
Financial Services
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# CLIMATE & SUSTAINABILITY: AN INTERNATIONAL VIEW WITH FTSE RUSSELL

**THURSDAY 16 MARCH, 3:30PM - 4:30PM**

Helena Fung

David Ho

Trista Rose

Connect

FTSE Russell

An LSEG Business

# Welcome

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# Welcome – FTSE Russell

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# Sustainable Investing Landscape 2023

## Global green finance taxonomies & trends

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ftserussell.com

An LSEG Business

March 16, 2023

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# Agenda

1. Sustainable Investments at LSEG, FTSE Russell
2. Aligning capital markets with sustainability goals
   a. Global taxonomies & ISSB standards
   b. Sustainability disclosures for companies & financial products
   c. Progress in New Zealand
3. Science Based Net Zero Targets
4. Scope 3 Emissions reporting
5. Regulatory focus on greenwashing

# FTSE Russell in the Pacific

# At the heart of global markets

FTSE Russell offers buy and sell-side communities an integrated multi-asset platform of proprietary data, analytics and indexes, with products designed for the world's most demanding institutions.

**94/100**
top asset managers use FTSE Russell indexes[1]

**Top 10**
investment banks use FTSE Russell indexes[2]

**72 COUNTRIES**
clients served in countries around the world[7]

**~120**
Index linked Futures and Options listed on 15 global exchanges[5]

**15/15**
top global ETF issuers work with FTSE Russell[6]

**$20.1T**
in reported fund AUM for FTSE Russell benchmarks[3]

**$3.7T**
…of which tracks our fixed income benchmarks[3]

**~650**
ETFs benchmarked to FTSE Russell indexes[4]

**~$1,043B**
ETF-linked assets benchmarked[4]

**~977B**
In equity ETF assets benchmarked[4]

Above data is estimated by FTSE Russell.

1. Based on FTSE Russell clients as of March 2022 and Pension & Investments list of top 100 worldwide asset managers.
2. Based on FTSE Russell clients as of April 2022 and Dealogic list of top 10 investment banks.
3. Data as of December 31, 2021, as reported on April 1, 2022, by eVestment for active institutional funds, Morningstar for active retail mutual funds, insurance products, and ETFs, and passive assets directly collected by FTSE Russell. AUM includes blended benchmarks and excludes futures and options. AUM data does not include active and passive assets not reported to a 3rd party source or FTSE Russell. For funds where the AUM was not reported as of December 31, 2021, the previous period AUM was used as an estimate. No assurances are given by FTSE Russell as to the accuracy of the data.
4. Morningstar, April 2022.
5. FTSE Russell, May 2022.
6. Morningstar, December 2021.
7. FTSE Russell 2021.
8. FTSE Russell, 2021

# Your global and local index partner

## The leader across asset classes in both global and local markets


## FTSE Russell Index Coverage to top investors and issuers around the world

| | | | |
|---|---|---|---|
| **Global Equity** | Global Equity | Regional Equity | Domestic Equity |
| **Global Fixed Income** | Government Bonds | Corporate Bonds | EM Bonds |
| | High Yield | Inflation | Municipals |
| | Securitised | FRNs | |
| **Cash & Money Markets** | Bills | Rates / Deposits | |
| **Intermediate Securities** | Preference Shares | Hybrid Securities | Convertible Bonds |
| **Real Assets** | Public Real Estate | Public Infrastructure | Commodities |
| **Private Assets** | Private Equity | Venture Capital | |
| **Currency** | Currencies / FX | Crypto | |

# Global leader in sustainable investment

We enable consistent cross-asset class SI integration through benchmarks and data that cater to investment, stewardship and risk management needs.

| DATA | INDICES | ANALYTICS |
|---|---|---|
| 16,000+ companies | US$260+ Bn passive AUM* | ESG data platform |
| 175 countries | 100+ passive index tracking funds* | Yield Book – Sovereign & Corporate FI |
| 300+ metrics | 180+ Indices | |

