


ISSA – Standardization WG

ESG Standards

28 June 2022, on Teams



Setting the Scene

Sustainability & ESG – background and role of financial industry

ESG and Sustainable Finance

ESG is a set of standards focusing on three central factors - environment, social and governance - to measure the sustainability of investments.

The three dimensions of sustainability:

E - measures how a company performs with regard to the environment

S – reflects company’s relationship towards employees, customers and communities

G – assesses the company’s leadership, audits, internal controls and shareholder rights



Sustainable finance is the provision of finance to investments taking into account environmental, social and governance considerations

Sustainability, ESG and Green

UN Sustainable Development Goals (SDG)

- 17 global goals , signed in 2015 to be achieved by 2030,
adopted by all countries



Green refers to any individual product or processes that promote environmental wellbeing



"**ESG integration** is a strategic approach where in corporations embed environmental, social and governance considerations into their **business strategy**. It is understood to have a positive influence on the shareholder value when you showcase how you drive business value with ESG & sustainability."

Why is sustainability a priority for the financial industry?



We must
decarbonize the
world by 50% by
2030 to reach
net-zero by
2050

Global action and Governmental policy demand. Paris agreement: 70% of world GDP countries committed to achieve the net-zero carbon in 2050 (10% investment done so far)

Example: to transition the transport sector of China, Korea, Japan to be carbo-neutral by 2050 the estimates cost is **12.4 US trillion**

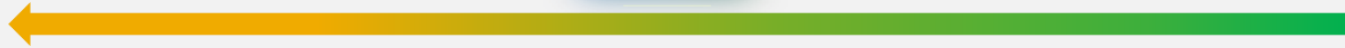
who pays for this?

The role of the financial industry

Demand for capital ...



...ways to supply capital



Issuers, corporates

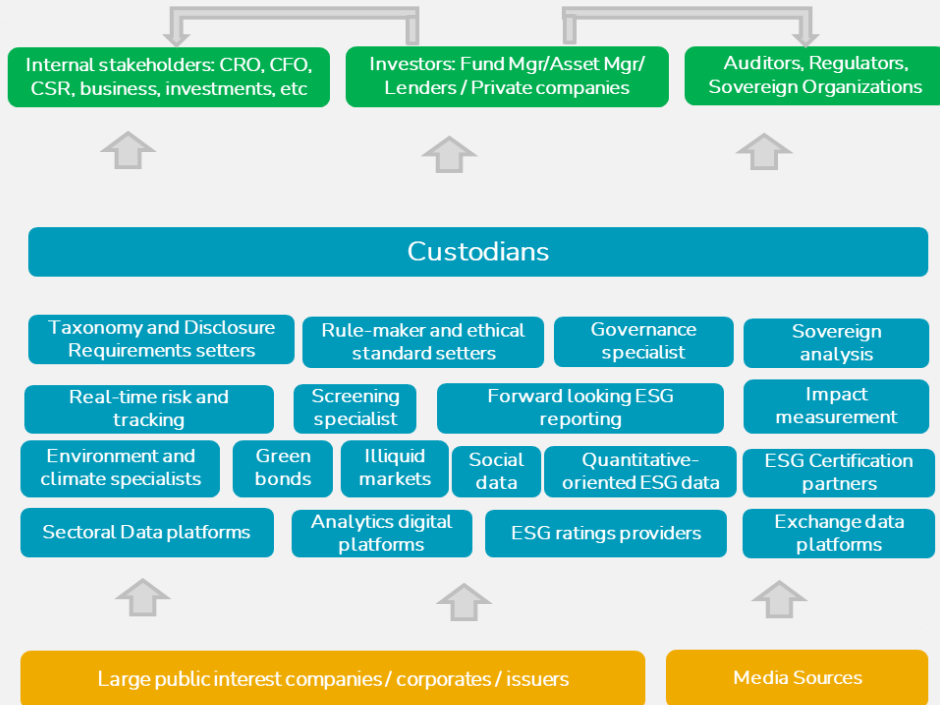
- large public interest companies
- FIs that issue or distributes any type of financial products

Investors and Lenders

- banks
- institutional investors
- pension, insurance companies
- asset managers
- individual investors

The sustainable financial eco-system

Portfolio screening/lender' books



Data Users

Taxonomy and Disclosure reports, sustainability analysis, performance, impact, forward looking reports

ESG Jungle

A plethora of disclosure frameworks, measurement standards and ESG data service providers

