



...**YOUR COMPLIANCE, ESG & SUSTAINABILITY IN ACCORD**

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Hello from ESG Accord

The last couple of weeks we've been looking closely at fund labels!

Wide ranging discussions and research; our framework levels & the EU G-Value, top down v bottom up and any UK divergence, fund descriptors (consumer terminology, how to form an integrated package), transparency, what is held in existing PROD framework...

For any new labels system to have longevity it must look beyond the UK remit for climate. This is a fast evolving space - to be flexible and responsive to new metrics - AI, data management, biodiversity/NRFRs and TNFD.

Here is a quick reference back in time to April and the FCA response to the Committee's report, 'Net Zero and the Future of Finance'. In the FCA response;

"We will also need to deepen our work on ESG issues, beyond climate change. For instance, we will need to consider more fully the role of finance in dealing with other environmental issues, such as biodiversity (as set out in the Dasgupta Review, published in February this year), as well as social issues, such as racial equality, the living wage and diversity and inclusion." (<https://publications.parliament.uk/pa/cm5802/cmselect/cmtreasy/576/57601.htm>)

Fast evolving is key. We think this means a broad 'category' label based on conduct rules, guiding principles and raised due diligence/market participation as this can be responsive as it is not exhaustive in what it contains.

And (we repeat this a lot); ALL market participants are essential for this system to have trust and transparency - the financial adviser is KEY in providing the link of info between end consumer and manufacturer! The UK has a reputation for gold-plating regs from the EU (and has onshored Basel III), it is very important to the UK that this is not lost so we must have stronger (gold-plated) participation and conduct for this to continue.

News Updates:

TED talk by Nigel Topping, High Level Climate Action Champion COP26
Highlighting in the need for strong and structured engagement of transition companies

Nigel Topping; "Every human and natural system - from oil extraction to the flight of a flock of starlings - can be seen as a set of repeating patterns. These patterns can be disrupted for good or for bad"

https://www.ted.com/talks/nigel_topping_3_rules_for_a_zero_carbon_world/up-next

The Government has strengthened its commitment to protect the environment for future generations and build back greener with new amendments to the landmark Environment Bill that will see the UK build on its reputation as a global leader in conservation.

<https://www.gov.uk/government/news/landmark-environment-bill-strengthened-to-halt-biodiversity-loss-by-2030>

InfluenceMap report. Climate Funds: Are They Paris Aligned?

The report is an analysis of ESG and climate-themed equity funds - there are key takeaways on the website page, the conclusion page of the report is worth a deeper read. It is a call for closer oversight, for transparency of fund descriptors.

<https://influencemap.org/report/Climate-Funds-Are-They-Paris-Aligned-3eb83347267949847084306dae01c7b0>

A couple of key points from the headline overview:

- A key finding of the research is the wide spectrum of terms used to describe climate-themed strategies in listed equity funds and the resulting difficulty, even within financial databases, of comparison between them. Given the relative lack of standards and regulation currently governing the marketing of ESG and climate funds, this research has defined over 30 search terms to group funds into two main categories: 'broad ESG' and 'climate-themed'.
 - While the above findings do not necessarily contradict the strategy and goals of the individual funds analyzed, they highlight a lack of consistency and often poor transparency on the alignment of many ESG and climate-themed funds with global climate targets. This issue is likely to be of great concern to the investors of such funds, who may expect their climate-themed portfolios to at least outperform the market when comparing them with industry-standard climate criteria.
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World Economic Forum article - How personalizing sustainable investments can shape the future of finance

Makes a reference to food labels for retail investor simplicity. The article does not mention the EU G-Value for Eco labels (a standard to apply for and will be best of, where a food label style is for all). The article misses the difficulty of and incoming fast evolution of NRRs / biodiversity metrics.

<https://www.weforum.org/agenda/2021/08/how-personalizing-sustainable-investments-shape-finance>

UCL Policy Report 2021/02 - Quantitative easing and nature loss: Exploring nature-related financial risks and impacts in the European Central Bank's corporate bond portfolio

The report examines the ECB's corporate bond purchase operations and the links to nature loss and NRR (nature related financial risks) and it calls to rethink market neutrality

https://www.ucl.ac.uk/bartlett/public-purpose/sites/bartlett_public Purpose/files/quantitative_easing_and_nature_loss_23_july.pdf

Counter read about rethinking market neutrality (although the opinion article does not reference the UCL Report)

Central banks need to stop the mission creep

<https://on.ft.com/38l1mik>

This publication is intended merely to highlight issues, it is not meant to be comprehensive, nor is it regulatory advice. Should you have any questions on issues raised here or on other areas of ESG or Sustainability, please contact us admin@esgaccord.ci.uk

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This is not an article specifically about ESG / SF but the volume of retirees affected is a Social issue. The lack of engagement perhaps shows the need for transparent and trustworthy fund labelling!
And perhaps engagement with advisers might be improved via SF/ESG

10m pensioners risk running out of money — poll Retirees unsure about managing their funds but resist advice

<https://www.ft.com/content/6eda1ef2-ff59-4034-a864-fa2459e00298?segmentId=6faa8072-922c-4fbf-5b33-45a1342b0cc3>

Link to the EC Technical Report for Development of EU Ecolabel criteria for Retail Financial Products

The Ecolabel defines the minimum environmental performance (via a G - Value) of this product group, it is to be based on the requirements of the EU Ecolabel Regulation 66/2010 with the objective of awarding the best environmentally performing financial products

<https://susproc.jrc.ec.europa.eu/product-bureau/sites/default/files/2021-03/2021.03.05%20-%20EUEL%20financial%20-products%20-%20Technical%20Report%204%20FINAL.pdf>

Work freedom...

