



21st ISSA Symposium

10 to 12 May 2023

Breakout Session 4: ESG and Securities Services - Outcome



ESG and Securities Services - Hypothesis

The topic of ESG (Environment, Social and Governance) continues to resonate across financial services. Both institutional and retail investors are looking to direct their investments into assets that meet their sustainability values.

Whilst the investment decision and the direction of ESG investment flows lies outside of Securities Services, there are operational areas where ESG is a key component of the service offering. These areas include:

- ESG related due diligence
- ESG Securities Services regulations
- Compliance monitoring
- Asset Servicing (class actions and proxy voting)

However, the provision of services in these areas is often problematic due to the manual and complex nature of the service offering. There could therefore be opportunities, through having a good understanding of ESG and sustainability concepts, for organizations to standardize and automate processes to improve ESG service provision.

ESG and Securities Services - Hypothesis

ISSA already has two Working Groups (WG) that are looking at the theme of ESG. These are:

- The Asset Servicing WG which has a subgroup focused on Corporate Governance (Class Actions and Proxy Voting)
- The Standardization WG which has a subgroup focused on ESG Standards in Securities Services

The objective of the Breakout Session will therefore be to debate this theme, consider if there are areas that the ISSA membership feel resonate and, where that is the case, agree whether this is something further that should be taken forward by ISSA in some way.

ESG and Securities Services – Ideas for Consideration

The Securities Services angle

- ESG as part of Securities Services
- The overall value chain and the links both upstream and downstream

Understanding the current challenges for Securities Services

- ESG related due diligence
 - Understanding the questions that should be asked
 - Recognizing the context of the information received
- ESG Securities Services regulation
 - Considering the use of prescriptive versus framework approaches
 - Lack of standardization and consistency in application of regulations
- Compliance Monitoring
 - Teams need accurate and complete data to be able to provide reporting, which is not always readily available
 - Greenwashing – the need to be to trust the data
- Asset Servicing
 - Class Actions are becoming increasingly prevalent, not just in the US, and other markets have less developed solutions
 - The Proxy Voting service offering continues to be a predominantly manual process



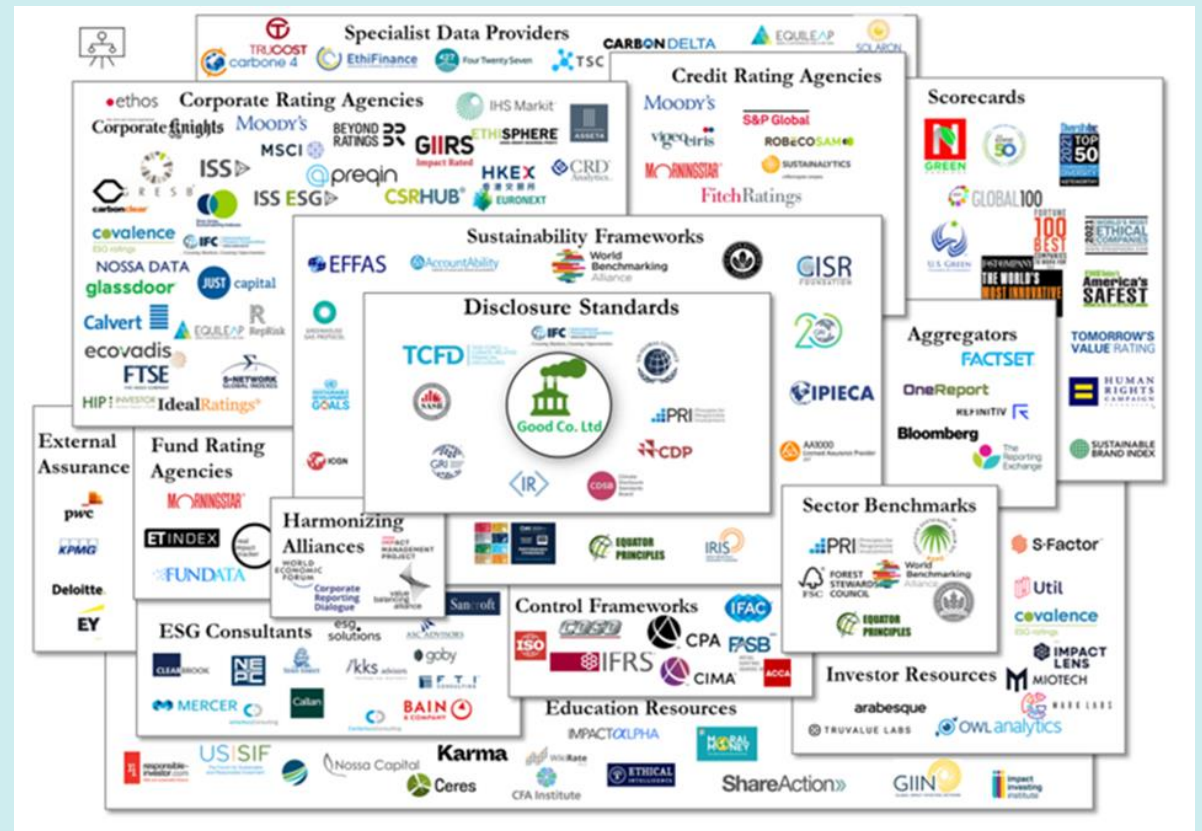
ESG and Securities Services – Ideas for Consideration

