ISSA International Securities Services Association

The Securities Services ESG Glossary 2023

ABOUT ISSA

ISSA is a Swiss-domiciled association that supports the Securities Services industry. ISSA's members include CSDs, Custodians, technology companies and other firms who are actively involved in all aspects of the Securities Services value chain.
ISSA - Shaping the future of Securities Services

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Acknowledgements

This report is the result of efforts by a team of experts drawn from ISSA Operating Committee members and other ISSA participating firms. The names of participating firms and the individual contributors are provided in the Appendices. The ISSA Executive Board wishes to thank all supporters for their contributions as well as their firms having enabled their participation.

Content

INTRODUCTION

The purpose of the Standardization Working Group (WG) is to focus on the ISSA participants' standardization journey – understanding opportunities available – as well as the challenges – so that ISSA is able to offer best practice guidance and to promote standardization. This will have a positive impact on the Securities Services industry through increased efficiency and reduced risk, as well as an improved investor experience.

Within this WG, an ESG Standards subgroup has been created to focus specifically on the topic of Environmental, Social, and Governance (ESG) and standardization. This is a topic where, unless all participants use consistent terminology, there could be confusion and misunderstandings. To avoid these issues, the ESG Standards subgroup have created this glossary as a baseline for further progress.

The glossary includes many, but not all, terms used in describing ESG and looks to highlight those which are most applicable to the Securities Services industry. It is assumed that many of these terms also describe the practices that Securities Services providers should implement within their own organizations to embrace ESG best practices.

Our thanks to the members of the ESG Standards subgroup participants for their dedication and effort in creating this resource which it is hoped will contribute to a sustainable and responsible future for the Securities Services industry.

FOREWORD FROM CO-CHAIRS

In an ever-evolving Securities Services landscape, the pursuit of standardization and the comprehension of Environmental, Social, and Governance (ESG) principles have become paramount. The International Securities Services Association (ISSA) understands the significance of navigating this complex terrain. As part of its commitment to promoting industry best practices, the ESG Standards subgroup is proud to present the ESG Glossary of Terms.

This invaluable resource is born out of ISSA's Standardization Working Group's dedication to fostering a comprehensive understanding of ESG challenges and opportunities within the securities services sector. The ESG Glossary of Terms serves as a beacon, shedding light on the key concepts and terminology essential to navigating the intricate ESG landscape in the context of securities services.

This document encapsulates the collaborative efforts of experts and practitioners, providing concise and insightful definitions for the terminology that underpins the ESG framework. It is our hope that this glossary will serve as an indispensable tool for ISSA participants and the broader securities services community, fostering a more informed and standardized approach to ESG practices.

As we embark on this journey towards greater clarity and alignment in ESG principles, let the ESG Glossary of Terms be your companion, empowering you to make informed decisions, drive positive change, and contribute to a sustainable and responsible future for the securities services industry.

Flora Belladonna, Working Group Co-Chair

Hai Jade Fuan, Working Group Co-Chair

THE SECURITIES SERVICES ESG GLOSSARY

A

Active ownership

Refers to shareholders investing responsibly: by engaging in the company they have invested in, to influence its strategy and actions. The term is often used when shareholders want to push companies towards more sustainable business conduct and the delivery of ESG goals. Active ownership generally entails engagement and voting. It is considered a strong mechanism to maximize returns, reduce risk and have positive impacts. Many asset managers have adopted it as part of their ESG strategies.

Activist strategies

Investment strategies where an investor identifies underperforming companies whose share prices have declined. The activist investor obtains a substantial minority in the company's equity, with the objective to increase shareholder value. An activist identifies the causes and sources of a company's underperformance, and recommends strategic, financial, operational, or organizational changes that may provide a catalyst for increasing the value of its shares.

Additive manufacturing

Additive manufacturing (AM) is the industrial production name for 3D printing, a process that delivers three dimensional objects. Resource consumption is the most important environmental aspect for AM. AM holds the potential to reduce the amount of raw material required in the supply chain, reduce the need for energy-intensive, wasteful, and polluting manufacturing processes, and enable more efficient and flexible product design. The global AM market is expected to see significant growth in the years to come.

Adverse social consequence

See Possible Adverse Impact (PAI)

Advocacy

The act of supporting a cause or a person to produce a desired change. In the context of the environment, this might involving working to influence policy makers when they make laws and regulations, distribute resources, and make other decisions that affect peoples' lives. It may involve working at many levels to both convince and help governments and other political bodies adopt, enforce, strengthen and/or change policies, guidelines and laws that affect biodiversity and natural resource use.

Articles 6,8,9

Article 6, 8 and 9 for funds are the three classifications that are applied to investment products sold within the EU under the SFDR (Sustainable Finance Disclosure Regulation). The SFDR obliges asset managers to reveal the different levels of sustainability integration within an investment strategy. It aims to create a more transparent playing field, partly to prevent greenwashing. Article 6 covers funds which do not integrate any kind of sustainability. Article 8 funds are known as ‘environmental and socially promoting’. Article 9 funds are the ‘greenest’, also known as ‘products targeting bespoke sustainable investments’.

Avoided emissions

Emission savings that occur outside of a product’s life cycle or value chain, but are caused by the use of that product. Also referred to as ‘Scope 4’ emissions, the metric used to inform investors. These fall into two categories:
Pre-investment: to compare the impact of potential investments to allow allocation of capital to the most impactful in terms of quantity of avoided emissions per unit of investment over a certain time (also known as carbon yield).
Post-investment: to monitor and report on the climate impact to investors.

