LuxFLAG Sustainable Investment Week

Shaping a resilient world

17 Oct. 2023 - 19 Oct. 2023

CONFERENCE REPORT

#LSIW23

www.luxflag/lsiw23.org

GREEN BUSINESS EVENTS.

The LuxFLAG Sustainable Investment Week 2023 has been certified by The Green Business Events logo.

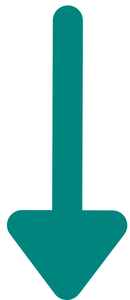
This logo, awarded by the General Directorate for Tourism of the Ministère de l'Économie, Luxembourg and coordinated by Oekozenter Pafendall recognizes events that diligently adhere to eco-responsible criteria.

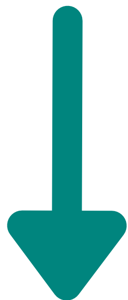
At LuxFLAG, we have always been committed to sustainability and this certification reaffirms our dedication to making a positive impact on the environment. We are proud to be a part of the green movement and to set an example in our industry.

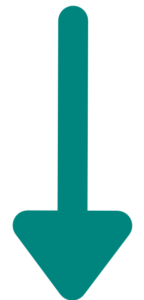
For more details on this certification, please visit www.greenbusinessevents.lu

KEY THEMES

- Transition: Opportunities & Challenges
- Human Rights: Considerations & Responses
- Impact Investing: Next Steps
- Regulatory Insights: When & How
- Private Markets: Redeploying Capital
- Enablers: Banks, Insurers & Support Services







3 AFTERNOONS	PHYSICAL EVENT	568 ATTENDEES	23 SESSIONS	40+ SPEAKERS	1 NETWORKING COCKTAIL

LUXFLAG Sustainable Investment Week

Shaping a resilient world

LUXFLAG Supporting Sustainable Finance

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DENISE VOSS

Chairwoman
LuxFLAG

ISABELLE DELAS

CEO
LuxFLAG

The 5th edition of the LuxFLAG Sustainable Investment Week, #LSIW23, marked a significant continuation of the ongoing objective to share best practices on sustainable finance by, among and for its members - as well as the wider financial ecosystem represented in Luxembourg - and in line with the goal of "Shaping a resilient world".

As Isabelle Delas, Chief Executive Officer, LuxFLAG remarked: "LuxFLAG is very proud to say that since the 1st edition of the LSIW back in 2019, there has been great progress made by our members in terms of sustainable finance best practises."

Additional aspects to note in this latest edition beyond the range of key topics addressed around sustainable finance - including climate finance and ESG impact investing in line with the UN Sustainable Development Goals - include being certified a Green Business Event for its environmentally friendly event organisation by the General Directorate for Tourism of Luxembourg, Ministry of the Economy, and hosting sessions on 17 October 2023, which marked the 31st United Nations designated International Day for the Eradication of Poverty.

The Day's theme of "Decent Work and Social Protection: Putting Dignity in Practice for All" gives LSIW even more significant meaning, Isabelle Delas noted. The UN Secretary General Antonio Guterres in his message to honour the Day stated that nearly 700 million people are barely scraping by, living on less than $2.15 per day, while over a billion people are deprived of basic needs like food, water, healthcare and education, and billions more lack sanitation and access to energy, jobs, housing and social safety nets. Conflicts, the climate crisis, discrimination and exclusion, particularly against women and girls, are deepening the distress.

Isabelle Delas added, therefore, hopes for the latest edition of LSIW to contribute to raise more awareness on the crucial role that the financial sector plays as a whole in addressing the world's most pressing environmental and social challenges, and in advancing towards a more sustainable and just transition.

"We are here not only to learn and grow, but also to inspire and be inspired by great individuals we have gatherd here today from Luxembourg, Europe and even beyond," she said.

Denise Voss, Chairwoman of the Board of Directors of LuxFLAG, passed on her thanks to all speakers and participants for their support to LuxFLAG and the LSIW, and for their support in advancing sustainability and sustainable finance.

In turn, she was thanked for her support of and engagement with LuxFLAG and its sustainability community of associate members and partners.

Further information

Detailed session information is available from the LuxFLAG YouTube Channel

LUXFLAG Sustainable Investment Week

Shaping a resilient world

SESSIONS INDEX

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- Opening Remarks
- Union Investment: Green transition finance in reality
- DPAM: Systemic Human Rights Assessments – Pitfalls and Opportunities
- Societe Generale: The countryside of thematic investments
- ABBL: The Age of Reason: Banks as enablers of the transition
- Fidelity: “Just Transition”: the collective efforts to decarbonise
- Linklaters: Harnessing Change: Exploring Impact Funds under the EU Sustainable Finance Package
- Morningstar: ESG and investment stewardship – shifting from best practice to required practice

DAY 2 Wednesday 18th October 2023

- Arendt: ESG ratings' market: Between transparency and comparability
- Deloitte: AI and ESG: Paving the way for a sustainable future
- ING: The impact of increased regulation on sustainable finance solutions
- innpact: Democratizing access to impact finance
- Allen & Overy: ESG in the insurance sector: key obligations and impacts
- LIST: Estimating environmental and social impacts of investments using life cycle assessment – green bonds and equity funds
- LPEA: Decarbonization: The Largest Redeployment of Capital in History?

DAY 3 Thursday 19th October 2023

- PRI: Putting the spotlight on Human Rights in responsible investment
- Clifford Chance: Sustainable Finance: ESG trends in loans and bonds
- PWC: Increase trust through ESG investor grade reporting
- HSBC: Financing the transition: Banks as catalysts for a low carbon economy
- CMS: Greenwashing in the financial industry: lessons learnt from impact managers
- Cardiff Lux Vie: The ESG journey of an insurer: where we come from and where we head to?
- BNP Paribas: How can Securities Services accompany its clients in their transition journey?
- CSSF: Closing remarks

Opening Remarks

Pierre Gramegna

Managing Director of the ESM and CEO of the EFSF; former Minister of Finance of the Grand-Duchy of Luxembourg

First to present at the 5th edition of the Luxembourg Sustainable Investment Week, was Pierre Gramegna remarking on the role of both Luxembourg and LuxFLAG in focusing on issues of sustainable finance.

As Managing Director of the European Stability Mechanism (ESM), CEO of the European Financial Stability Facility (EFSF) and former Minister of Finance of the Grand-Duchy of Luxembourg, he identified climate change as the chief ESG challenge, also noting its inextricable link to social and governance issues.

“There are many ways of describing the issue of climate change. One that I like a lot is a very simple one, and that is to say there is no Planet B, meaning that when we have used and overused our resources, our natural resources on the planet, we will all be stuck. There will be no way of turning back.”

Stressing that the UN-led framework for tackling climate change is the right one, Gramegna argued that more should be done to adhere to a credible pathway on the 1.5°C target of the Paris Agreement. He pressed the point that costs of natural disasters since 1970 are likely underestimated, adding that even within the past decade sceptics still questioned scientific predictions of disasters triggered by storms or flooding.

