



Monthly ESG Newsletter

November 2023

**ARWIN &
PARTNERS**

Sustainability matters!

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ESMA – finds increase in use of ESG-related language in the EU fund industry

- The European Securities and Markets Authority (ESMA), the EU's financial markets and securities regulator, publishes a study exploring the use of language related to environmental, social and governance (ESG) factors in EU investment fund names and documentation
- In this study, ESMA shows that the share of EU UCITS investment funds with ESG words in their name has increased from less than 3% in 2013 to 14% in 2023. The article further highlights that fund managers tend to prefer using generic language ('ESG', 'Sustainable') rather than more specific words. This can make it more difficult for investors to verify that the fund portfolio is in line with the name
- Tackling greenwashing is one of the key priorities in ESMA's Strategy on Sustainable Finance, and it is an important first step in the detection and monitoring of potential greenwashing
- Timing: 2023 ongoing

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European Commission – challenges by European on first set of ESRS

- The European Commission adopted the first set of European Sustainability Reporting Standard (ESRS) Delegated Act under the Corporate Sustainability Reporting Directive (CSRD) on 31 July 2023. The Delegated Act containing the ESRS is now being scrutinised by the European Parliament and the Council
- Some Members of the European Parliament (MEPs) called the European Commission to review the ESRS Delegated Act to:
 - reduce the complexity of sustainability reporting standards by introducing predefined quantitative KPIs;
 - reduce the quantity of the sustainability reporting standards;
 - extend the implementation for all companies and introduce voluntary, quantitative, measurable and comparable SME standards;
 - amend the balance sheet and net turnover thresholds to account inflation and amend employment figures.
- Timing: The ESRS will be applied from 1 January 2024

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EBA – recommends enhancements to the Pillar 1 framework to capture environmental and social risks

- The European Banking Authority (EBA) published a Report on the role of environmental and social risks in the prudential framework of credit institutions and investment firms. Taking a risk-based approach, the Report assesses how the current prudential framework captures environmental and social risks
- It recommends targeted enhancements to accelerate the integration of environmental and social risks across the Pillar 1. The proposed enhancements aim to support the transition towards a more sustainable economy, while ensuring that the banking sector remains resilient
- Environmental and social factors may affect both the risks faced by individual institutions and the financial stability of the entire financial system
- Timing: 2023 ongoing

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European Council – adopts new regulation to promote sustainable finance green bond

- The Council adopted a regulation creating a European green bond standard. The regulation lays down uniform requirements for issuers of bonds that wish to use the designation 'European green bond' or 'EuGB' for their environmentally sustainable bonds
- Environmentally sustainable bonds are one of the main instruments for financing investments related to green technologies, energy efficiency and resource efficiency as well as sustainable transport infrastructure and research infrastructure
- The regulation is a further step in implementing the EU's strategy on financing sustainable growth and the transition to a climate-neutral, resource-efficient economy. The new standard will foster consistency and comparability in the green bond market, benefitting both issuers and investors of green bonds
- Timing: 23 October 2023
 - Note: it starts applying 12 months after its entry into force

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European Commission – publishes Commission Delegated Regulation with regards to RTS on the calculation of the stress scenario risk measure

- European Commission published Commission Delegated Regulation supplementing the Capital Requirements Regulation with regard to Regulatory Technical Standards (RTS) on the calculation of the stress scenario risk measure
- The RTS foresee two methods to develop the extreme scenarios for non-modellable risk factors:
 1. Direct method: requires institutions to develop the extreme scenario for a given non-modellable risk factor by calculating the expected shortfall measure of the losses occurring when varying that risk factor according to its historically period
 2. Stepwise method: requires institutions to obtain the extreme scenario for a given non-modellable risk factor by calculating the loss corresponding to the movement in the risk factor identified by that expected shortfall measure
- Timing: 2023 ongoing

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EFRAG – announces the launch of its ESRS Q&A Platform to collect technical implementation