Securities Services solutions

- Ideas for how Securities Services organizations can best devise and/or support ESG solutions
- Any actions that ISSA may consider, for example in providing best practice guidance
- Other industry types that could also provide solutions

ESG and Securities Services - Summary Observations on Hypothesis (I of II)

- ESG means different things to different constituents;
- It is a very **broad, topical and complex**, with growing investor and regulatory focus
- This focus is driving **demand for operational simplicity and new products**



ESG and Securities Services - Summary Observations on Hypothesis (II of II)

Broad agreement that the WG hypotheses are accurate however, we recommend that the ESG WG **focus on items where the ISSA membership can add value and influence** the market in a meaningful way

Hypotheses	Inside influence	Outside Influence
▪ ESG related due diligence	Y	
▪ ESG Securities Services regulations		Y
▪ Compliance monitoring		Y
▪ Asset Servicing (class actions and proxy voting)	Y	

ESG and Securities Services – Proposed next steps

An opportunity for ISSA to consider ESG as a differentiator

ISSA to prepare and promote framework, including but not limited to:

- Due diligence
 - Disclosure
 - Enforcement
- Membership criteria (ISSA constitutional change?)
- ESG DDQ
- Relationship Management (Out of Scope)

Detailed Findings (I of II)

The ESG ecosystem

- Engage with entities that are part of the ecosystem but not (yet?) part of ISSA
- Leveraged the knowledge that is already available to us
- The AFME Q could provide insights - understand desired outcomes
- Is there an opportunity to share best practices within ISSA ?

Proxy voting

- ESG related regulations has changed, and the trend is global
- Proxy voting as a business requires scale and resilience, so it is worth the investment
 - Have we forgotten why we are doing it or how it supports ESG
- Need to educate issuers to change the process for the iPhone generation investor
 - Retail investors will make decisions based on other criteria , e.g., activist investors

Detailed Findings (II of II)

Class Actions

- Volumes have gone up because of increased returns for investors and focus on governance
- The risk and liability is significant for GCs, this service is often outsourced to specialised firms
- The process is not standardised or robust enough to support future needs

Detailed Findings and recommended next steps

Due Diligence

- More and more RFPs focus on ESG due diligence – can WG prepare and promote an ESG due diligence framework, including but not limited to Disclosure and Enforcement

Proxy voting

- What role can ISSA play to properly connect issuers and new types of investors e.g. digital brokers targeting retail investors – Revolute, eToro?
- How can ISSA help promote harmonisation across markets e.g. adoption of messaging standards and legal definitions of shareholder?
- What educational role could ISSA play to support discussions with regulators?

Class actions

- The risk and liability is significant for GCs, this service is often outsourced to specialised firms – what are the pros and cons of doing so?
- What role can ISSA play in assisting as more countries take up class actions?