We are not ready for the asynchronous future - A strange jargon term will be the key to transforming our working freedoms

<https://www.ft.com/content/61a9b2cf-c9d1-4aac-aeef-0669c31d651d>

Not new news - and not on-shored, but worth a reminder

Sustainability Preferences and Fiduciary Duties -scroll to VI.

https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en

The Commission is today introducing the assessment of client's sustainability preferences in existing delegated acts under the Markets in Financial Instruments Directive (MiFID II) 17 and the Insurance Distribution Directive (IDD) 18 , as a top up to the suitability assessment. Insurance and investment advisers will be required to obtain information not only about the client's investment knowledge and experience, ability to bear losses, and risk tolerance as part of the suitability assessment, but also about their sustainability preferences. This will ensure that sustainability considerations are taken into account on a systematic basis when the advisers assess the range of financial instruments and products in their recommendations to clients.

This action will empower retail investors to decide where and how their savings should be invested. This way, everyone will have a chance to make **a tangible positive impact on the climate, environment and society if they desire to do so**. The change will increase the demand for financial instruments and products with sustainable investment strategies and those that consider adverse impact on sustainability.

By amending existing rules on fiduciary duties in delegated acts for asset management, insurance, reinsurance and investment sectors, the Commission is clarifying the current rules to also encompass sustainability risks such as the impact of climate change and environmental degradation on the value of investments.

SFDR Overview via JP Morgan

<https://am.jpmorgan.com/gb/en/asset-management/adv/investment-themes/sustainable-investing/understanding-SFDR/#>

Man Group, A Sustainable Future: Why Biodiversity is a Financial Risk / Why Biodiversity Loss is a Business Risk

Interesting discussion for info on the progression up to the COP-15 UN Biodiversity Conference and the importance of initiatives like TNFD to provide frameworks to report and act on nature related risks.

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Jason Mitchell, Co-Head of Responsible Investment at Man Group and Elizabeth Maruma Mrema, United Nations Assistant Secretary-General and Executive Secretary of the Convention on Biological Diversity (CBD), co-chair of the Taskforce on Nature-related Financial Disclosures (TNFD).

(podcast, scroll page for the transcript)

<https://www.man.com/maninstitute/ri-podcast-elizabeth-mrema>

The Difference Between Purpose and Sustainability (aka ESG)

<https://corpgov.law.harvard.edu/2021/08/20/the-difference-between-purpose-and-sustainability-aka-esg/>

Coherent, Effective and Impactful sustainable finance policies

<https://www.eurosif.org/wp-content/uploads/2021/06/2021-06-11-Renewed-EU-Sustainable-Finance-Strategy-Eurosif86.pdf>

"The SFDR focussed only on transparency of fund products. It does not set a standard for different types of products, limiting comparability and increasing the risk of market fragmentation. To remedy this and limit the risk of mis selling of green products in the advice process, there is a need to develop minimum sustainability standards for investment funds"

Interesting point on Data Providers - "Data providers should be placed in the regulatory perimeter and subject to transparency requirements around quality of data and methodologies"

Eurosif Letter sent to the European Commission (11/06/2021), A new EU Sustainable Finance Strategy so support the EU Green Deal – key principles and recommendations

Annex – pg4, specific recommendations for the new EU Sustainable Finance Strategy

<https://www.eurosif.org/letter-to-the-commission-on-the-new-eu-sustainable-finance-strategy/>

Reuters Survey about article 8&9 Fund Issues - another call for fund descriptors and transparency

<https://www.reuters.com/business/sustainable-business/fifty-shades-green-eu-sustainable-fund-rules-muddy-waters-2021-08-19/>

Do hidden ESG risks lurk in your portfolios? Investing through an ESG lens

Explainer by Dan Lefkowitz - strategist for Morningstar's indices group

"So renewable energy equity investing is not the same as low carbon investing, but does that mean its greenwashing? Not necessarily. But there are trade-offs that investors need to contend with, especially where regulatory compliance is concerned.

With the increasing investor focus on sustainability, it is important to examine portfolios through an ESG lens.

As issues such as climate, diversity, equity and inclusion, and business ethics are considered as part of investment processes, hidden risks are critical to expose."

<https://www.investmentweek.co.uk/opinion/4035917/hidden-esg-risks-lurk-portfolios>

UK government launches plan for a world-leading hydrogen economy

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- First-ever vision to kick start world-leading hydrogen economy set to support over 9,000 UK jobs and unlock £4 billion investment by 2030
- consultation also launched to look at ways to overcome cost gap between low carbon hydrogen and fossil fuels
- £105 million in UK government funding provided to support polluting industries to significantly slash their emissions

<https://www.gov.uk/government/news/uk-government-launches-plan-for-a-world-leading-hydrogen-economy>

Opinion piece in the FT -

ESG must learn from the tech bubble — returns matter - investors must not forget about profits, even as they focus on wider criteria

"Unless a business is sustainable financially it will not be around to exercise responsibility. The prize is found in integrating financial and ESG objectives."

<https://www.ft.com/content/81e04951-b91b-4f40-9253-ebf1bcea18ea>

Research by Hymans Robertson Investment Services (HRIS) shows 81% of advisers it surveyed believe ESG risks are essential when building client portfolios.

HRIS CIO William Marshall;

"As this grows advisers must retain a robust approach and ensure they take care to consider all elements as they meet that need in their clients' portfolio construction."

Research from Platforum earlier in the year found there are "significant knowledge gaps" which need to be addressed by advisers regarding ESG.

[IFAs see ESG as 'extremely' important in portfolio design | Money Marketing](#)

We'd love to hear from you! Please get in touch via admin@esgaccord.co.uk if you have any topics or questions you'd like covered in our newsletter.