**Heritage**

**20+** Dedicated sustainable investment expertise for over 20 years

**Global presence**

**500+** Combined team of 500+ FTE dedicated to Sustainable Investment

Signatory of: PRI Principles for Responsible Investment

Data partner for: Transition Pathway Initiative

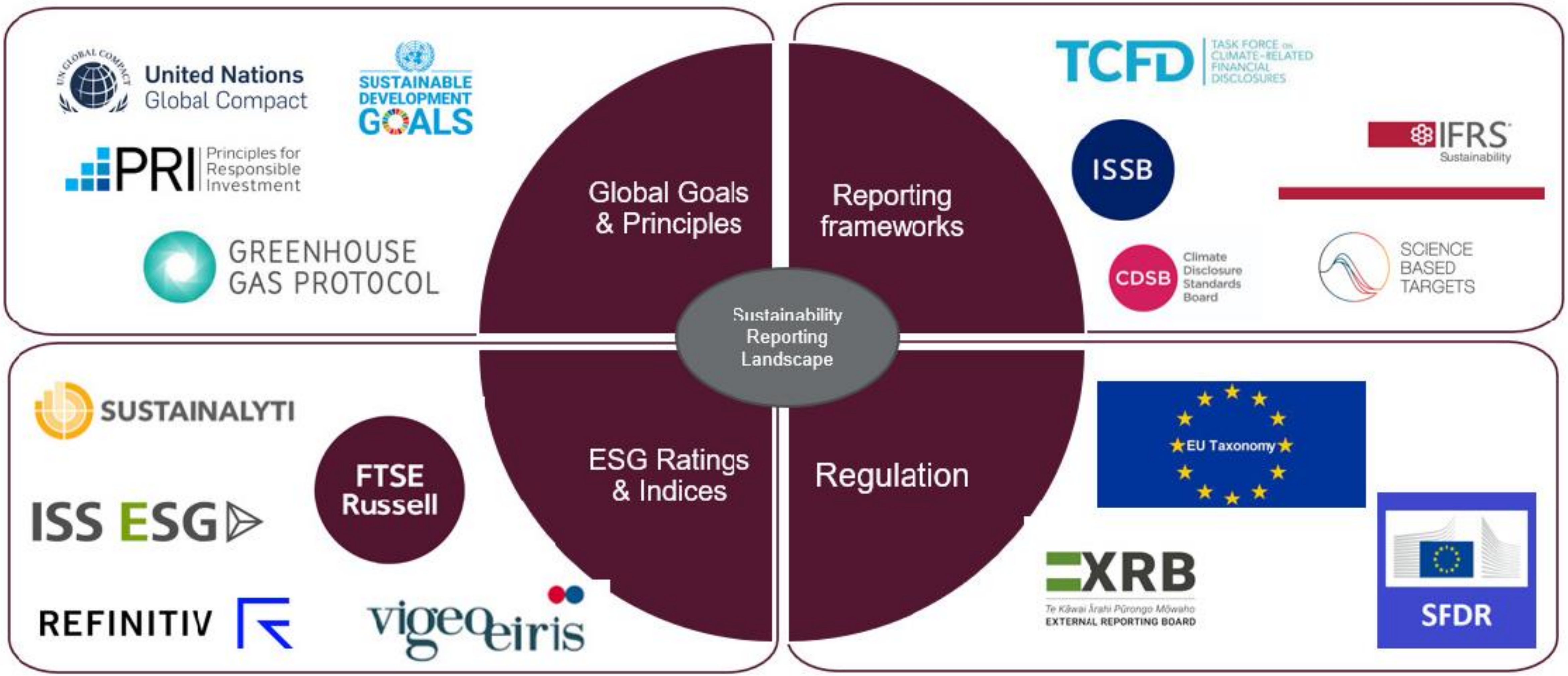
Members of: UKSIF, US SIF, JSIF, RIA, riaa, FIR Forum pour l'Investissement Responsable, IIGCC, FoSDA Future of Sustainable Data Alliance



[1] Data as of December 31st, 2021. These assets include separate accounts, commingled funds, retail and institutional mutual funds and ETFs as reported directly from index licensed passive and ETF clients and their websites; third party data sources such as Morningstar and eVestment are used in cases when clients did not report assets.

# Aligning capital markets with sustainability goals

# Sustainability Reporting Landscape



# Key standards for sustainability reporting & disclosure

Financial materiality → Environmental & Social materiality

| | |
|---|---|
| Global Sustainability Frameworks | UN Global Compact; OECD Guidelines for Multinational Enterprises; ISO 26000; IFC; Sustainable Development Goals |
| Regional/National Regulations | U.S. Securities and Exchange Commission; XRB External Reporting Board; HM Treasury; EU Taxonomy |
| ESG/Sustainability Reporting standards | IFRS International Financial Reporting Standards; SASB; GRI; EFRAG European Financial Reporting Advisory Group; SDG Impact Standards |
| Climate reporting standards | CDP; TCFD Task Force on Climate-related Financial Disclosures; IFRS International Financial Reporting Standards; Greenhouse Gas Protocol; Science Based Targets |
| Integrated reporting standards | TNFD; Integrated Reporting <IR>; wbcsd; Voluntary Principles on Security & Human Rights |

# Sustainability standards in capital markets

- **Capital markets have a key role in helping world reach net zero goals.**
- **Transparency & stakeholder engagement:** Rules and guidelines to establish industry standards and governance requirements with **an aim to bring transparency, predictability and credibility to the market** ...
- **Attracting funding.** Lending institutions and investors increasingly take account of a company's vision and performance in key sustainability issues when making funding decisions.
- **Leading by example** encouraging diversity and inclusivity and promoting ESG agenda to drive societal change.