B

Biodiversity policy

Biodiversity policies promote the protection, conservation, and sustainable use of biologically diverse ecosystems. They create significant public benefits and contribute to social wellbeing. Investors need to consider the types of biodiversity driven investment risks embedded in portfolios. Sustainable finance helps the environment by responsible investing and financial projects that use sustainable resources to reduce the further risk of climate change.

Biogas

A combustible gas (composed primarily of methane) produced when sewage or manure is fermented in the absence of oxygen. The solid material that remains in the digester after fermentation can be used as an organic fertiliser.

Biomass

Plant matter. Biomass refers to the total mass of living matter within a given area. It also describes the use of plant material, vegetation, or agricultural waste as a fuel or energy source.

Blue Bonds

Blue Bonds are a type of debt instrument dedicated to financing projects and initiatives aimed at the sustainable use and conservation of marine and aquatic resources. These bonds can play a crucial role in funding initiatives related to fisheries, ocean conservation, and the responsible management of water resources.

Business Continuity Management

BCM is a proactive strategy that ensures company activities remain uninterrupted in the event of internal or external factors bringing about the interruption. BCM reduces the impact of disruptive events on the environment, society and governance. As such, it is a key element of ESG, as it helps organisations to create sustainable business operations. It integrates crisis management, emergency response, disaster recovery and relocation.

Business material information

Business material information (also known as Price Sensitive Material) is information that, if disclosed, would probably have an impact on the price of a security. Also refers to information that investors would want to know before making an investment decision.

Business Responsibility and Sustainability reporting standards

For example, the Corporate Sustainability Reporting Directive (CSRD).

C

Carbon cost

See Carbon price.

Carbon credit

Carbon credits are financial instruments that allow companies to offset their emissions by buying carbon offsets. The more emissions you produce, the higher the cost of your carbon offset.

Carbon Exchange

A carbon exchange is a marketplace where carbon credits, allowances, and offsets are bought and sold. In securities services, these exchanges enable trading and management of carbon-related financial instruments, allowing market participants to address carbon emissions and climate change mitigation strategies through financial mechanisms.

Carbon footprint

Measure of the total greenhouse gas (GHG) emissions produced by an individual, group, or company. It is an important measure for investors to evaluate the environmental impact and the associated climate risk.

Carbon intensity

Measure of carbon dioxide emissions relative to a unit of revenue or per unit of energy consumption. Is also used to measure a fund's exposure to carbon intensive companies.

Carbon neutrality

To be carbon neutral, an equal amount of CO_2 must be removed from the atmosphere for every unit of CO_2 released. Carbon neutral investing is an investment strategy that aims to reduce the environmental impact of investments by offsetting the carbon emissions resulting from them.

Carbon offset

Financial instrument that represents a reduction in GHG emissions. Offsets are used to compensate for emissions that cannot be reduced directly and are generated by projects such as renewable energy, energy efficiency, and reforestation.

Carbon price

A cost applied to carbon dioxide pollution to incentivise businesses and consumers to reduce carbon-intensive activities. It encourages lower-carbon behaviour and it also raises money that can be used to finance a clean-up of 'dirty' activities. There are two ways to establish a carbon price: First through a carbon tax, which ensures corporations and consumers pay for the external costs they inflict on the wider society, by discouraging the use of fossil fuels and encouraging a shift to less-polluting fuels. Second, through a quota system ('cap-and-trade'), whereby the total allowable emissions in a country or region are set in advance ('capped'). Permits to pollute are created for the allowable emissions budget and are either allocated or auctioned to companies, who can trade permits between one another.

Carbon tax

See Carbon price

Carbon capture

Carbon capture is the process of capturing carbon dioxide at its emission source, transferring it into secure storage (usually a location underground), and isolating it. This reduces the amount of carbon dioxide entering the atmosphere. Over the last decade or two, carbon capture and carbon credits have become legitimate businesses with some very big investors getting involved.

Carbon Disclosure Project (CDP)

An organisation that collects environmental data from companies worldwide, helping investors assess climate-related risks and opportunities in their portfolios.

Climate Disclosure Standards Board (CDSB)

A framework for corporate reporting on climate-related information, aiding investors in evaluating a company's environmental impact.

Circular Economy

An economic model focused on sustainable resource use, waste reduction, and product recycling, influencing investment strategies in environmentally responsible companies.

Clean Energy Technology

Innovations aimed at promoting sustainable energy production and efficiency, impacting investment decisions in the clean energy sector.

Climate Change

The long-term alteration of global weather patterns due to increased GHG emissions, posing financial risks and opportunities for investors.

Climate IQ

The ability to comprehend and evaluate climate related factors affecting investment decision.

Climate neutrality

Achieving a balance between GHG emissions and removals, often through offsetting measures, impacting investments in carbon-intensive industries.

Climate risk exposure

The level of vulnerability an investment or portfolio has to financial losses resulting from climate-related events.

Climate scenarios

Hypothetical future climate conditions used to assess potential impacts on investments and develop risk management strategies.

Climate-related opportunities

Investment prospects arising from the transition to a low-carbon economy, such as renewable energy projects.