Ensuring fewer climate sceptics and forging a clear pathway on the Paris Agreement target should be supplemented by public institutions and development banks, such as the European Investment Bank (EIB) working to ‘crowd in’ the private sector, to ramp up the global commitment to tackling climate change into the trillions of dollars – not merely billions.

Europe has positioned itself as a leader in this struggle, including through developments such as the EU Taxonomy. But communication, transparency and credibility must continue to improve.

“I prefer institutions and countries and people who say: ‘We are not there yet, but we are somewhere.’”

On social and governance issues linked to climate change, he raised the example of closing coal plants, leading to unemployment and stranded assets that have been mispriced. Meanwhile, near-term geopolitical uncertainty risks pushing climate change into secondary priorities.

Concluding, he stressed that “climate change is here to stay”, that geopolitical conflicts have phases, that Europe is “ahead of the pack” yet not alone in committing to the Paris Agreement, that public funding along is not enough, and that the global nature of climate change requires a global response through international organisations.

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bit.ly/3ID93CL

Katja Filzek

Senior ESG Strategist
Union Investments
Luxembourg SA

Green transition finance in reality

The biggest gap in sustainability arguably involves those companies that are yet to transition, as distinct from those that are already defined as 'green', this session heard from Katja Filzek, who went on to describe transition challenges alongside application of a transformation rating.

Noting the rise of geopolitical risk, she outlined a trilemma faced by sustainable investors around energy security, including the social component, and the cost of energy, as well as the agenda of creating a more sustainable energy supply.

Referencing the EU Taxonomy, she noted that while this is meant to provide a pathway, there are continued examples of why it creates problems for investment managers. To begin with, perhaps just 3% of companies in the MSCI Global index are fully aligned with the Taxonomy. And delving into specific examples, she highlighted that applying a conservative do-no-significant-harm analysis to, say, the tyres of an electric car might see them fall foul of human rights policies, rendering a possible score of zero applied to the vehicle overall and its manufacturer.

"If we take therefore a very conservative view, you can see we cannot work with the 3% alignment in the world of a fund manager or in asset allocation."

Opening up to a wider allocation means dealing with greenwashing, she suggested, a risk that also arises in consideration of ESG ratings, given how these might counterintuitively give higher scores to, say, automotive firms in China, South Africa and Brazil versus legacy controversies faced by, in this case, European firms.

Evolving from backward looking scoring methods and use of exclusions towards a more comprehensive and forward looking approach was described as shifting from 'investing 1.0' to 'investing 2.0'.

"We want to identify companies which are transforming. And even more importantly, we want to get away from these backward looking ESG scoring models."

Again, considering the examples from the automotive sector, while Tesla and Volkswagen might both score relatively poorly on governance, the latter may look better as a transition candidate because of commitments around a target such as reducing the CO^2 footprint of batteries, and better prospects on human rights because of acceptance of unionisation.

Considering transformation ratings can therefore help even when applying a conservative approach to exclusions and the investment universe.

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bit.ly/4cdku1F

If you wish to receive the slides, please contact: communications@luxflag.org

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Matthew Welch

Responsible Investment Specialist
DPAM

Systemic Human Rights Assessments – Pitfalls and Opportunities

% DPAM

DEGROOF PETERCAM **ASSET MANAGEMENT**

Putting human rights considerations at the heart of sustainability analysis could increasingly become the norm in response to management of, among others, social risk, reputational risk, organizational risk and regulatory risk, according to the outline put forward in this session by Mattheew Welch.

While many investors cite 'social risk' there is diversity of thought on what that means in practice regarding indicators used or referenced by third party data and analytical services providers.

While indicators may point to diversity programmes, employee training, cybersecurity, nutrition, health or asset quality, what constitutes the common denominator is human rights, Welch argued.

"Now, what are human rights? Every person should be treated with dignity. It's not rocket science."

However unlike, for example, the key climate change target of 1.5°C, the human rights target is multifaceted. There is the Universal Declaration of Human Rights, but there are also bilateral negotiations and treaties, and customary law defending human rights, meaning that for investors "it's a bit more challenging" to identify where to focus ongoing work.

It may depend on the sector and operational focus. And it may depend on assessment relying on frameworks. One noted is the UN Guiding Principles for Business and Human Rights, which entails three expectations of companies: "they should have a policy commitment, they should track that commitment and they should report on that commitment."

Another framework often used is the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (OECD Guidelines). Welch said, pushback against use of such guidelines deserves to be over-ridden because of the emerging regulatory risk associated with not adopting them.

The EU Taxonomy already implements a Minimum Safeguards requirement. The UK is implementing Sustainability Disclosure Requirements. Elsewhere, the EU's proposed Corporate Sustainability Due Diligence Directive (CSDDD) and the EU Deforestation Regulation are examples of law that will require companies ensure due diligence mapping is in place in a way that arguably goes well beyond the box ticking exercise performed by classic data providers relied on by portfolio managers.

Using NGOs such as the World Benchmarking Alliance or engaging collaboratively with other investors can aid in identifying and managing the risks, including making decisions on whether to remain invested or divest completely.

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bit.ly/3VdQeh2

If you wish to receive the slides, please contact: communications@luxflag.org

GREEN BUSINESS EVENTS.

Anusha Krishnan

Fund Selection Specialist
Société Générale

Kevin Disdero

Expert in ESG
Société Générale

The countryside of thematic investments

The plethora of environmental and social themes addressed within sustainability has given rise to growing interest in the burgeoning availability of thematic investments across biodiversity, climate, demographic changes and technological advancements.

Kevin Disdero and Anusha Krishnan engaged in a Q&A session on how to identify the thematic opportunities and how to select from among them – starting with the question as to what thematic investments are all about and why investors ought to consider them.

Krishnan put forward her definition of thematic investing as being an avenue to access and invest in companies capturing disruptive growth, aligning with relevant structural or "mega" trends, such as "resource scarcity, rapid urbanisation, demographic changes, emerging global wealth and technological disruption."

Technology is relevant to all of these because its adoption will dictate the pace at which trends materialise ongoing, she added.

And with the element of subjectivity inherent in thematic investing, different portfolio managers adopt different investment approaches to the same themes, as well as use of different vehicles such as long only active and passive ETFs.

"The areas where active managers add most value are those where it's an intersection of two or more mega trends, which means it has a diverse enough investment opportunity set for an active manager to add value by selecting investments that are addressing their theme," she said.

Passive investments can add value where the opportunity set is limited and where the basket of stocks is limited; she identified blockchain, metaverse and hydrogen as relevant examples.

From a risk perspective, Krishnan pointed to equity style, capitalisation and sector factor risks, for example, because themes tend to be overweight certain sectors. But there is also upside risk in this, with examples of thematic equity funds outperforming the MSCI World in 2022.

Thematic funds must offer diversification to investors, she noted: "If I have a thematic portfolio that just has all the Magnificent 7 and then they call it sort of an AI robotics theme, that's not going to do anything when I look at it from an allocation point."

