

ESG ACCORD

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Newsletter 11th November 2021

Hello from ESG Accord

What's new with us?

Firstly, just in case you haven't heard, ESG Accord has been asked to be part of the DLAG (Disclosure and Labels Advisory Group) set up by the Government and FCA. We are delighted that after 1 year in business our work has been recognised at this level. As part of the Membership, we will provide the FCA with feedback, technical advice and constructive challenge alongside other relevant stakeholders, industry experts and consumer representatives at this critical time for Sustainable Finance.

Essential reading: the FCA Discussion Paper DP21/4 Sustainability Disclosure Requirements (SDR) and investment labels!

The Discussion Paper is part of the FCA contribution to delivering the Government's Roadmap to Sustainable Investment.

We encourage all to read the DP as a whole. ESG Accord will be collating feedback. Please do get in touch if you'd like to discuss!

For easy reference for Advisers: see points 1.11 and 5.5

<https://www.fca.org.uk/publication/discussion/dp21-4.pdf>

Other news:

The FCA has released their Climate Change Adaptation Report.

In the report the FCA sets "out the steps we have seen the industry take to mitigate the risks climate change presents and we identify areas, such as retail investments and mortgages, where more needs to be done. Our assessment comes within the context of our developing strategic approach to climate change issues. This will see climate considerations embedded in everything we do,

from how we operate, to our policy choices, to how we supervise and enforce against firms. Additionally, our report examines how the industry is making commitments to reach net-zero. We are keen to see these commitments put into action, backed up by appropriate governance and transition plans that will turn pledges into reality."

<https://www.fca.org.uk/publication/corporate/fca-climate-change-adaptation-report.pdf>

At COP26 the IFRS Foundation Trustees announced the formation of ISSB for a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs - this is important because the UK Sustainability Disclosure Requirements will incorporate global initiatives, such as the International Sustainability Standards Board (ISSB).

<https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/>

FT: Bonds are an ESG blind spot in investing. The push by fund managers for decarbonisation and social responsibility is primarily an equity market phenomenon

"In the much larger global bond market, BBVA Global Markets Research has estimated that in late 2020 the stock of green, social and sustainable bonds had yet to reach \$1tn out of a market total of \$128tn. While this green exposure is rising fast from a low base, it is indisputably minuscule.

The great majority of this market is ethically value free. ShareAction, a non-profit responsible investment research group, found last year, for example, that 84 per cent of asset managers had no public policy against purchasing sovereign bonds from countries under international sanction for human rights abuses."

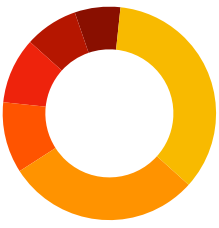
<https://www.ft.com/content/5de087af-9ac0-40c5-84a8-a873f6600eeb>

Four of world's five largest vehicle makers fail to back COP26 emissions agreement

<https://on.ft.com/3bW0lXn>

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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Interview with Partha Dasgupta in the FT

Partha Dasgupta:

'It's not a giant step to introduce nature into economics' - The Cambridge professor says macroeconomic forecasts do not account for 'violent' damage to ecosystems"

'Impact inequality' is the gap between the population's demands and the biosphere's abilities to meet that demand sustainably. Natural capital factored into economic models, institutional reform and education.

<https://www.ft.com/content/4e623732-0b40-406a-af8b-0b01fdae3cab>

And if you are not familiar with this already,

Re-sharing the Final Report from back in Feb- The Economics of Biodiversity: The Dasgupta Review

<https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review>

CFA Global ESG Disclosure Standards for Investment Products

Standards for disclosure of objectives, process and stewardship activities, does not address naming, labelling, or rating of investment products

<https://www.cfainstitute.org/-/media/documents/ESG-standards/Global-ESG-Disclosure-Standards-for-Investment-Products.pdf>

Eversheds Sutherland summary of the DP21/4 SDR and investment labels

https://www.eversheds-sutherland.com/global/en/what/articles/index.page?ArticleID=en/Financial_services/DP21_4-SDR-and-investment-labels_041121

Gillian Tett - Opinion Accountancy

The green transition may depend on auditors -

"At this week's COP26 climate talks in Glasgow, government ministers, finance officials, green activists and corporate leaders have paraded across the stages. One group that has not been highly visible, however, is the world's auditors and accountants. That is a mistake."

<https://www.ft.com/content/a35615c7-7087-49dd-bcb8-8174e256fa95>

ESG-labelled funds in the top three selling sectors have "clearly" outperformed their non-ESG counterparts over three and five years, according to research from Refinitiv.