Climate-related risks

Financial risks stemming from climate change, encompassing physical risks (e.g. extreme weather events) and transition risks (e.g. regulatory changes).

Concentration risk

The risk associated with over-investing in a specific asset or sector in an investment portfolio, potentially leading to significant losses.

Corporate governance

The system of rules and practices governing a company's management and oversight, influencing investor's confidence in that company's financial and ESG outcomes.

Corporate social responsibility (CSR)

A company's commitment to ethical and sustainable practices, impacting its attractiveness to socially conscious investors.

Corporate Sustainability Reporting Directive (CSRD)

The CSRD is a regulatory framework that mandates corporations to disclose comprehensive information about their ESG practices and performance. From a securities services standpoint, this directive can significantly influence the analysis and assessment of ESG factors for investment decisions and risk management.

D

Data opacity

A lack of transparency and clarity in financial or environmental data hindering investors' ability to make informed decisions.

Data scarcity

Limited availability of crucial data, particularly environmental information, making it challenging for investors to assess risks and opportunities.

Decarbonization

The process of reducing carbon emissions, often through energy efficiency measures or transitioning to cleaner energy sources.

Deforestation

The removal of forests, which can impact investments, particularly in sectors related to agriculture, forestry, and commodities.

Disclosure

The provision of accurate and comprehensive information by companies, especially regarding climate-related factors, crucial for informed investment choices.

Disruptive Technologies

Innovations that significantly alter and disrupt existing industries and business models, influencing investment strategies and opportunities.

Diversity, Equity, and Inclusion

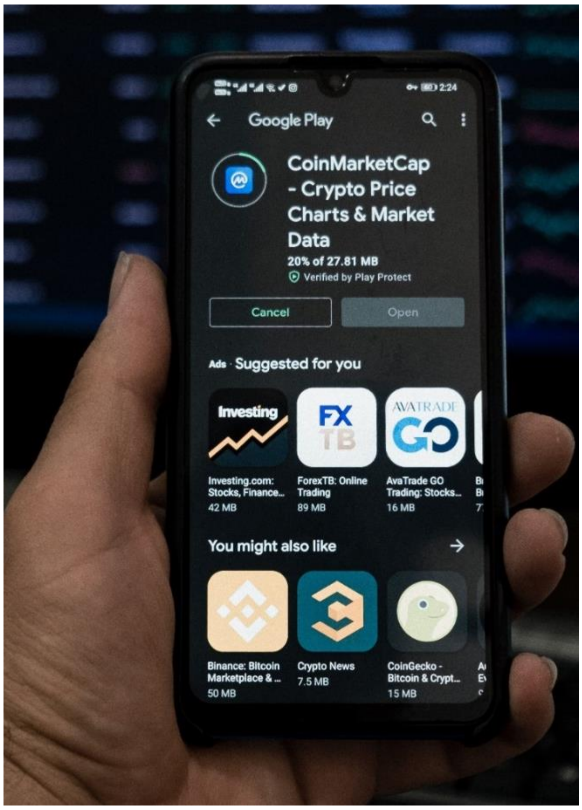
The commitment to ensure a workforce and investment environment that fosters representation, fairness, and equal opportunities for all, with a focus on enhancing corporate governance and responsible investing.

Double Materiality

A concept emphasizing the significance of considering both external ESG impacts on a company's operations (outward-facing) and the internal influence of a company on society and the environment (inward-facing), guiding securities services providers in comprehensive ESG assessment.

Diligence

The thorough and systematic assessment process conducted by securities services professionals to evaluate ESG risks and opportunities associated with investments, enhancing transparency, compliance, and informed decision-making.



E

EBA Action Plan on Sustainable Finance

A strategic framework devised by the European Banking Authority (EBA) to promote sustainable finance practices among financial institutions and securities services providers, encouraging alignment with ESG principles and regulatory requirements.

Eco-effectiveness

A human industry that is regenerative rather than depletive. It involves the design of things that strive for interdependence with other living systems. From an industrial-design perspective, it means products that work within 'circular economy' systems.

Eco-efficiency

The delivery of competitively priced goods and services that satisfy human needs and bring quality of life, while progressively reducing ecological impacts and resource intensity throughout the life cycle, to a level at least in line with the earth's estimated carrying capacity. Creating more value with less impact, or doing more with less; the efficiency with which ecological resources are used to meet human needs; a ratio of an output divided by the input.

Eco-innovation

Applying long term vision to today's markets to provide products and services that are environmentally efficient and economically profitable.

Eighty (80) percent investment policy

The Names Rule by the Securities and Exchange Commission, requires registered investment companies whose names suggest a focus in a particular type of investment, to invest at least 80 percent of the value of their assets in those investments. In June 2022, the SEC proposed to expand the Rule to any fund name, including ESG factors. The SEC has already been pushing ESG funds to comply with the 80% rule.

Emissions Allowances

Tradable permits or rights granted by governments or regulatory bodies which entitle holders to emit a specific quantity of GHG, offering opportunities for ESG-compliant investments in emissions trading markets.

Emissions Trading

A market mechanism enabling the buying and selling of emissions allowances. This facilitates carbon offsetting and compliance with environmental regulations, while participating in responsible investment practices.

Energy Transition

The global shift towards more sustainable and environmentally responsible energy sources and practices, influencing securities strategies by offering investment opportunities in renewable energy and clean technologies.