As Kevin Disdero concluded: "Be selective and invest in thematics."

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bit.ly/3IDEA7G

If you wish to receive the slides, please contact: communications@luxflag.org

Alexandra Merlino

Head of Regulatory Affairs at Pictet & Cie (Europe) SA, Luxembourg

Marco Da Silva Rasqué

General Secretary Spuerkeess

Jackie Na Liu

Head of Sustainable Finance, ICBC Luxembourg Branch & ICBC (Europe) S.A.

The Age of Reason: Banks as enablers of the transition

Recognising that the transition towards more sustainable economies cannot take place without the banking sector playing its role, this panel session was introduced by Julien Froumouth, Sustainable Finance Adviser at ABBL, with the aim of considering both challenges being faced and the opportunities opening up for banks.

Froumouth noted the significant scale of the investments required to enable the transition and therefore the role of banks. The ABBL has responded, for example, through the creation of a dedicated sustainability committee and working groups across topics such as the EU Taxonomy.

However, challenges of the regulatory ramework include the "50 shades of green" and generally accepted fact that not all companies are on an equal footing with regard to being 'green'. Alexandra Merlino responded that in respect of the regulatory framework she is optimistic: "I think we are reaching the age of reason at last, or at least being on the fringes of the age of reason".

From a prior binary stance of regulators – "you are either in or out, good or bad, green or brown" – the approach has shifted. Disclosure regimes are being re-addressed, and use of language including words such as 'brown' being reconsidered. There is a shift to amore pragmatic way to do certain things, especially in the regulatory space.

Jackie Na Liu echoed the shifts away from a binary approach, as well as noting that her bank considers that the overall transition journey has started relatively recently. Thus, having started implementing data collection from existing clients, the next challenge is ensuring that the transition is a just one, for example, to ensure that meeting an environmental need does not create social challenges such as unemployment.

"We try our best effort not to leave any client behind. This means trying to build a kind of ESG risk model, trying to capture the price for environmental and social factors into our existing banking model."

Marco Rasqué da Silva suggested that more needs to be done to convince clients and change their business models towards a more "green" direction.

However, if a bank applies a lending exclusion policy on the basis of ESG, and a company could overcome this by committing to a project that will aid the transition, then the stakeholder that needs addressing might be the bank's own employees.

He also stressed the importance of data underpinning decisions, putting forward by way of example that "you can only include your mortgages into the green asset ratio if you have the right quality of data."

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bit.ly/3vmldga

Jenn-Hui Tan

Global Head of Stewardship and Sustainable Investing Fidelity International

"Just Transition": the collective efforts to decarbonise

Moderated by Anna Letta, Sustainability Operations Officer at LuxFLAG, this session saw Jenn-Hui Tan asked for his definition of a "just transition".

He noted via referenced survey results and a quick show of hands from the #LSIW23 audience, that relatively few had engaged with the concepts behind it.

Addressing why a just transition is needed, he noted that decarbonisation impact will "fall on the people that are least responsible for climate change and also least able to pay", also creating a moral dimension.

With politics leading to a rolling back of climate ambition across the world, driven by realisation of the cost of transition, there is therefore a political necessity for a just transition to maintain support ongoing.

"The simplest way I can express it is that it is a transition that is done in a way from a high carbon economy to a low carbon economy that is fair for everyone," he surmised.

Besides a lacking single definition, in certain regions such as Asia there is very little awareness of the issue even among institutional investors, amplified by a context of higher reliance on coal for power creating a lack of conviction that a just transition can ever be achieved.

However, it is not just about the energy sector. Others such as infrastructure, technology and construction will be implicated in the focus on achieving a just transition, as will multiple asset classes, although listed equity and private assets are seen as likely to be most impacted.

Jenn-Hui Tan suggested three requirements facing the investment industry: research, to understand whether company management have thought through the impact of the transition they are committing to; engagement, because no corporate transition will be the same; policy and advocacy, because transition can only be achieved through a collaboration between public and private sectors and civil society.

Also bearing in mind ongoing biodiversity loss and the importance of natural capital in global GDP and supporting the Paris Agreement climate target, he warned against trynig to hedge against the risk of nature loss or hedge against climate change.

"These structural factors affect the the long-term beta of the market as a whole. So they affect the ability of the financial system to generate long term financial returns in its most absolute sense."

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bit.ly/3lyxPEd

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Harnessing Change: Exploring Impact Funds under the EU Sustainable Finance Package

Linklaters

Stéphanie Tshilumba

Associate
Linklaters

Victor Louvet

Managing Associate
Linklaters

Victor Louvet introduced this session divided into two parts; firstly walking through the legal framework applicable to the EU's sustainable finance package, and then looking more closely at impact funds and how they relate to the legal framework in the EU.

Covering the first part, Stéphanie Tshilumba outlined the ongoing situation around reporting requirements within legislation such as the Sustainable Finance Disclosure Regulation (SFDR), and, as lawyers might look at matters, the outstanding questions around interpretations.

"You cannot just say 'we are green, we are sustainable' - you will have to comply with the rules," she warned, while adding: "We have a definition of sustainable investment included in the SFDR; this definition has triggered some discussion because some of the terms used in it are not defined. So as lawyers, we always have interpretation as to what this mean and so on and so forth."

Turning to EU Taxonomy rules, she noted while there may be specific objectives outlined in the legislation, the gist is similar to SFDR in encouraging transparency to limit greenwashing. However, concurrent implementation of these two – SFDR and Taxonomy – also threatens to give rise to examples of companies that are compliant in one but not the other. She outlined the example of an energy utility transitioning from fossil fuels to renewables, and which has a 50/50 split from each in the revenues. How, she asked, will such a company fare under the do-no-significant-harm test in regards to the fossil fuel element of revenues, even if it is deemed to exhibit good corporate governance?

Impact investing may be seen to answer such questions, given the specific investment objectives in mind. Victor Louvet pointed to impact investing growing out of the 'niche' that many still believe it occupies, although significantly more net investment would be needed to reach UN SDG goals or net zero emissions by 2050.

Challenges to further growth remain. For example, unlike the legal definition of sustainable investments within the meaning of SFDR, there is yet no similar legal definition of 'impact investing'. Managers need to pay heed if they promise impact but fail to deliver it, he warned: "If you use impact with a very modest Article 8 or Article 6 fund, this is greenwashing immediately."

And while technically there are no limits on the type of investment strategy that can be pursued, "in practise, of course, the idea is that is to make a meaningful long lasting impact."

Still, he added: "Something we see in our in our everyday caseload is that there is a thirst for the setup of impact funds."

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bit.ly/4aatxOY

If you wish to receive the slides, please contact: communications@luxflag.org

SPEAKER:

Lindsey Stewart

Director of Investment Stewardship Research
Morningstar

ESG and investment stewardship – shifting from best practice to required practice

MORNINGSTAR®

This session put focus on how the industry is shifting from a 'best practice' requirements approach to dealing with actual requirements specified by regulators.