- The ESRS Q&A platform aims to collect and answer technical questions that remain unresolved after thorough analysis by stakeholders to support the implementation of European Sustainability Reporting Standards (ESRS)
- Stakeholders can complete the online form and ask their questions, with further information on the process:
 - [Here is the link](#)
- The EFRAG, in its role of technical advisor to the European Commission, will provide non-authoritative responses to the questions asked through the Platform
- Timing: 2023 ongoing

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Assess to sustainable finance for SMEs

- Nearly 60% of the surveyed small and medium-sized enterprises (SMEs) are investing in their sustainable transition. This clearly indicates that the topic resonates strongly with SMEs, and that they are acting accordingly. Nevertheless, securing sufficient funding remains a significant problem: only 35% of SMEs' investments were funded by external sources, which is not enough to cover the massive financing required for the transformation
- A mere 16% of external financing can be classified as sustainable finance. The definition of "sustainability" varies widely. In 70% of cases, sustainability is determined by grants and subsidy programmes. These programmes are often viewed as burdensome, with lengthy application procedures. The survey also shows that EU taxonomy does not play a role in the definition of sustainability criteria for SMEs
- SMEs are actively addressing sustainability and 12% of them say they voluntarily produce sustainability reports and secure external ESG ratings. A striking 30% have established environmental management systems

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ESG Investment: understanding system changes

- For understandable reasons, the global approach to environmental, social and governance (ESG) issues has often been to set broad targets – for example, limits to global temperature gains. Such targets have the merit of focusing political attention and, in theory, economic resources on a specific challenge
- Effective ESG investment, however, requires going beyond targets and thinking in more depth about the required system changes. Investors need to understand where we are now (in terms of our demands and how corporates currently respond to them), as well as the likely opportunities and constraints in future during the transformation to a more sustainable economic model
- Our environmental dilemma is largely the result of meeting four key human demands – for energy, food, manufacturing (including housing) and mobility. We focus on these four demands specifically because they have the highest double materiality towards nature

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EU carbon market and industrial transformation

- Today's market for carbon is fragmented and complex. Limited pricing data make it challenging for investors to know existing opportunities in carbon management
- The European Union (EU) has implemented an Emissions Trading System (ETS) or a carbon tax to price carbon dioxide (CO2) emissions. Due to challenges documented in the EU ETS carbon market, including international competitiveness and carbon leakage, understanding the impact of emissions pricing on these issues is critical for policy decisions in the EU
- For this reason, the European Commission adopted a proposal in 2021 to establish the Carbon Border Adjustment Mechanism (CBAM). CBAM is designed to function in parallel with the EU's Emissions Trading System (EU ETS), to mirror and complement its functioning on imported goods. It will gradually replace the existing European Union mechanisms to address the risk of carbon leakage, in particular the free allowances of EU ETS

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ESG from process to product

- ESG measurement, analysis, management, and communication is a process that the financial industry has turned into a product, resulting in many investment funds using the ESG label. This has caused confusion, generating demand for a framework that defines the objectives and characteristics of ESG investment products. The main objective is to allocate capital and influence investors with measurable financial, environmental and/or social outcomes
- A conceptual framework for ESG investment products is needed to clarify their objectives, define key characteristics, and enable investors to have a common understanding. All investment managers, could adopt ESG as a process to the extent that the measurement and analysis of specific ESG issues, mitigates risk and identifies growth opportunities

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Switzerland: Sustainable Investment Products

Switzerland's Federal Department of Finance (FDF) will proceed with plans to propose regulations to address greenwashing in the financial sector, including investment and disclosure rules for financial products. The Council's proposals also included transparency rules, including requiring financial service providers offering sustainable investment products to describe their sustainability approach

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Rules Eliminating 500 Million Tonnes of GHG missions

European Parliament and Council announced that they have reached a provisional agreement on new legislation that will result in a massive reduction in GHG emissions. The proposed legislation would prevent nearly 500 million tonnes of GHG emissions by 2050 and contribute to achieve a 55% emissions reduction by 2030 and reach climate neutrality by 2050

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UN GC: new guidance on sustainable infrastructure

The UN Global Compact unveiled new guidance and assessment tools for companies to advance sustainable infrastructure under the Belt and Road Initiative (BRI). The BRI examine the pivotal role of businesses to innovate, drive economic growth, and harness resources to be the catalyst to ensure that infrastructure project have long-term sustainable development