Data Providers

Company reports, ESG database, accounting, audits, surveys, certifications

The Standardization WG – ESG Standards

Phase I: Education and Level Set

In scope
phase 1

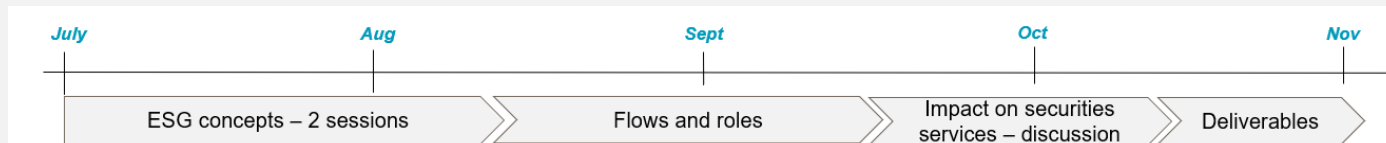
1. An explanation of ESG concepts: what is ESG and why the Securities Industry should care
2. Outline the flows and the roles of each player in the investment lifecycle (plus use cases where helpful)
3. The impact of ESG on the Securities Services industry and the implications of this

Key Outcome

Education of the ISSA membership on the meaning of ESG and its impact on the Securities Services industry

To discuss today:

- Allocation of sub-topics
- Deliverables: presentation (ISSA audience and Sustainability Forum) / short paper
- Timeline



An Explanation of ESG Concepts – Topics to Allocate

1. Sustainable finance from niche to mainstream and the role of financial sector

- what is sustainable finance?
- relevance for the financial industry across different actors and asset classes
- how the financial system enables transformation
- drivers, trends, level of engagement and developments within the financial industry
- regulatory developments and policy measures to integrate sustainability aspects in the financial sector

2. Sustainable financial products, investment strategies and methodologies

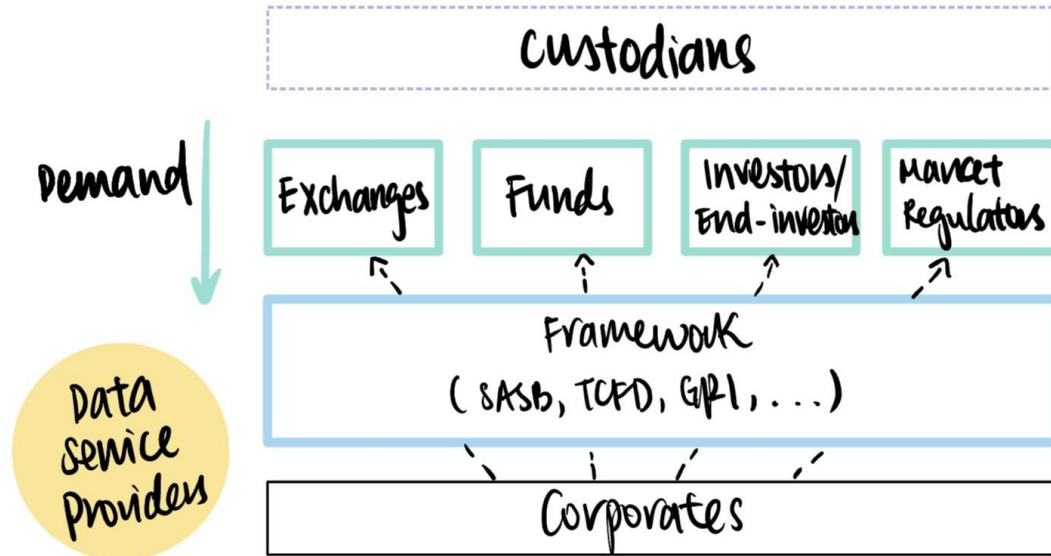
- insights into sustainable financial products

- why is there an interest in sustainable finance and the related risks and opportunities
- the concept of non-financial risk and impact of investments
- approaches/ strategies for measuring and managing non-financial value of investments

3. ESG data, ESG ratings and labels

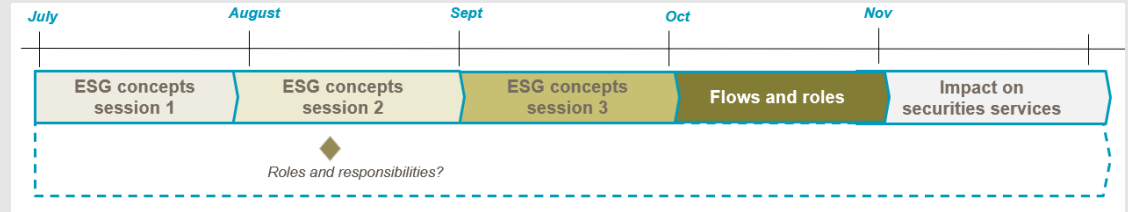
- overview on ESG data: what is ESG data, who are the data providers, how do they differ?
- ESG ratings - the origin and current market, examples of methodologies used to derive ESG ratings, the value of using ESG ratings.
- other ESG performance evaluation - ESG labels, ESG KPIs

Investment Lifecycle – Flows and Roles



Proposed Timeline

Timeline



◆
Roles