Amid discussion between asset owners and asset managers about alignment and accountability, Lindsey Stewart noted that Morningstar is finding "there is a lot of inconsistency over time and between different managers in terms of what kinds of activity are being reported, what objectives are being set, what qualifies as an as an engagement."

Morningstar has also determined that proxy voting is one of the few areas able to generate specific and quantitative signals for determining an asset manager's engagement, stewardship and sustainable investing approach.

Public policy engagement is being watched because of so-called macro- or system-level stewardship becoming increasingly important, he continued. This is predicated on understanding the interactions between financial actors and governments, regulators, supranational organisations on standards around, for example, climate reporting or social disclosures. And asset manager clients are increasingly asking for demonstrations of accountability and alignment.

However, evolving beyond best practice does not mean being "highly intentional" or in the impact category, rather it suggests doing more than just applying exclusions in line with clients, he added. Active ownership and stewardship constitutes part of the overall assessment Morningstar applies when assessing for best practice, alongside elements such as the aforementioned proxy voting.

The environmental and social themes being considered are becoming broader, with the launch of the Taskforce on Nature-related Financial Disclosures (TNFD) and the Global Biodiversity Framework – these have focused investors' minds on nature, biodiversity and water risk, while on the social side there is more focus on workers' rights and fair workplace issues.

Regulators are reacting. Not only are stewardship codes being adopted in additional jurisdictions, but "regulators are starting to specify that asset managers who have disclosed sustainable objectives either at firm level or at fund level, will need to also demonstrate that there is an investment stewardship approach that goes with that."

The shift from what may have been a more voluntary best practice approach is also being spurred by asset owners.

"The requirements are certainly going up and we are moving away from best-practise-voluntary into a world of requirements and expectations against which asset managers are expected to deliver."

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bit.ly/3wYITbe

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GREEN BUSINESS EVENTS.

Valérian de Jamblinne

Senior Advisor
Arendt Regulatory & Consulting

Nevine Elsherif

Senior Advisor
Arendt Regulatory & Consulting

ESG ratings' market: Between transparency and comparability

| arendt

Picking up on the ongoing industry discussion around transparency and comparability of ESG ratings, this first session of the second day of #LSIW23 delved into the fragmentation of ESG ratings providers, the challenges that have led to proposals for additional regulation of the sector, and examples of best practice.

Starting with the industry fragmentation, Nevine Elsherif noted that investors face a complex landscape. Providers may focus on specific themes or end clients. Some of them provide other services besides ESG ratings, some are actually credit ratings providers while others are index providers, and others are proxy advisers.

Some use data directly from companies, others use publicly disclosed data, and others still may rely more on artificial intelligence solutions around data acquisition and calculations.

Some are owned by financial firms, some are independent, and others are owned by stock markets and credit ratings firms. Ownership can be reflected in the focus of the ESG ratings produced.

Referencing a survey of investors and corporates, the presentation also noted biases in what end users of ESG ratings want from their providers.

"Investors are more prone to having an accurate data set or accurate ESG rating that actually reflects what is being measured by the ESG rating. Corporates are more biased to having better ESG ratings than a higher quality ESG rating because they appreciate that they look as sustainable as possible."

Referencing the differences further, Valérian de Jamblinne noted research findings of both positive and negative correlation between data vendors, depending on the different underlying datasets and focus on different factors. One example put forward involved divergent ratings by FTSE and MSCI on electric vehicle manufacturer Tesla.

"For fund managers, it's really key to have an overview of all these data vendors because most of them will focus on different factors"

Bodies such as ESMA are concerned about ESG ratings being a transmission channel for greenwashing. EU considerations are not intended to harmonise methodologies of ratings providers, but the way they disclose information on the methodologies, added Nevine Elsherif

Users of ratings were urged to do a checklist of potential providers, check between rankings or ratings for discrepancies, if possible check the data acquired from the providers against data acquired directly from companies, and finally challenge providers if discrepancies are found.

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bit.ly/43fyCn1

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GREEN BUSINESS EVENTS.

Nicolas Griedlich

Partner
Deloitte

Anke Joubert

Senior Manager
Deloitte

AI and ESG: Paving the way for a sustainable future

Deloitte.

Pondering the importance of data quality assurance and being able to access new sources of information, this session looked at the opportunities being thrown up by the AI revolution.

Nicolas Griedlich noted that fund managers simply face an ever increasing amount of data and information much of it unstructured and in the form of documents preferred by regulators as the format for delivering information to investors.

Anke Joubert said a key point to recognise is that there is no perfect data. There will always be discrepancies, and not to be aware of this could jeopardise investment analysis. A new challenge facing asset managers is that while they may have relied on systems for the past two decades that are working well, they now face integrating new types of data into their own value chains.

However, this is not a challenge unique to the asset management industry, nor necessarily are the solutions. For example, natural language processing (NLP), which is a field of artificial intelligence that works with text or human language "will strongly push the advancements in the field and help us solve some of these data quality issues," she said.

Information in emails, PDF documents, Word documents or even recorded conversations brought in as text files could all represent unstructured information that could be used to create additional data used for reporting, to create key performance indicators and so on.

Natural language processing is a solution to automate extracting key information from documents, linking it and creating processes to use the data with a high level of robustness, including tracking and auditing. AI systems can go through multiple thousands of documents in a few seconds. It is much faster and takes a lot less human effort resulting in productivity benefit as well.

Sensors measuring energy usage, air quality, etc, can also feed the key performance indicators and constitute additional sources of data. Asset managers need to think about how they will utilise these alongside consideration of dashboarding and visualisation tools.

The increasing numbers of satellites being launched and acting as sources of data were also mentioned. Used to measure, for examples, crop growth, CO_2 gases, construction of buildings and infrastructure, and raw materials deliveries in supply chains, these are important for ensuring transparency around sustainable investments claimed.

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bit.ly/3TemM85

If you wish to receive the slides, please contact: communications@luxflag.org

GREEN BUSINESS EVENTS.

The impact of increased regulation on sustainable finance solutions

Jelena Macura

Vice President
Sustainable Finance
ING

Jan De Jaeck

Sustainable Finance Lead
Belgium, Luxembourg
and Nordics ING

"Sustainability is no longer an afterthought in financing discussions. Rather it's a strategic choice."
Thus was this session introduced by Jelena Macura.

And while the EU may be leading, other jurisdictions such as the US and Japan are catching up. This is growth in ESG focused investors, and financial institutions such as ING aligning their strategy with global commitments, including the Paris Agreement and UN Sustainable Development Goals.

Regarding EU regulatory moves, these are still rooted in key objectives outlined in the European Commission's 2018 Action Plan for financing sustainable growth, which led to, among others, the EU Taxonomy.

From the perspective of the end investor, implementation of this arguably has been patchy, with related information provided to investors lacking consistency and comparability, Jelena Macura noted.