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New York: largest state investment in green energy

New York Governor, Kathy Hochul, announced the largest state investment in renewable energy in United States history, demonstrating New York's leadership in advancing the clean energy transition. Three Offshore Wind and 22 Land-Based Renewable Energy Projects Totaling 6.4 Gigawatts Will Power 2.6 Million New York Homes and Deliver 12 Percent of New York's Electricity Needs in 2030

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Solar: the future energy resource

Nowadays, solar energy represents one of the most important energy resources for the future of our planet and it has become even clearer that the inevitable growing demand for energy is combined with the increasingly urgent concerns about the environment and climate change. Looking toward a cleaner future, solar energy emerges as a crucial solution to address these global challenges

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\$250 billion ESG bond market risks trigger event

The market for sustainability-linked bonds, which is worth more than \$250 billion, looks set to witness a rare trigger event as its biggest issuer appears on track to miss a key target tied to the debt. Enel SpA, which has close to \$11 billion in SLBs that may be affected, is "highly unlikely" to meet an end of 2023 carbon-emissions goal after changes to European energy policy resulted in the delayed phaseout of coal plants

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COP28: climate change and fossil fuels

A coalition representing 131 companies is urging national governments to phase out burning fossil fuels and scale up the production of clean energy ahead of the United Nations COP28 climate change summit. To achieve this goal, fossil fuel producers would need to set up science-based to decarbonize business operations, products and services

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ESG ratings: proposals by the EU Commission

The European Union is developing proposals to enhance transparency and competition in the realm of ESG ratings. The suggestion is for issuers to select at least one provider with a market share below 5%, fostering competition and facilitating the entry of smaller providers into the market. The objective is to enhance accountability and transparency in the responsible investment market, mitigating the risk of greenwashing

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ESG & Sustainability upcoming event

November 2023



ESG Investment Leader | Europe 2023 – 2 November

It brings together the community of senior investment officers, ESG and responsible investing experts from third-party asset managers, pension funds, insurers, foundations, and endowment funds, alongside their operational, risk, and reporting colleagues, to explore both strategic insights and tactical guidance

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London, United Kingdom



ESG Summit – 9 November

The ESG landscape is shifting with more mandatory disclosures and increased stakeholder scrutiny. As the momentum around ESG continues to grow, so does the challenge of keeping up to date with increasing regulatory and market demands. Boards must take note as consumers, investors, employees and regulators are all demanding action

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Dublin, Ireland



Energy Transition Europe 2023 – 13-14 November

This event is where the continent's foremost energy, finance and government leaders unite to lay the foundations of a net zero future whilst accelerating away from market turbulence. We'll explore how stakeholders will reinvent their business models and engender growth through technology enhancement, cross-sectoral collaboration, supply chain synchronization, and rapid decarbonization

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London, United Kingdom



ESG Congress – 22-23 November

The ESG Congress will focus on gaining insightful ESG intelligence & ESG benchmarking, reduce corporate carbon footprint and emissions, build on corporate values and an inclusive vision and focus on sustainability performance improvement areas

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Berlin, Germany



Fourth EU Clean Air Forum – 23-24 November

The fourth Clean Air Forum will bring together clean air stakeholders and interested parties from across the European Union including competent authorities of the Member States at all relevant levels

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Rotterdam, Netherlands



Sustainable and Impact Investments International Conference – 30 November-1 December

The Social Impact Investments International Conference was launched in 2017 by the Department of Management of the University of Rome "La Sapienza" as an annual meeting for international scholars, practitioners and policy makers involved in the social impact finance field

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Rome, Italy

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ESG Conferences organized by Investment Banks and Brokers