Engagement

The active involvement of securities services providers in dialogues with companies and stakeholders on ESG matters, often through shareholder activism or collaborative efforts, aiming to influence corporate behaviour and promote responsible investing.

Environmental Factors

Elements within the ESG framework, such as climate change, pollution, and resource management, that securities services professionals analyse when assessing the ecological impact of investments, ensuring the consideration of environmental risks and opportunities.

Environmental, Social, and Governance (ESG)

A holistic approach in securities services that incorporates environmental, social, and governance factors into investment analysis, risk management, and decision-making, prioritizing sustainability, ethical practices, and responsible corporate governance.

ESG Data Management

Activities that ensure that ESG-related data is consistently gathered and verified, and results are reported as robustly and clearly in any statutory financial disclosure.

ESG disclosure rules

A specific type of public reporting about an organization's performance around Environmental, Social, and Governance (ESG) issues or criteria.

ESG exposure

ESG exposure assessments refer to assessments on an organization's behaviours and the possible risks an organization undertakes regarding an ESG framework.

ESG factors

ESG means using Environmental, Social and Governance factors to assess the sustainability of companies and countries. These three factors are seen as best embodying the three major challenges facing corporations and wider society, now encompassing climate change, human rights and adherence to laws.

ESG funds

ESG funds are investments that are graded using ESG (environmental, social and governance) principles. ESG funds invest in companies that aim to have a sustainable and societal impact in the world, such as those with a small carbon footprint or diverse leadership boards.

ESG goals and expectations

ESG goals are objectives businesses set to help them effectively manage their impact on the environment and society. They revolve around the three ESG categories discussed above and define an organization's vision and direct strategy while holding it accountable. Common goals include reducing GHG emissions, investing in sustainable energy, increasing workplace diversity, and providing transparent financial reporting.

ESG indexes

An index is a group of companies that reflect the performance of a certain sector. Thus an ESG index includes companies that meet certain criteria for ESG standards and reflect that sector. Just as a large-cap equity index like the S&P 500 can be used as a performance benchmark for the performance of large-cap U.S. stocks, different ESG indexes can be used as benchmarks for sectors focused on sustainable or socially responsible investing (sometimes called SRI) practices.

ESG integration

ESG integration is the practice of incorporating ESG information into investment decisions to help enhance risk-adjusted returns.

ESG opportunities

ESG Opportunities are any opportunities for private or public developments that emerge as a result of focusing on Environmental Social and Corporate Governance. Such opportunities are diverse, linking to various ESG Factors and completes the range of potential outcomes (ESG Risks).

ESG Risk

ESG risks– refer to a company's environmental, social, and governance practices which could create a bad reputation, such as by greenwashing, or more directly, harming the company financially. ESG risks have become more important in the business world as many companies start to make the effort in the transition towards sustainability.

ESG risk management

The management of ESG-related risks – either from a company or portfolio perspective. Risks may be financial and/or reputational in nature. Specific ESG data is often used to assess exposure to a range of risk factors.

ESG risk tool

There are numerous software tools available in the market to support the identification, measurement and monitoring of ESG risks (and opportunities) over time. These commonly form a key element of a company's or fund's risk management program. Custom or advisory services are also available from consultants to support the interpretation of results.

ESG Scores

Measurement of a fund, company or security using a numerical score or letter rating to identify the ESG-related risk or performance based on a set of underlying factors and weightings. Scores are also often available at each of the underlying E, S and G pillars too. ESG scores from different providers have been found to have a low correlation.

ESG standards

There are numerous standards and frameworks in place globally across the ESG spectrum. Some are voluntary and some are made mandatory depending on the country/region and company/investor type. The core aim of most is to define a set of processes to be followed or data points to be utilised as a way of improving consistency and best practise.

ESG Strategy Disclosure

A type of disclosure that includes material information on the ESG strategy of the company or fund. This may include actual and potential impacts of ESG or climate-related risks and opportunities on the business, strategy or financial planning over a short, medium and long-term.

ESG Stress Testing

Much like similar tools utilised in other risk functions, ESG stress testing can be used as one part of a broader framework to understand potential impacts on business operations or financial performance. For example, "what if" scenarios can be employed to forecast changes in future risk or performance levels for components such as carbon footprint or scores/ratings.

ESG-focused Funds

Investment funds that are managed to achieve a certain ESG-specific aim in addition to, or instead of, financial performance. There are different techniques used in the management of these fund types, ranging from exclusion-based strategies through to thematic funds that focus only on underlying ESG factors.

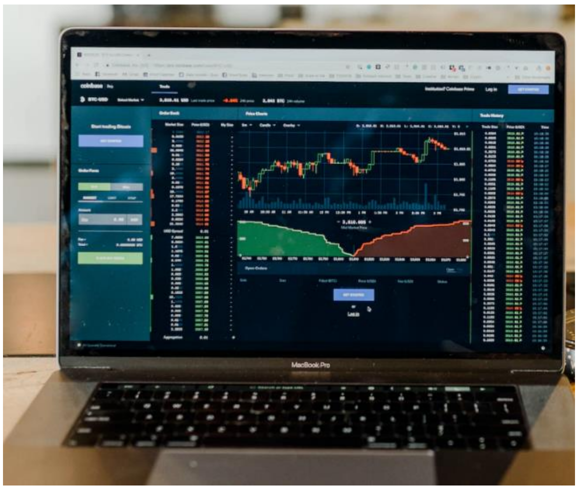
ESG-linked loans

A financing instrument that incentivises the borrower to achieve agreed upon sustainability performance objectives, through linking interest rates to those objectives. This definition includes sustainability-linked loans (SLLs) or green loans. The aim of which is to support sustainable economic activity and growth.