Factors suggested include lack of standardisation, that the legislation is still fairly new, and that sustainability related disclosures are not like financial disclosures "where it's a plug and chug operation. You put in some numbers, you get some numbers as an output."

"As intended users of this information, we can't necessarily at this stage make long term investment decisions of 10 to 15 years based off of the Taxonomy disclosure that we're seeing today."

But the EU sustainable finance agenda is a development in progress, with "growing pains" regarding implementation. Expectations ahead include more focus on a just transition, as discussions on this are not restricted to the EU, but also forums such as the G20 Sustainable Finance Working Group.

Turning to what regulatory developments may mean in practice of delivering solutions, Jan de Jaeck noted firstly that for products such as sustainability linked loans, which depend on having access to data, regulations that improve disclosure of data are positive.

The use of proceeds from sustainability linked loans is changing over time. For example, there is a transition from just considering environmental aspects to also considering the social.

On the transition point, he noted that implementation of the Corporate Sustainability Reporting Directive (CSRD) means more disclosure around transition, which is about decarbonising and the specific 'levers' used to achieve this, including funding considerations.

Further information

Detailed session information is available on the LuxFLAG YouTube channel:
https://bit.ly/3v8algB

If you wish to receive the slides, please contact:
communications@luxflag.org

GREEN BUSINESS EVENTS.

Arnaud Gillin

Co-founding Partner
Innpact

Sigridur Torfadottir

Associate Director, Head of Fund Management Services
Innpact

Democratizing access to impact finance

While many support the objective of impact financing – generating positive social and environmental impacts that can be measured and reported on – the industry challenge remains accessibility to a broader investor base beyond institutions, Arnaud Gillin began in his outline of this presentation.

The status quo helps explain why relatively little of the estimated $300 trillion in private wealth globally has been put into impact investing; only around $1 trillion so far he noted, being nowhere near enough when considering the investments required to attain the UN Sustainable Development Goals.

Democratising access is needed but has been hindered. Retail investor knowledge is one barrier. "They don't understand what a private equity fund is, what a private debt fund is, the products seem very complicated for them."

Such investors need to understand the link between their investments to the actual impact they wish to generate, whether on forests, on biodiversity, CO2 capture, or otherwise, he stressed. Intermediaries must improve how they explain technical product functions and how products generate impacts.

Minimum investment sizes need to shrink to make access viable. Retail investors can invest €1,000 but not €1m. Even wealthy investors with, say, a €5m portfolio would not want to invest €1m for diversification reasons.

Liquidity risk is another key factor. Retail investors cannot lock in money for 10-15 years as institutions can. But impact investments by their nature tend to be illiquid; trees cannot be cut down just to redeem a few thousand euros if a retail investor needs their money back.

New solutions are needed. Examples outlined included a French not-for-profit cooperative facilitating low-cost investing in climate tech, a payment card system that diverts merchant fees towards renewable energy and reforestation projects, and use of crowdfunding principles to gather and invest capital through convertible loans.

European Long-Term Investment Funds (ELTIFs) and feeder funds may broaden access in future, but will rely on building up knowledge among retail investors and intermediaries.

Sigridur Torfadottir noted a solution that Innpact is working on around an impact bond issuance platform, to help build a bridge between impact projects and investors. Securitisation of underlying assets means bonds can be considered by UCITS funds and thereby readily accessible by retail investors.

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bit.ly/43kbJ1v

If you wish to receive the slides, please contact: communications@luxflag.org

GREEN BUSINESS EVENTS.

Helena Finn

Counsel, Insurance
Allen & Overy

ESG in the insurance sector: key obligations and impacts

ALLEN & OVERY

Addressing ESG in insurance, Helena Finn started by noting two critical reasons why it is such an important topic.

Firstly, that the 2015 Paris Agreement aiming to limit climate change and global warming expressly mentioned two objectives for the insurance sector; better insurability of climate risks, and addressing the protection gap that already existed at the time in the sector and which has left many people uninsured against climate related events and extreme weather events.

And then, that as insurers and reinsurers, the companies in the insurance sector are themselves facing first-hand certain consequences of materialising climate change risk, including rising claims against fires, drought and flooding.

The increasing level of claims is leading to increases in the price of this type of insurance, but also diminishing availability of such insurance. And there is a knock-on effect in the reinsurance market, where risk is mutualised between different entities. There too, prices are rising and availability falling, she noted.

One result is that EIOPA, the EU's insurance supervisory authority, is looking at measures to push insurers to maintaining access to protection, while encouraging policyholders to take climate change adaption measures to keep premiums down.

And considering the role of insurers as among the biggest institutional investors, with therefore a central role in financing economies, it is also incumbent on them to direct investments towards more sustainable investments.

Such considerations have led to legislators pushing forward requirements on regulated entities. SFDR for disclosure, the EU Taxonomy to ensure minimum standards of terms and terminology, the Non-Financial Reporting Directive and the Corporate Sustainability Reporting Directive to ensure reporting on specific sustainability topics such as climate change, biodiversity, diversity and certain social issues, and the Corporate Sustainability Due Diligence Directive to identify, prevent and mitigate certain negative risk which can arise relating to human rights and environmental impacts.

These are layered on top of 'standard' regulations as they apply to insurers and reinsurers, such as the Insurance Distribution Directive and Solvency II. Here there is a risk that regulators exhibit less leniency going forward in applying fines that are intended to incentivise compliance with the regulatory regime.

There remains also the idea that in future, clients could claim for civil liabilites against compliance failures in a jurisdiction like Luxembourg, although there is no current applicable case law.

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bit.ly/3v04yza

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GREEN BUSINESS EVENTS.

Claudio Petucco

R&T Associate
LIST

Ioana Popescu

PhD Candidate
LIST

Estimating environmental and social impacts of investments using life cycle assessment – green bonds and equity funds

This session considered research findings when it delved into understanding how to apply life cycle assessment to equities and green bonds to assess sustainability of investments where there is a vacuum of missing data not yet mandated by regulation.

Ioana Popescu, covering the equities analysis, noted two main challenges. Firstly, lack of clarity or the level of regulations in terms of impacts that should be measured and should be reported on by financial institutions. Secondly, a lack of synergy in terms of indicators that are required at the level of regulations.

Utilising life cycle indicators can help by providing ready-to-use methodologies based on scientific developments in the field of industrial ecology. And using existing databases containing information about impacts at industry or product level can be used to estimate impacts of investment products and associated companies where information is lacking.

"And as we know, the lack of data is one of the big challenges in terms of moving forward on the measurement of impact of financial products," she noted.

Understanding environmental and social indicators and their links to impacts is important in context of existing and yet to be mandated objectives delivered through regulations such as CSRD or SFDR.

Data for life cycle based impact indicators can be used to estimate the impact of sustainability themed funds, for example. Additionally, understanding direct or indirect impacts is important.

For climate change, much of the impact comes from the direct operations of companies that funds invest in – the example is electricity generation companies still fossil based – but for biodiversity or water stress, far more comes indirectly via the supply chain, Popescu suggested – pointing to the example of larger companies connected by their supply chains to agricultural processes that are highly water intensive.

