **conflicts of interest** occur	Still unknown	Still unknown	Mandatory
Sustainability in Solvency II	Inclusion of ESG-factors into the **valuation of assets and liabilities, underwriting and investment decisions and risk measurement**	• **Companies' investment policies** will need to be updated to include specific **references to ESG factors** under the current proposals and further work may be required to ensure adherence to such policy changes	Still unknown	Still unknown	Mandatory
EU Green Bond Standard	**Creation of a voluntary, non-legislative EU Green Bond Standard** to enhance the effectiveness, transparency, comparability and credibility of the green bond market and to encourage the market participants to issue and invest in EU green bonds		Still unknown	Still unknown	Voluntary
EU Ecolabel	**Creation of a voluntary EU Ecolabel for financial products**, which will consider the issue of how the taxonomy links to financial products, and therefore indirectly how it links to financial assets and companies		Still unknown	Still unknown	Voluntary

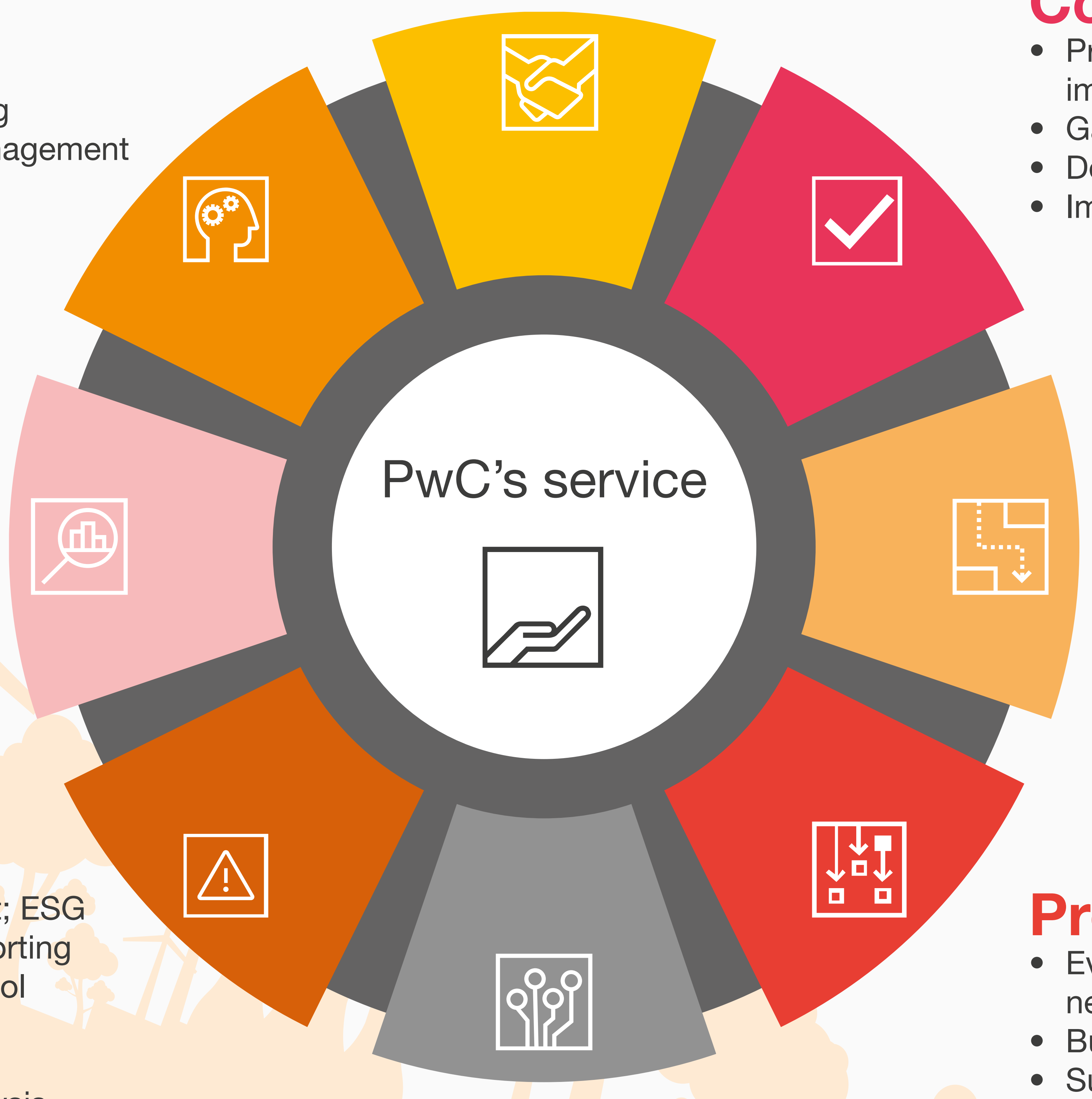
PwC's service offering

Assurance
- Assurance over policies and procedures, processes, controls, data

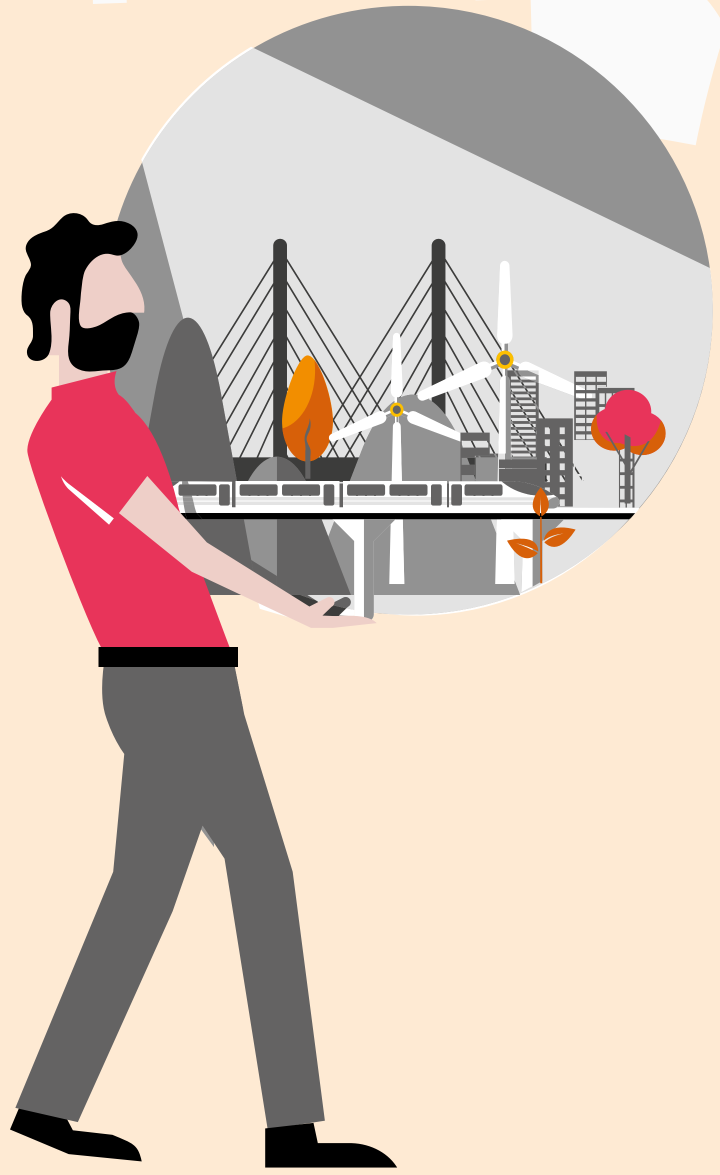
Upskilling
- Foundations- and awareness training
- Knowledge- and competence training
- Fit and proper training for senior management

Compliance
- Provision of detailed overviews on regulatory requirements and assessment of impacts on your business
- Gap analysis and health check on regulatory and market requirements
- Definition of target operating models
- Implementation support

Reporting/Marketing
- Analysis and evaluation of voluntary sustainable finance initiatives (e.g. PRI, GC); implementation support
- Design and implementation of CSR- /non-financial reporting (e.g. TCFD, GRI)
- Marketing support; design / amendment of marketing materials



Strategy
- Market- and competitor analysis; benchmarking; identification of best practices
- Development of options for strategic orientation and positioning; goal-setting; strategy development
- Assistance in strategy definition on Sustainable Finance, ESG and CSR



Risk
- Risk management support; ESG risk assessment and –reporting
- PwC ESG risk reporting tool
- Due diligence support
- Stress testing
- Climate risk scenario analysis

Products/Services
- Evaluation of existing products /business models; identification of options for new products, services or business models
- Business model adjustments; product development; portfolio strategy design
- Support with ESG labelling/rating

ESG data/impact measurement
- Evaluation of data requirements, support in decision on data providers (long list / short list)
- Controlling framework (design and implementation support)
- PwC Digital Intelligence Services (market- & consumer sentiment analysis)

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