Ethical investing

A form of responsible investing that filters an investment universe to remove certain securities or sectors based a particular ethical code, such as those adopted by religious or social groups. This can include restrictions on investments in "sin stocks" such as those companies involved in the production, retail or distribution of alcohol, tobacco and weapons.

EU Sustainable Finance Action Plan



A comprehensive and regulatory framework established by the European Union (EU) that guides firms in integrating ESG principles into their operations and investments, fostering sustainable financial practices while ensuring compliance with EU sustainability regulations.

Exclusionist strategies

Investment approaches employed that involve consciously excluding companies or sectors that do not meet specific ESG criteria, aligning investment portfolios with ethical and sustainable principles.

F

Faith-based investing

A specialized form of ESG investing within the securities services sector, wherein investment choices are influenced by religious or moral beliefs, aligning portfolios with values and principles while seeking financial returns.

Financial and digital inclusion

Strategies that aim to promote equitable access to financial services and / or digital resources, ensuring that a diverse range of individuals and communities can participate in ESG investment opportunities.

Financial risk

The potential economic and market-related threats associated with ESG factors that securities services professionals assess and manage when making investment decisions, acknowledging the financial implications of ESG issues on portfolios.

Feed-in Tariff

A Feed-in Tariff is a regulatory mechanism that guarantees fixed payments to renewable energy producers for the electricity they generate and feed into the grid. This concept is relevant to securities services when assessing investment opportunities in renewable energy projects, particularly in the context of infrastructure and project financing.

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G

Global Reporting Initiative (GRI)

A widely recognized and standardized framework used by securities services firms to disclose ESG information in a consistent and transparent manner, enhancing reporting and facilitating comparisons across industries and regions.

Global warming

The ongoing increase in the Earth's average temperature due to excessive GHG emissions, which professionals consider when assessing the impact of climate change on investments and ESG risk management.

Governance factors

A critical component of ESG analysis within the securities services sector that focuses on the quality of a company's corporate governance practices, including board structure, executive compensation, and shareholder rights, influencing investment decisions to ensure responsible and ethical management.

Green assets

Investments in assets or projects that have a positive environmental impact, such as renewable energy facilities or environmentally friendly infrastructure, commonly used to align portfolios with sustainability goals and support responsible investing

Green bond

A green bond is a type of fixed-income instrument that is specifically earmarked to raise money for climate and environmental projects. These bonds are typically asset-linked and backed by the issuing entity’s balance sheet, so they usually carry the same credit rating as their issuers’ other debt obligations. (Investopedia)

Green capital (investing)

ESG investing refers to a set of standards for a company’s behaviour used by socially conscious investors to screen potential investments. Green/Environmental criteria consider how a company safeguards the environment, including corporate policies addressing climate change, for example. (Investopedia)

Greenium

Greenium is a term used to describe the premium or lower yield that investors are willing to accept for environmentally sustainable or green bonds compared to conventional bonds. Securities professionals often assess the market dynamics related to Greenium when managing and trading green bonds.

Green financing

Green financing refers to the allocation of capital for projects and investments that have a positive impact on the environment. It encompasses a variety of financial instruments, including green bonds and loans, tailored to fund eco-friendly initiatives. Securities services providers are instrumental in facilitating green financing by connecting issuers with investors seeking sustainable opportunities

Green taxonomy

A green taxonomy is a classification system that highlights which investment options are sustainable and under which criteria.

Greenhouse gas (GHG) emissions

Greenhouse gases are gases in the Earth's atmosphere that trap heat and cause the Earth's surface to warm up. This process is known as the greenhouse effect. Common greenhouse gases are carbon dioxide, methane, and nitrous oxide. (Investopedia) Securities Services providers monitor these GHG emissions and address them within investment strategies in line with sustainability goals and regulatory requirements.

Greenwashing

Greenwashing is the practice of making unsubstantiated or misleading claims about a company’s environmental initiatives in order to make their products or services appear more environmentally friendly than they actually are. (Investopedia)

GRI

See Global Reporting Initiative (GRI).

H

Human capital

The intangible assets of a company contained in the wealth of skills, expertise, corporate memory and the web of social relationships which employees build up over the course of their working lives and which enhance their value in the marketplace.

Human rights

The basic rights and freedoms to which all humans are entitled, including the right to life and liberty, freedom of thought and expression, and equality before the law. The Universal Declaration on Human Rights, enshrining these freedoms, was first signed in 1948. Some argue that the right to clean water, adequate food and basic healthcare should be included among these core human rights.

I

Impact Funds

A fund whose goal is to implement investments that generate a measurable, beneficial social and/or environmental impact, in addition to a financial return.

Impact investing

Impact investing is an investment strategy that aims to generate specific beneficial social or environmental effects in addition to financial gains. Impact investments may take the form of numerous asset classes and may result in many specific outcomes. The point of impact investing is to use money and investment capital for positive social results. (Investopedia).

Impact modelling

Impact Business Models (IBMs) are the ways that a business is designed to create a specific positive benefit/outcome for one of its stakeholders. They may be based on their product, a particular process or activity, or the structure of the business. (BCorp).