Annual list

Organiser	Event Name	Mode	Location	Date	Hyperlink (if any)
 ACESD	8 th Asia Conference on Environment and Sustainable Development	In attendance	Japan	3-5 November 2023	ACESD
 J.P.Morgan	Global Energy Conference	In attendance/virtual	London	6-7 November 2023	J.P.Morgan
 SOCIETE GENERALE	2023 Société Générale European ESG-SRI Conference	In attendance/virtual	Paris	7 November 2023	Société Générale
 IR Magazine	ESG Integration Forum	In attendance	London	21 November 2023	IR Magazine
 EFAMA European Federation of Asset Managers	Investment Management Forum Impact	In attendance	Brussels	23-24 November 2023	EFAMA
 United Nations Climate Change Global Climate Action	UN Climate Change Conference	In attendance	United Arab Emirates	30 Nov – 12 Dec 2023	UN Climate Change
 SCCE Society of Corporate Compliance and Ethics	ESG and Compliance Conference	virtual		30 November 2023	SCCE
 Sustainable Innovation Forum	Sustainable Innovation Forum	In attendance/virtual	Dubai	4-5 December 2023	Sustainable Innovation Forum
 CREDIT SUISSE	Climate Tech Conference	virtual		5-6 December 2023	Credit Suisse
 EIOPA European Insurance and Occupational Pensions Authority	Sustainable Finance Conference	virtual		14 December 2023	EIOPA
 PMI LIVE	Sustainable Investment Strategy Summit	In attendance	London	21 March 2024	PMI Live
 LEADVENT	World ESG & Climate Summit	In attendance/virtual	Amsterdam	18-19 June 2024	Leadvent

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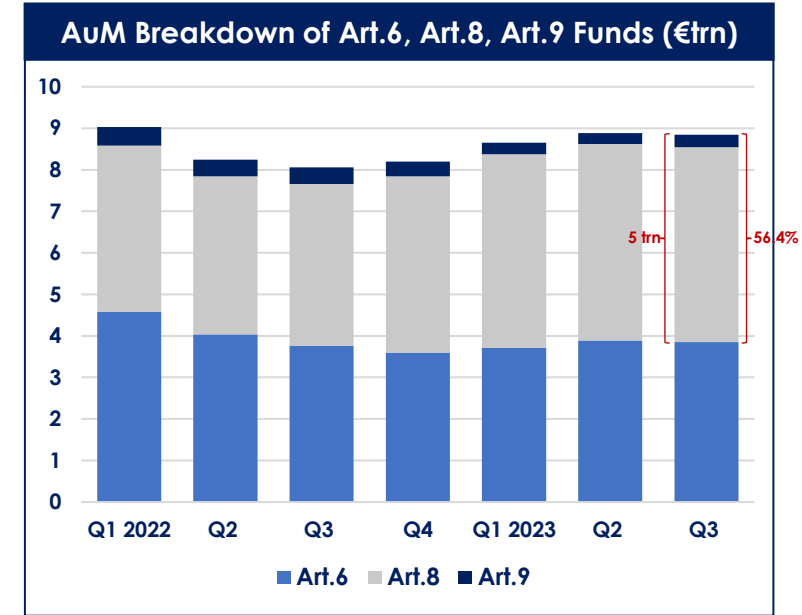
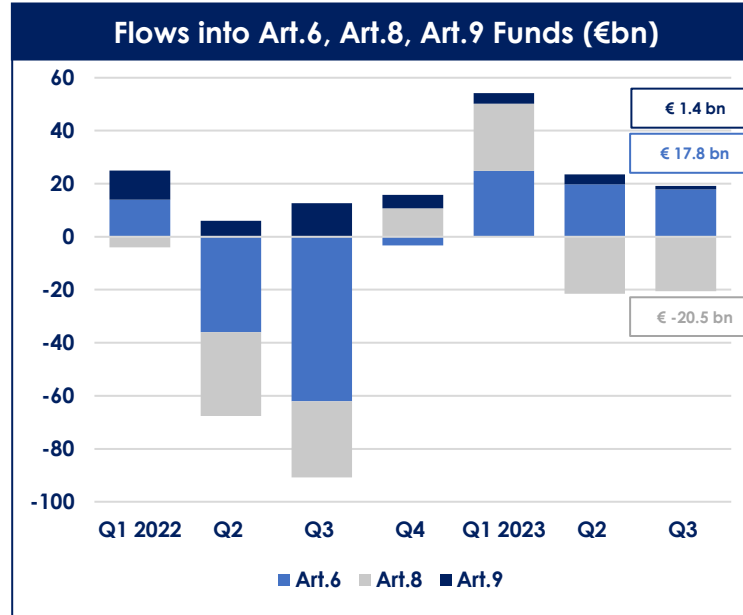
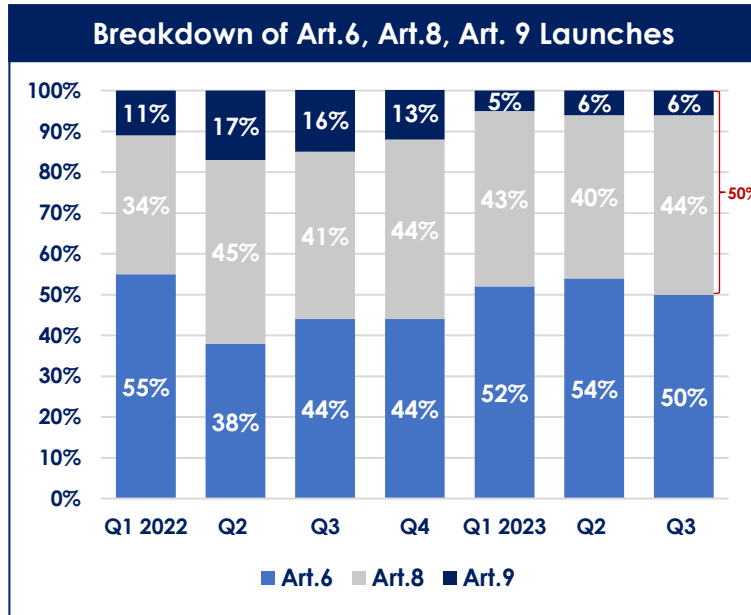
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Article 8 and Article 9 Fund account for 56.4% share of total AuM