Claudio Petucco outlined research into green bonds, where application of life cycle assessment could facilitate computing environmental cost effectiveness per million euro invested, while also supporting the do-no-significant-harm principle.

Understanding cost effectiveness of green bonds is important because it can help identify where investment is more productive in terms of fighting climate change, as is estimating the greenhouse gas emission avoided – although life cycle assessment can also look at impacts beyond carbon.

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bit.ly/3TzYcjj

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GREEN BUSINESS EVENTS.

Decarbonization: The Largest Redeployment of Capital in History?

Laurent Capolaghi

EY Luxembourg Partner, Private Equity Leader Ernst & Young S.A.

Stephane Pesch

CEO - LPEA

Aurélien Roelens

Managing Director & Head of ESG at Cube Infrastructure Managers

Alexandre van Oldeneel

Sustainability Data Manager at EQT

This session was led off by Laurent Capolaghi assessing decarbonisation in the private equity space.

Noting the role of Luxembourg Private Equity and Venture Capital Association (LPEA), Stephan Pesch suggested that along with ESG more broadly, addressing decarbonisation was not just a matter of risk mitigation but a key part of ongoing value creation, particularly in a segment of the finance industry where the investment horizon may be around 10 years.

Also important, he said, was increasing understanding around the potential for decarbonisation to redeploy capital, and its links to determining investments in areas such as green or renewable energy, related energy infrastructure and technological enhancements.

Aurélien Roelens, noted that the discussion of decarbonisation in the investment sense was more a reference to considering the carbon footprint of portfolio companies, rather than a technical removal of carbon from the atmosphere. This distinction needs to be made clear when presenting to investors.

Alexandre van Oldeneel agreed, suggesting that this definition of decarbonisation in the investment sense is becoming increasingly mainstream, with more managers investigating the opportunities and assessing the risks associated with, say, fossil fuels and the impact of Scopes 1,2,3 on companies.

“At EQT we really think that carbon assessment and decarbonisation strategies is simply good business.”

All suggested that the definition of decarbonisation and approach of private equity funds should not be confused with the approach of impact funds, where impact may be the key objective rather than returns and profitability considered alongside positive decarbonisation outcomes.

The active engagement of private equity brings added upside they argued. An example put forward concerned public transportation, where the scope to take control of a company increases the ability to manage its transition towards zero emissions vehicles, increasing the opportunity to win future tenders from local authorities and cut costs. The positive financial impact means private equity managers do not have to compromise on financial returns. Another example is encouraging companies to run their decarbonisation plans past the Science Based Targets initiative (SBTi) for validation.

Stephan Pesch noted that surveys of GPs suggested awareness that interest in ESG will continue to increase, including considerations around exposure to the likes of renewable energy and technologies.

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bit.ly/3wWtx71

GREEN BUSINESS EVENTS.

Selim Boudhabhay

Responsible Investment Manager, Benelux Region PRI

Sofía del Valle

Engagement Lead, Social Transformation, World Benchmarking Alliance

Putting the spotlight on Human Rights in responsible investment

Selim Boudhabhay outlined that the PRI organisation saw human rights as a core topic of responsible investment in its vision, in which it believes that investors are slowly building a responsibility to at least take into consideration human rights-associated risks into their investment strategies, while its view on the best way to approach the topic is through engagement.

“I think it's fair to say that collaboration is kind of embedded into the PRI’s DNA.”

On the link between human rights and the Paris Agreement objectives, he noted that risks are being identified in sectors such as metal and mining, and renewable energy. Both are significant in order to achieve the climate change targets, with many of the risks connected to land usage.

For metal and mining these include illegal land acquisition, poor workers rights, lack of basic workplace safety, lack of stable wages, and recourse to security personnel who may be easily controlled or connected to military or paramilitary structures.

“It means that we will put some stress on an industry that is already at higher risk of breaching human rights.”

Similarly for renewable energy there are risks around land utilisation, illegal land occupation, impact on local communities and pressure on human rights defenders. “Some had their physical integrity threatened and in some very extreme, unfortunate and sad cases, some were kidnapped and even murdered.”

Highlighting the synergy between the sectors, Selim Boudhabhay noted that minerals sourced from the metal and mining sector are critical to renewable energy.

Speaking for the World Benchmark Alliance (WBA), Sofía del Valle noted the objective of facilitating comparisons between companies on existing standards and indicators, to also encourage a “race to the top” by way of improvements.

In context of human rights the WBA has issued the Corporate Human Rights Benchmark.

“Any transformation to sustainability needs to keep people at the heart so decarbonisation cannot happen if we're actually not ensuring a just transition, for example, ensuring that workers’ rights are respected.”

Generating publicly available assessments and data on companies will facilitate understanding of how social issues and social factors are related to other topics.

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bitly.ws/35YWQ

If you wish to receive the slides, please contact: communications@luxflag.org

Stefanie Ferring

Partner, Global Financial Markets
Clifford Chance

Lauren Harris

Counsel, Corporate
Clifford Chance

Yolanda Ghita-Blujdescu

Senior Associate, Global Financial Markets
Clifford Chance

Sustainable Finance: ESG trends in loans and bonds

This panel-style session looking at aspects of ESG involving loans and bonds saw input from experts at Clifford Chance led off by Stephanie Ferring, who started by outlined voluntary principles and practice guides issued by the Loan Market Association (LMA) on products such as green loans, before asking Yolanda Ghita-Blujdescu for insight into broader trends around ESG financing.

She answered that in respect of green loans, social loans, and sustainability linked loans, the greater flexibility around the latter was seeing increased demand. Recognition of the involvement of LMA principles along with higher margins possible from sustainability linked loans on failure to meet key performance indicators (KPIs) or science based targets (SBTs) has given a boost.

On KPIs, she noted that "people are getting more courageous" in looking for transparent governance, more women on boards, and compliance with human rights.

Audience participation saw queries from private bankers whose statements underlined a key point that it is hard to find a one-size-fits-all solution around creating an ESG link to loans or fund products.

An example from fund marketing illustrated the question how, on the basis of raising money by committing to being 'green' today, will it be possible to ensure that it is still 'green' five years hence, noted Yolanda Ghita-Blujdescu.

Turning to sustainable bonds, Lauren Harris noted that 2023 had been marked by an orientation towards technical standards and developing guidance around information needed for issuers, investors and other market players.

She noted an International Capital Market Association Q&A update expanding on information around the interplay between sustainability linked bonds and loans, and how to measure the sustainability impact of such bonds.

Guidance is extending beyond green bonds to blue bonds and orange bonds, as the market grows around these instruments, Lauren Harris added.

On EU regulatory demands, a key question being put by clients at the time concerned potential impact of CSRD and other disclosure requirements, also because of lack of harmonisation with the US/North America, Asia-Pacific and the UK.