Inside-out effect

'Inside-out' describes our common understanding of how companies and organisations impact society and the environment: Environmental, social and governance materiality (Lancaster University)

Integration Funds

Defined as one that considers one or more ESG factors alongside other non-ESG factors, but generally gives ESG factors no greater prominence than non-ESG factors in its investment selection process. (US Securities and Exchange Commission)

Intergovernmental Panel on Climate Change (IPCC)

The Intergovernmental Panel on Climate Change is an intergovernmental body that assesses the science related to climate change. It was established in 1988 by the United Nations Environmental Programme (UNEP) and the World Meteorological Organization (WMO) to provide policy makers with scientific information in order to form sound climate policies. The IPCC is composed of hundreds of leading climate experts who work together to assess the evidence of climate change and develop scenarios to help address the impacts.

International climate policy

The policies agreed at an intergovernmental level which reduce the impact of climate change.

International climate policy faces a twofold challenge: on the one hand, it must promote climate protection by reducing GHG emissions; on the other hand, it must help people and ecosystems to adapt to the effects of climate change. (Deutsche Gesellschaft für Internationale Zusammenarbeit)

International Energy Agency (IEA)

Paris-based autonomous intergovernmental organisation, established in 1974, that provides policy recommendations, analysis and data on the entire global energy sector. (IEA)

Investor engagement

Overall, investor engagement increases the return on equity, reduces costs and increases the value of the company. Some investors define “engagement” as any communication with a company that enhances mutual understanding. Others believe engagement, by definition, is intended to bring about a change of approach or behaviour at a company.

Investor Relations (IR)

The process by which companies communicate with their investors. This facilitates a dialogue on all aspects of the company but is increasingly relevant in relation to ESG disclosures and communication.

’ISO 26000

Defined as the international standard developed to help organizations effectively assess and address social responsibilities that are relevant and significant to their mission and vision; operations and processes; customers, employees, communities, and other stakeholders; and environmental impact. (American Society for Quality)

International Sustainability Standards Board (ISSB)

The ISSB is an independent, private-sector body that develops and approves IFRS Sustainability Disclosure Standards (IFRS SDS).

L

Low Carbon

Refers to a type of decarbonized economy that is based on low energy consumption and low levels of GHG emissions.

M

Materiality

The most significant ESG issues that may impact a company's financial value. A materiality assessment is designed to help investors identify and understand the relative importance of specific ESG and sustainability topics to an organization.

Mitigation

Preventing or reducing adverse impacts through actions that reduce hazard, exposure, and/or vulnerability. In the context of climate change, it means human intervention to reduce the sources or enhance the sinks of GHG and taking measures to moderate, offset or minimise the negative effects of GHG emissions on the climate.

Multi-stakeholder partnerships (MSPs)

Voluntary collaborations that involve business and organisations from the public and/or civil society sectors.

N

Names Rule

The Securities Exchange Commission’s (SEC) Names Rule currently requires funds with certain names to adopt a policy to invest 80. percent of their assets in the investments suggested by that name. Helps ensure that a fund's name accurately reflects the fund's investments and risks

Negative screening/exclusions

Negative screening is the process of actively excluding certain sectors or companies that fail to meet predetermined moral or ethical standards and/or ESG criteria.

The process of finding companies that score poorly on ESG factors relative to their peers.

Net-zero

Net zero refers to the balance between the amount of GHG that is produced and the amount that is removed from the atmosphere. It can be achieved through a combination of emission reduction and emission removal.

Non-financial risk

ESG Risk, the consequences of ESG risk translate into financial performance, including profitability and financial liquidity, which makes it necessary to mitigate this type of risk.

Norms-based screening

Screening issuers against minimum standards of business practice based on international norms. Useful frameworks include UN treaties, Security Council sanctions, UN Global Compact, UN Human Rights Declaration and OECD guidelines.

O

Outside-in effects of ESG

These are external ESG factors that posed the greatest risk to a particular business’s operations or offerings today. Outside-in sustainability materiality describes how companies assess the sustainability factors outside their control that have the biggest effect on financial performance.

P

Paris Agreement

The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at the UN Climate Change Conference (COP21) in Paris, France, on 12 December 2015. It entered into force on 4 November 2016.

The Paris Agreement sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C. It also aims to strengthen countries' ability to deal with the impacts of climate change and support them in their efforts

The Paris Agreement is a landmark in the multilateral climate change process because, for the first time, a binding agreement brings all nations together to combat climate change and adapt to its effects.

Pass-through Voting

Pass-through voting is a mechanism in which asset managers allow their clients, such as pension fund beneficiaries or shareholders, to participate directly in voting on ESG-related matters during shareholder meetings. This approach empowers investors to have a more active role in influencing corporate governance and sustainability practices, impacting the securities services industry's proxy voting and engagement services.

Peer benchmarking

Comparing a company's ESG performance against peers within its industry. Shows how a company ranks among others in its industry and how stakeholders in that industry view the company.

Physical risks

Physical risks are those related to the physical impacts of climate change such as increased frequency and severity of extreme weather events (e.g. wildfires, cyclones, hurricanes, floods).

Positive/best-in-class screening

Is the process of selecting a subset of top-performing companies from a defined industry and a set of characteristics to invest in. The best-in-class approach chooses companies that are leaders in their industries based on selected ESG criteria.