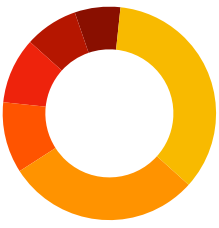
<https://www.investmentweek.co.uk/news/4039638/esg-labelled-funds-outperform-conventional-counterparts>

Glasgow Financial Alliance for Net Zero (GFANZ): over \$130 trillion of private capital is committed to transforming the economy for net zero. These commitments, from over 450 firms across 45 countries, can deliver the estimated \$100 trillion of finance needed for net zero over the next three decades

<https://www.gfanzero.com/press/amount-of-finance-committed-to-achieving-1-5c-now-at-scale-needed-to-deliver-the-transition/>

Eversheds Sutherland summary of the Roadmap to Sustainable Investing

https://www.eversheds-sutherland.com/global/en/what/articles/index.page?ArticleID=en/Financial_services/Roadmap-to-Sustainable-Investing-FS_021121



Banks green pledges under scrutiny

<https://www.ft.com/content/Oea3267c-d61f-4120-a976-0b81b60836c5?desktop=true&segmentId=7c8f09b9-9b61-4fbb-9430-9208a9e233c8#myft:notification:daily-email:content>

USS directors sued over climate inaction and breaches of duty

<https://www.pensions-expert.com/DB-Derisking/USS-directors-sued-over-climate-inaction-and-breaches-of-duty?ct=true>

UN PRI Responsible investment DDQ for private equity limited partners

<https://www.unpri.org/private-equity/responsible-investment-ddq-for-private-equity-limited-partners/8730.article>

FT Special Report on climate change - free to read

<https://www.ft.com/reports/managing-climate-change?emailId=618115b8b52e070004b8591c&segmentId=a8cbd258-d42-1845-7b82-00376a04c08f>

UK to enshrine mandatory climate disclosures for largest companies in law

<https://www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law>

Firms will be required to disclose climate-related financial information, ensuring they consider the risks and opportunities they face as a result of climate change.

-UK will become first G20 country to make it mandatory for Britain's largest businesses to disclose their climate-related risks and opportunities, in line with Taskforce on Climate-related Financial Disclosures (TCFD) recommendations

- new legislation will require firms to disclose climate-related financial information, with rules set to come into force from April 2022
- follows publication of UK's landmark Net Zero Strategy and forms part of the government's commitment to making the UK financial system the greenest in the world

Mark Carney: the world of finance will be judged on the \$100tn climate challenge

"Your money matters. In the months and years ahead, judge all financial institutions not by what they say but by their numbers: the total dollars of transition financing, the amount of polluting, the stranded assets retired, the emissions eliminated and the timelines to get to net zero. Hard numbers in service of all people and our planet — that's the real bottom line."

<https://on.ft.com/3Et3jrb>

All should read this new update to the The Economics of Climate Change: The Stern Review, it was a landmark study that was published on 30 October 2006.

Nicholas Stern, Working Paper 370: A time for action on climate change and a time for change in economics, London School of Economics

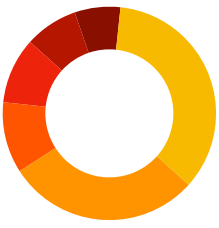
(Grantham Research Institute on Climate Change & the Environment, Centre for Climate Change Economics & Policy Oct 2021)

<https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2021/10/working-paper-370-Stern.pdf>

A carbon price should be top of the wish list at the climate talks,

"governments should simply pledge to introduce a \$50-a-tonne carbon price (ie, tax) at an identified future date."

<https://www.ft.com/content/692e03e8-2580-4d1d-abcd-36aa87497794>



Summary of FCA Climate Change Adaptation Report:

https://www.moneymarketing.co.uk/news/fca-vows-to-ask-probing-questions-on-climate-action/?eea=cUZCNFYONGJ5UFJIUmXSRmh3Z2NzL1YzVzNvdjk3NEdDZ1J6K3Q2VkpDRT0=&n_hash=2405

COP26: How every country's emissions and climate pledges compare

<https://on.ft.com/3pSVF5x>

On the subject of COP26 climate pledges, here is a need-to-know for broad asset allocation investing and for inclusion of any defence companies in ESG Accord Level 0 and 1 funds: It is at country level discretion if military emissions are counted in the overall emissions.