- In the third quarter of 2023, newly **Art. 8 and Art. 9** funds still accounted for 50% of the total number of funds launched in the EU
- **Art. 9** funds recorded **€1.4 bn of inflows in Q3 2023**, compared to €3.7 bn in Q2 2023
- **Art. 8 and Art. 9** AuM funds stood at **€5 trn at the end of September 2023**. As a result, the two groups of sustainable funds accounted for an increased share of **56.4% of the EU universe**

Note: The value of Q2 2023 funds classification (art. 6, 8, 9) has been updated from Morningstar's previous report

Source: Morningstar

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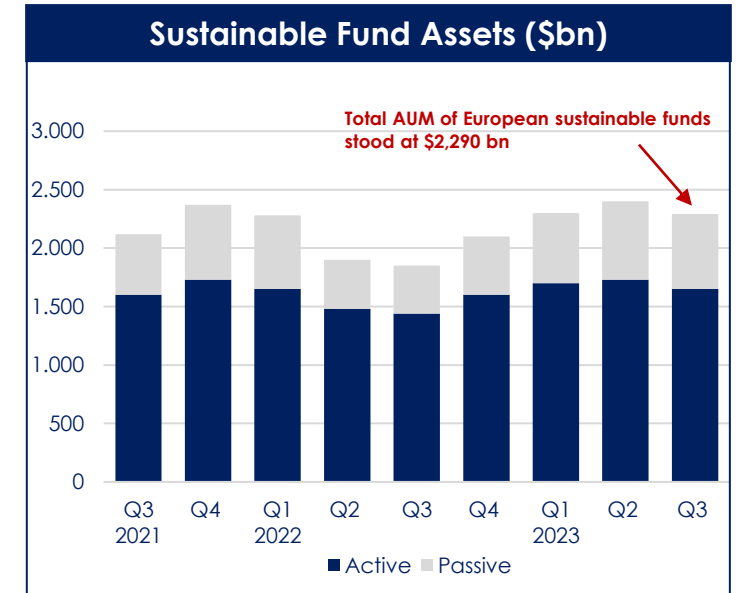
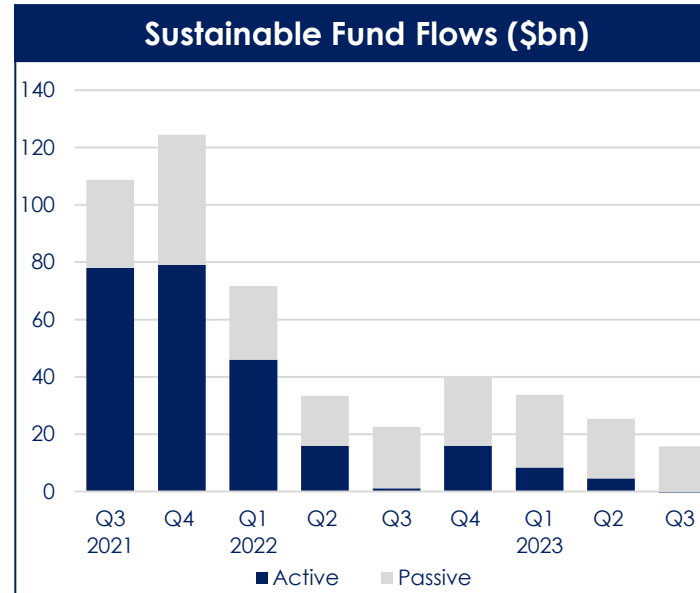
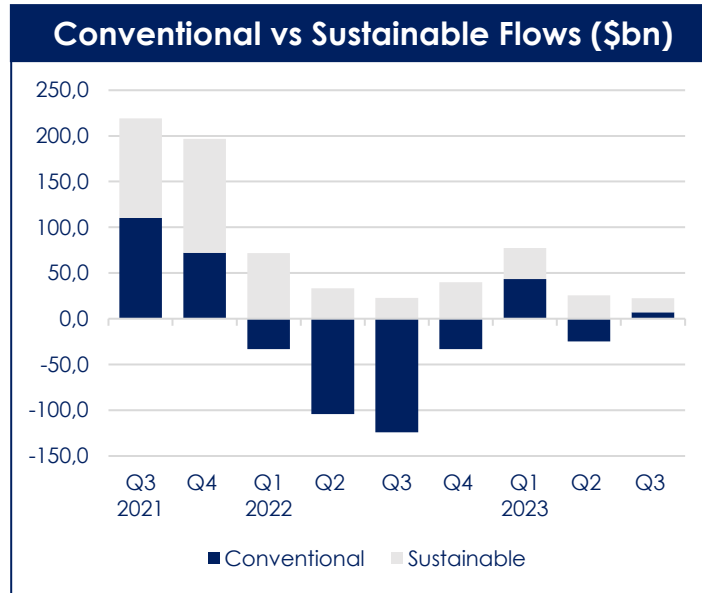
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Flows into European sustainable funds in Q3 2023 remain positive

Flows into sustainable funds entirely passive funds



- In Q3 2023, total European investment funds recorded approximately **\$22.3 bn of inflows**
- **European sustainable** funds attracted **\$15.3 bn in net inflows**. **Passive funds** represent **103% (\$15.7 bn of inflows)** of net inflows - **active funds** recorded approximately **\$0.4 bn of outflows**
- At the end of Q3 2023, total AUM of European sustainable funds stood at approx. **\$2,290 bn**. Overall, **sustainable funds** accounted for **21% of European fund assets**, at the end of September 2023

Note: According to Morningstar research, the global "sustainable" fund universe encompasses open-end funds and ETFs that, by prospectus or other regulatory filings, claim to focus on sustainability; impact; or environmental, social, and governance factors. Universe of sustainable funds is based on intentionality rather than holdings. The global sustainable fund universe does not contain: i) "ESG integrated funds" (which formally consider ESG criteria in the investment process and engage with portfolio holdings but do not make ESG considerations the focus of the investment process); ii) funds that employ limited exclusionary screens (such as controversial weapons, tobacco, and thermal coal) and iii) money market funds, feeder funds, and funds of fund. The value of Q2 2023 funds has been readjusted from Morningstar's previous report

Source: Morningstar

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