Principal adverse impact (PAI)

One of the more significant impacts of the Sustainable Finance Disclosure Regulation (SFDR) is its mandated disclosure of Principal Adverse Impact (PAI) indicators. In accordance with the regulation, all financial market participants must disclose 14 mandatory indicators and two additional metrics.

Principles for Responsible Investment (PRI)

The United Nations-supported Principles for Responsible Investment (PRI) initiative is a network of international financial institutions working together to put the six Principles for Responsible Investment into practice

The six Principles for Responsible Investment are:

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6: We will each report on our activities and progress towards implementing the Principles.

Proxy

A person authorised to act on behalf of someone else.

Q

Quantitative screens

Quantitative metrics are based on numerical data that often can be directly measured and compared. Examples of quantitative ESG metrics include GHG emissions, energy usage, employee turnover rates and reported HR violations. These metrics are useful for benchmarking and tracking performance over time.

R

Ratings

ESG ratings generally assess the impact of ESG factors on a company and a company's impact on the outside world.

The rating aim to measure a company’s management of financially relevant ESG risks and opportunities.

Reclassifications

The process of changing the classification of certain financial item. For example reclassifying a fund to qualify as Article 8 product instead of Article 6 product under SFDR.

Regulatory sanctions

Punishment such as monetary penalties due to misconduct imposed by a regulator, with the aim to get an actor to change its behaviour.

Renewables

The term given to energy that comes from a source that will not run out. As opposed to fossil fuels, they usually have a low or zero carbon footprint. Examples include wind power, solar power and hydroelectric power.

Reporting directives

Guidelines and requirements within the securities services industry that mandate the structured and transparent disclosure of ESG information to clients, investors, and regulatory authorities, facilitating informed decision-making and ESG compliance.

Reporting frameworks

A range of ESG reporting frameworks can be used by companies and investors to disclose information on sustainability-related issues. They offer a structured approach to evaluating a company's impact and performance – including risks and opportunities. There are voluntary disclosure frameworks and guidance frameworks. Common frameworks include SASB and TCFD.

Responsible investing

The consideration of environmental, social and governance (ESG) issues when making investment decisions and engaging with companies. Investor objectives can include maximising financial returns and/or achieving positive real-world environmental and social outcomes. Examples include climate change and human rights factors.

Risk appetite statement

A formal document outlining the predetermined level of risk a financial institution or investment firm is willing to accept when engaging in ESG investments, providing a strategic framework for managing ESG-related risks.

Risk Controlling

The systematic oversight and management of ESG-related risks by securities services providers, involving the implementation of risk mitigation strategies and ongoing monitoring to safeguard investments and maintain ESG compliance.

S

Science-based targets initiative (SBTi)

An initiative that enables private companies to set science-based emissions reduction targets. These targets show companies and financial institutions how much and how quickly they need to reduce their GHG emissions to meet global net zero targets and help prevent the worst effects of climate change.

Scope 1,2,3 emissions

The individual "scopes" are a way of categorising the different types of carbon emissions that a company may create in its own operations and in its wider value chain. Scope 1 emissions include GHG emissions that a company makes directly; scope 2 covers indirect emissions such as purchased electricity or energy; and scope 3 covers upstream and downstream value-chain emissions that is commonly the largest value of the three.

Social bonds

Use of proceeds bonds that raise funds for new and existing projects or activities that achieve positive social outcomes. They can be used to finance both public and private demand. The issuers of social bonds are typically agencies, governments and corporates.

Social factors

Factors within the "S" pillar of ESG that can affect a company's financial performance. These can focus on a range of issues including workplace safety, community impact and human rights.

Social impact investing

A subset of ESG investment strategies that focus specifically on deploying capital into businesses and initiatives that demonstrate a strong commitment to social responsibility, aiming to address societal issues while seeking financial returns. Common examples include investments to provide affordable and accessible services such as housing, healthcare and education. Often aligned to the UN Sustainable Development Goals (SDGs).

Social investing

See Social Impact investing.

Socially Responsible Investing (SRI)

One approach to sustainable investing that includes screens on certain industries to avoid investments in negatively viewed business activities, often for ethical or religious reasons. Common examples are alcohol, tobacco, gambling and weapons. Thresholds on company revenues can be used to specify business involvement materiality.

Stewardship code

There are a number of stewardship codes in place for different countries around the world. The UK was the first to publish a stewardship code in 2010. The aim of each is to set standards and outline best practice for investor engagement with companies. These codes apply to asset owners, asset managers and other service providers. Some stewardship codes are voluntary and some are mandatory.

Stranded assets

Assets that turn out to be worth less than expected as a result of changes associated with the energy transition. These can be stranded due to economic factors (increased costs or reduced prices), physical factors (distance, flooding, drought), or regulations (policy changes). Examples include coal mines, coal and gas power plants and other hydrocarbon reserves. Stranded asset risk can be assessed using climate scenario models.

Sustainability

Corporate sustainability is an approach to create long-term stakeholder value using strategies that are focused on the ESG impacts of doing business. Companies often implement policies, targets and published measurements of ongoing performance.

Sustainability Accounting Standards Board (SASB)

Founded as a non-profit in 2011, SASB aimed to develop a common language about the financial impacts of sustainability. The SASB Standards identify risks and opportunities that are most likely to impact entities across different industries. SASB helped establish the International Sustainability Standards Board (ISSB) and is part of the IFRS Foundation.