The MoD is the largest contributor of GHGs in the UK Central Government, it is responsible for half the total. The MoD has published a "Climate Change and Sustainability Strategic Approach"

<https://www.defensenews.com/opinion/commentary/2021/08/09/uk-to-adapt-military-to-changing-climate-but-does-it-have-the-funds-and-backing-of-troops/>

Some thought provoking & similar arguments raised sometimes with Financial Services:

"There are risks that some military personnel may worry that measures to make equipment "green" could reduce performance, especially against adversaries that choose to retain older equipment. Changing attitudes and culture across the armed forces could be a considerable challenge. However, others argue that there is not necessarily a trade-off between environmental credentials and operational effectiveness, for example arguing that "green means lean" for military logistics"

Under 1% of global fund assets are currently in line with the Paris agreement's goal to limit global warming to 'well-below 2°C', new research shows.

Analysis of over 16,500 investment funds worth \$27trn has revealed that just 158 individual funds, worth 0.5% of the total assets, are currently aligned with the Paris agreement's temperature target of 'well-below 2°C', according to data from non-profit CDP.

<https://www.investmentweek.co.uk/news/4039267/usd27trn-global-funds-assets-paris-aligned>

Former US vice-president, Al Gore, has teamed up with the former head of Goldman Sachs Asset Management (GSAM), David Blood, to launch a new asset manager, which will prioritise tackling climate change.

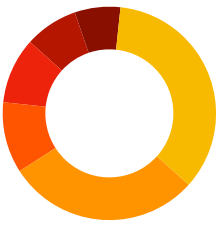
The new firm, Just Climate, says its mission is to achieve the limiting of global temperature rise to 1.5°C by "directing and scaling capital towards the most impactful climate solutions"

<https://www.investmentweek.co.uk/news/4039275/gore-teams-former-gsam-head-launch-climate-change-asset-manager>

Deep Dive: Impact Investing different to ESG
Nick Parsons, head of ESG at Thomas Lloyd Group, dives into impact investing.

Measuring impact is neither an art, nor a science, and requires a carefully considered blend of qualitative and quantitative metrics to judge the 'additionality' of an investment; the extent to which it has brought about change - both positive and negative - which would not otherwise have occurred. In line with SFDR, an investment must equally demonstrate that it has a positive impact, and that it does no harm.

<https://www.investmentweek.co.uk/feature/4039035/deep-dive-impact-investing-different-esg>



EY Technical Resources: Waking up to nature – the biodiversity imperative in financial services - Exploring the pivotal role of financial services in helping to solve the biodiversity crisis

https://www.ey.com/en_gl/financial-services-technical-resources/how-can-financial-services-protect-and-restore-biodiversity

Fidelity pledges 50% reduction in emissions from investment portfolios by 2030. Also commits to 'gradual exit' from thermal coal

<https://www.investmentweek.co.uk/feature/4039035/deep-dive-impact-https://www.investmentweek.co.uk/news/4039216/fidelity-pledges-reduction-emissions-investment-portfolios-2030>

SDR roadmap expected to shake up asset management industry

"HM Treasury's regulatory roadmap towards tackling greenwashing will likely reinvigorate the asset management industry from an "ESG and responsible investment coma," according to industry commentators and legal experts, who have reacted to the report with a "mix of excitement and cautious optimism"

<https://www.investmentweek.co.uk/news/4039109/sdr-roadmap-expected-shake-asset-management-industry>

FCA policy statement for new category of authorised open-ended fund - long-term asset fund (LTAF)

PS21/14 - A new authorised fund regime for investing in long term assets

1.2 The LTAF regime creates a category of authorised open-ended fund designed specifically to facilitate investment in long-term, illiquid assets. Illiquid assets include venture

capital, private equity, private debt, real estate and infrastructure. They can provide a useful alternative investment opportunity for investors able to bear the risks of such investments. The ability to invest in illiquid assets, through appropriately designed and managed investment vehicles, is also important in supporting economic growth and the transition to a low carbon economy. Such investments can be higher risk than diversified portfolios of listed equities or bonds but have the potential for higher long-term returns in return for less or no immediate liquidity.

"We are not planning to add specific sustainability disclosures to the LTAF rules. We note that the Government announced in October 2021 that it plans to introduce a sustainability disclosure regime which we anticipate would apply to LTAFs. We would also draw the attention of potential managers of LTAFs to the letter we sent to Chairs of AFMs on funds with environmental, social and governance (ESG) / sustainable investment objectives."

<https://www.fca.org.uk/publication/policy/ps21-14.pdf>

<https://www.fca.org.uk/publications/policy-statements/ps21-14-new-authorised-fund-regime-investing-long-term-assets>

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.