"It's really crucial to build up the corporate governance within your structure to make sure that you have those methods to really provide a clear analysis of whether or not it applies to the particular entities within your structure, how exactly the disclosure requirements will apply, if there might be a knock on effect."

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bitly.ws/35YZj

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GREEN BUSINESS EVENTS.

Frédéric Vonner

Advisory Partner,
Sustainable Finance &
Sustainability Leader
PwC Luxembourg

Julien Melotte

Assurance Partner,
Sustainability Partner
PwC Luxembourg

Increase trust through ESG investor grade reporting

With harmonization across the EU causing a shift away from voluntary towards mandated reporting, clients are increasingly asking about ESG information being assured, noted Julien Melotte.

Customers and stakeholders must be listened to, and actors must be prepared for more scrutiny amid rising expectations around reliability, transparency and completeness of data, along with accuracy, he added. Taken together the changes present a significant challenge.

Pre-existing financial reporting processes were decades in the making. The near-term changes mean companies must quickly put in place non-financial reporting processes, internal control frameworks and clear governance. New requirements also mean reporting on what hitherto has been non-existent data, data that has never been collected or unstructured data.

But if the data is unreliable it may lead users might take decisions that are contrary to their interests or objectives. Companies are responding by adopting new processes to handle and monitor the new data.

Frédéric Vonner, citing the value add identified by certain ESG indices outperforming others, suggested that this points to the value that can be created by embracing ESG and embedding ESG dimensions into business.

There may be a short-term cost to setting up proper non-financial reporting, but longer term cost advantages may come through improved risk diversification and factors such as companies reducing their own energy consumption once they have reviewed their greenhouse gas emissions.

Improving the ESG reputation of a company could facilitate attracting and retaining talent and improve the prospects of co-investments with peers into technologies and products. And managing impact delivers a societal benefit.

Turning to assurance, Julien Melotte noted a study suggesting 60% of companies reporting sustainability statements are doing it with a certain level of assurance. And that some 80% of cases involved limited assurance - limited to just certain KPIs of interest to their stakeholders.

The assurance journey facing companies reporting under the regulations involves both data and company departments that were not previously audited. It is key to prepare the data properly and ensure data reported is aligned with the company strategy. Stakeholders are increasing their assurance demands.

Further information

Detailed session information is available on the LuxFLAG YouTube channel:
https://bitly.ws/35YZM

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communications@luxflag.org

Emanuele Vignoli

Chief Executive Officer
HSBC Luxembourg

Financing the transition: Banks as catalysts for a low carbon economy

"I really think that as a CEO, the culture shift is super important."

That statement started the session featuring Emanuele Vignoli, who added that this was the reason he was presenting rather than an 'expert' from another part of the banking group.

Moving on to why ESG and sustainability are important, he referenced research by the World Economic Forum and Deloitte respectively, which both pointed to sustainability being high on the agenda across the financial industry. The WEF found five out of the main global short term risks linked to sustainability and climate change. Deloitte found 42% of C-suite executives interviewed across 24 countries in large corporates identified climate change as their top priority.

Speaking for HSBC, he noted that the global strategy launched in 2021 indeed identified net zero and the journey to net zero as one of its four key pillars.

And the role of banks in the transition is very important, because of their impact, particularly global banks operating across geographies and sectors: "But we need to face this head on."

Regarding HSBC he noted that net zero alignment and full compliance by 2030 is the first of four key goals. The second is supporting clients in the transition, including allocating up to a third of an estimated $3 trillion global balance sheet to this as necessary. Transformation and embedding ESG is the third goal. And building capability is the final one, including creating diverse teams that can advise and improve decision making.

Referencing the examples of a UAE company investing in agriculture and a Spanish company with an advanced solar panel solution, he noted at the time that some $210bn of the potential $1 trillion balance sheet allocation had been utilised across sustainable finance, sustainable investment and sustainable infrastructure.

Supporting clients with a clear plan to transition implies a duty on the bank to help them, but at the same time the change cannot be supported by banks alone.

"It's really a collaborative and cooperation across law firms, the banking sector, public sector, private sector, governments and regulators, and the dialogue has to be an open one, a constructive one."

In this, global banks operating in many markets and applying a consistent strategy across those markets can make a difference.

Further information

Detailed session information is available on the LuxFLAG YouTube channel:
https://bitly.ws/35Z3m

If you wish to receive the slides, please contact:
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GREEN BUSINESS EVENTS.

Greenwashing in the financial industry: lessons learnt from impact managers

Aurélien Hollard

Partner and Head of Investment Funds practice
CMS de Backer

Julie Pelcé

Managing Associate and ESG specialist
CMS de Backer

Christoph Dreher

Managing Partner
Enabling Qapital

The "trendy topic" of greenwashing, as described by Aurélien Hollard, is witnessing an increase in players entering the sustainability phase and making sustainability and environmental claims.

That has led to greenwashing risk if inconsistencies are found between the claims and what their products effectively provide. However, despite the use of the term, there is no binding definition within European Union, noted Julie Pelcé. Rather it is a notion that developed as a consumer concept where consumers were misled by publicity or communication.

There have been attempts to define it. The EU Taxonomy refers to gaining an unfair advantage by marketing a financial product as environmentally friendly when in fact environmental standards have not been met, she added.

The European Supervisory Authorities did adopt a broader understanding of what greenwashing is in June 2023, which meant that it could be viewed as both intentional and unintentional.

Cases brought by non-governmental organisations and consumer associations suggest that greenwashing has been on the rise over the past decade. The growing interest in impact investing means this sector is also facing heightened greenwashing risk, especially because impact investments is a definition that is also not regulated.

Examples of greenwashing in the impact sector put forward include unproven links between ESG metrics and impacts, ambiguous claims as to where the impact is attributable and selecting only positive impact data and not reporting on negative impact.

These can be mitigated by having tools in place, such as governance and mechanisms to ensure data collected is accurate or can spot inconsistencies between data.

Christoph Dreher commented further that as an impact investor while the regulatory part has increased "we see it also from a reputational point of view, a very big one."

Alignment of legal and product objectives and between people in the asset management company, communication and transparency are all important.

"Being aligned, having company right policies in place, that is I would say the first step to avoiding or minimising the risk of greenwashing"

Other actions noted were maintaining flexibility in regards to KPIs and data over time as these will evolve, for example, in respect of quality of data.

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bitly.ws/35Z3V

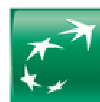
If you wish to receive the slides, please contact: communications@luxflag.org

GREEN BUSINESS EVENTS.

Arnaud Miroudel

Director of Asset Management
Cardif Lux Vie

The ESG journey of an insurer: where we come from and where we head to?



CARDIF LUX VIE
GROUPE BNP PARIBAS

This session started with a conclusion about insurance risk and ESG: “A 2°C world might be insurable, a 4°C would certainly not be.”

Arnaud Miroudel additionally cited the former CEO of AXA from back in 2015 suggesting that even then the debate was no longer about the Intergovernmental Panel on Climate Change taking an unequivocal stance because of climate changes being observed.