Sustainability bonds

Use of proceeds bonds that raise funds for new and existing projects or activities that achieve a combination of positive social and environmental outcomes. These differ from social or green bonds by having to combine both impact areas.

Sustainability goals

Sustainability goals are business-aligned, measurable goals, that an organisation uses as a benchmark and progress tracker of how it is progressing towards its ideal state from a sustainability front.

Sustainability Linked Bonds (SLB)

SLBs are financial instruments issued by corporations or entities that link the bond's terms to specific sustainability performance targets. These targets can encompass ESG criteria. In the context of securities services, SLB’s offer investors a unique avenue to support and incentivize sustainability initiatives while generating returns on their investments.

Sustainability risks

Sustainability risks are the possible positive or negative impact to an organisation in the event of a social or environmental incident.

Sustainable Finance Disclosure Regulation (SFDR)

The Sustainable Finance Disclosure Regulation was introduced in Europe in 2021 to impose mandatory disclosure obligations for environmental and social considerations on asset managers and other designated financial market participants. The SFDR is part of the EU's Sustainable Finance Action Plan that aims to reallocate capital towards sustainable finance.

Sustainable Development Goals (SDGs)

See United Nations Sustainable Development Goals.

Sustainable finance

Sustainable finance is the mobilisation of funds through financial instruments that are directly related to sustainability-related projects and deals.

Sustainable investments

See United Nations Sustainable Finance.

T

Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD is a global organisation form to develop a set of recommended climate-related disclosures that companies and financial institutions can use to better inform investors, shareholders, and the public of their climate-related risks.

https://www.fsb-tcfd.org/

Taxonomy

A taxonomy defines and classifies terms used, with the aim of standardisation of understanding and interpretation, across the industry.

The Paris Climate Protection Agreement

See Paris Agreement.

Thematic investing

Thematic investing is a form of investment strategy that pursue a specific theme or trend, whereby the underlying investments of the portfolios are aligned to, and/or believed to be following that theme and/or trend.

In the case of ESG, thematic strategies will typically focus on an ESG issue, and underlying investments will be corporates that have specific solutions for that particular ESG issue. For example, if the theme is to improve sanitation (i.e. SDG 6), then the portfolio will be focused on investing in corporates that have innovated sanitation-related solutions.

Transition Finance

Transition finance is any financial service provided to organisations to support them to align their businesses and/or operations within a 1.5-degree trajectory.

Transition plans

A (climate) transition plan is a detailed action plan that outlines how an organisation will shift its existing business (assets, operations, strategies) towards one that aligns with its climate goals.

Transition Risk prototype

A scenario analysis of a portfolio that focuses on the effects of carbon price changes.

Transition risks

Transition risks are the potential costs to an organisation depending on its ability and pace at which it adapts to the society evolving into a low carbon economy.

Transition strategies

Transition strategies refer to investment strategies that focus on moving an organisation towards a less carbon-intensive and/or net-zero carbon portfolio. The transition approach is more dynamic and forward looking, as compared to the initial approach of ‘exclusions.

Triple Bottom Line

The Triple Bottom Line is an ESG framework that evaluates an organisation's performance based on three key factors: economic, social, and environmental outcomes. Securities services professionals use this framework to assess companies' holistic sustainability practices and impacts when making investment decisions.

U

United Nations Global Compact (UNGC)

The UN Global Compact is a call to companies to align their strategies and operations with ten universal principles related to human rights, labour, environment and anti-corruption, and take actions that advance societal goals and the implementation of the Sustainable Development Goals (SDGs).

It is a voluntary initiative based on CEO commitments to implement universal sustainability principals and to take steps to support the UN goals.

https://unglobalcompact.org/

United Nations Sustainable Development Goals

The Sustainable Development Goals are a collection of seventeen interlinked objectives designed to serve as a 'shared blueprint for peace and prosperity for people and the planet, now and into the future'. These goals help guide organisation in shaping their sustainability strategy, quantifying the progress of their strategy and ensuring that all key aspects of sustainability has been considered.

V

Virtuous investment strategies

Virtuous investment strategies refer to investment strategies that pursue an agreed set of virtues/moral standards, which underlying investments/portfolio constituents have to adhere to.

W

Weighted average carbon intensity

The weighted average carbon intensity is a measure of a portfolio's exposure to carbon-intensive companies, expressed in tCO_2e/USD 1 million (tonnes of carbon dioxide equivalent). This is calculated by first calculating the carbon intensity of each constituent in the portfolio (Scope 1 + 2 emissions / $M sales), then multiplying by its weight in the portfolio and a final summation of all weighted carbon emissions.

Appendix

Member Firms

- B3 Brazilian Exchange and OTC
- BNP Paribas S.A.
- Central Securities Clearing System Plc
- Chongwa (Macao)
- Clearstream
- CSCS Plc
- Datos Insights
- Deutsche Bank AG
- DTCC
- Euroclear
- Greenomy
- IHS Markit
- JP Morgan
- McKinsey & Company
- Myriad Group Technologies Ltd
- Nasdaq
- Northern Trust
- NowCM
- Proxymity
- Skandinaviska Enskilda Banken AB
- Standard Bank of South Africa
- Standard Chartered Bank
- SWIFT
- Tata Consultancy Services
- The Capital Markets Company Limited
- UBS