The insurance industry is in a unique position, as it is engaged in both providing protection and engaging in investments, meaning that has a role to play in both the adaption and mitigation aspects of climate issues, Arnaud Miroudel continued.

As an asset manager, the position entails investing responsibly into companies to finance growth, while serving clients with products and policies in a transparent manner that includes being able to explain what is being done. And as part of the broader BNP Paribas group, Cardif Lux Vie also connects with other stakeholders.

Arnaud Miroudel placed his organisation among the early movers in acting on climate change, which as come through three phases. Pre-2010 he cites adoption of ESG criteria and scoring. In 2010-17 he cites further implementation including a carbon policy on the business’ own footprint. And post-2017 has seen reaction to increased regulation and development of more impact investing.

Exposure has evolved such that some 95% of investments are ESG integrated as a result of the philosophy and approach taken, with a willingness to develop investments into selected social investments and commitment to impact investing to generate environmental or social impact, he noted.

Actively engaging with companies and voting at their annual general meetings is an important facet to encourage positive impact.

Looking ahead, there are identifiable challenges, which all insurers must tackle, he surmised. One is integrating new indicators in areas such as biodiversity, Taxonomy, social indicators, which are missing. Continuing to act on climate change will need data enhancements. There is regulation, promoting transparency, and working with the goal of making Europe the first continent to go climate neutral.

And the industry needs to understand complex interconnectedness between the different regulatory objectives, for example, dealing with how Solvency II may encourage integration of sustainability into prudential requirements by trading off more sustainable investment portfolios against capital charges to incentivise movement towards ESG.

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bitly.ws/35Z4A

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How can Securities Services accompany its clients in their transition journey?

Robert van Kerkhoff

Managing Director
BNP Paribas

Laura Vitagliano

Head of Sustainable Finance Client Engagement
BNP Paribas

Shany Venon

Head of Institutional Investors Client Lines
BNP Paribas

BNP PARIBAS

Session moderator Robert van Kerkhoff started by outlining some milestones achieved so far in the shift towards sustainable investments, including surveys done in 2017 and 2023 respectively suggesting respondents such as asset owners, asset managers and hedge funds have moved from a focus on ‘why’ ESG investments to a focus on ‘how’ and implementation.

Thus the first question put to panelist Laura Vitagliano asking how security services can accompany clients in their low carbon transition.

She argued for a 360° approach involving all stakeholders, internal and external. To be seen as a trusted partner requires demonstrating commitments to be a responsible business through framework standards, in decision making processes and embedding ESG in new product validation.

“We act as a transition accelerator,” she noted of working with clients, also guiding them in generating specific ESG reporting like SFDR reporting.

Shany Venon noted three pillars when supporting clients with ESG implementation. Firstly, to support sustainable investment vehicles. Secondly, embedding ESG in the core solution and enhancing existing solutions with an ESG component. Thirdly, developing new solutions.

Considering integration of ESG into the investment processs means defining ESG criteria, followed by measurements to set and calibrate objectives. This may lead to launching a new fund or distributing a new fund from elsewhere.

“This is where we can support them. If I take the private capital clients, when they have capital calls, and they're looking for financing, we can provide financing based on ESG KPIs that we agree with the client.”

Securities services providers can also consider expanding the client relationship and support, for example, connecting clients’ portfolios to a wide range of data vendors to enable client assessment of ESG scoring of portfolios, or by monitoring new ESG criteria and screening against criteria.

Laura Vitagliano added that the role of securities services providers is to better talk to clients, to engage for better understanding of needs and pain points, and to guide them through ever evolving regulation. Engaging in client surveys and thought leadership are ways to achieve this.

The main challenge in future remains regulation, noted Shany Venon.

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bitly.ws/35Z5c

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Claude Marx

Director General
CSSF

Closing remarks

Accelerating the transition to limit temperature rises against pre-industrial levels is easier said than done, noted Claude Marx in his opening remarks of the closing session of #LSIW23.

"This is why it's crucial to understand how legislators, market players and regulators can support sustainable finance."

For those questioning the effectiveness of the regulatory framework, the answer is that not only is it not flawless, but that the relevant sustainability requirements have only been around for a relatively short period of time. He noted that MiFID was "still being perfected" even after 16 years.

"We need to enhance consistency, we need to simplify the regulation and the implementation. We need to work on transparency and ensure accountability across all players and across all markets."

That said, expectations for quick fixes to issues such as ESG data being patchy and fragmented had to be put in context of the EU's broader agenda priorities, he noted. Since the EU Green Deal was announced in 2020, there has been Covid, war in Ukraine, an energy crisis, inflation, and a ramping up of geopolitical tensions in the Middle East.

Some now believe that the economic and political uncertainty means the climate agenda should be put on hold, including parts of the green finance agenda. But it would be a mistake to oppose the sustainability agenda on the basis of these challenges, he underlined, for example, on the basis of European Central Bank stress tests on climate risk suggesting that the biggest risks are associated with a late and abrupt transition.

He referenced studies indicating institutional investors want asset managers to be more proactive in developing new ESG products, and lent support to a labelling system in the EU, to assist retail investors and maintain confidence in sustainable products.

In Luxembourg the CSSF was set to push self-assessment exercises on climate related and environmental risks and apply a common supervisory action for asset managers to assess compliance with SFDR and the Taxonomy.

Greenwashing needs to be addressed, particularly for funds that are named as green or socially sustainable.

Overall, adopting a wait and see approach is not viable.

"The question you should ask yourself is not what is the cost of implementing a sustainable agenda, but rather what is the cost of not doing so, in terms of clients in terms of staff, and ultimately, also in terms of the future of your company"

Further information

Detailed session information is available on the LuxFLAG YouTube channel: https://bitly.ws/35Z5Q

Rounding out #LSIW23 was the Networking Cocktail, sponsored by PwC Luxembourg, offering delegates and speakers an opportunity to further connect and share thoughts on the insights gained and the thought-provoking topics presented across three days, and to stimulate further collaboration and brainstorming of ideas for a more sustainable future in line with the goal of "Shaping a resilient world".

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LuxFLAG (Luxembourg Finance Labelling Agency) is an independent and international non-profit association created in Luxembourg in July 2006 by seven private and public founding partners to support sustainable finance: ABBL, ADA, ALFI, the European Investment Bank, Luxembourg for Finance, the Luxembourg Stock Exchange and the Government of Luxembourg. In 2023, ACA has become the eighth Charter Member of LuxFLAG.

OUR MISSION

To support investors in their sustainability journey and to create clarity and transparency by awarding recognizable labels to eligible financial and insurance products.

OUR LABELS

Impact Labels - Microfinance, Environment, Climate Finance, Green Bonds
Sustainability Transition Labels - ESG, ESG Insurance Product, ESG Discretionary Mandate

OUR REACH

Financial and insurance products from all different jurisdictions can obtain the labels, provided these products are in line with our eligibility criteria.

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More information is coming your way soon...