*Capital markets can move trillions if properly guided and informed.*

# Focus on the European Union

## Comprehensive framework for climate & sustainability reporting

### (Green) Taxonomy

Six environmental objectives
- Climate change mitigation
- Climate change adaptation
- Water & marine resources
- Circular economy
- Pollution prevention and control
- Biodiversity and ecosystems

Must contribute significantly to at least one objective, do no significant harm to the others, and respect minimum human and labour standards.

### Disclosure (SFDR)

Disclose information about integration of sustainability risks in investment decision-making processes and provide sustainability related information with respect to financial products.

Specific disclosure requirements for financial products (Article 8 & 9)

### Benchmark

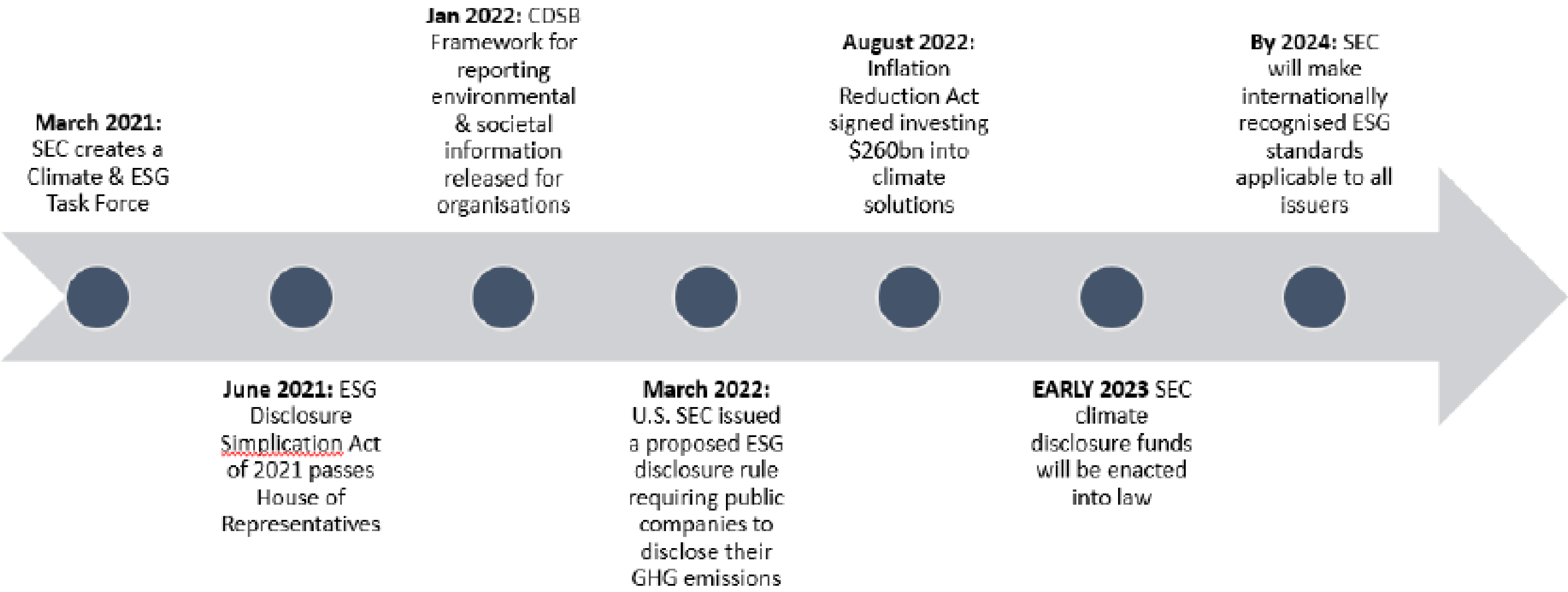
EU Benchmark regulation introduces a common framework to ensure that benchmarks are robust and reliable and to minimise conflicts of interest.

Labels to support climate-focussed investment strategies
- EU Climate Transition Benchmarks;
- EU Paris-Aligned Benchmarks

Strict eligibility criteria, labels are automatically withdrawn if a benchmark does not align for two consecutive years.

# Focus on the United States of America

## Short Timeline of US Sustainable Finance




**May 2021:** President Biden's Executive Order on Climate-Related Financial Risks asks Secretary of the Treasury to present a plan for improving climate-related disclosures

**March 2022:** SEC proposals for mandatory climate reporting rules for listed companies including Scope 1, 2 & 3 emissions

# Focus on the United States of America

## Individual States (Examples)

- **NAIC:** Insurers with premiums exceeding US$500m are asked to produce an annual insurer risk disclosure survey which will comply with the TCFD framework.
- **15 US States** committed in 2022 to use the NAIC survey for companies listed in their jurisdictions;
- **State of California:** Insurers with GWP > $100m asked to publicly disclose investments in oil, gas & coal companies (since 2016);
- **New York State:** guidance for domestic insurers on managing financial risks from climate change.

# Focus on China

## Mainland China

中国人民银行
THE PEOPLE'S BANK OF CHINA

- ❑ July 2021 People Bank of China: Guidelines on Environmental Information Disclosures for Financial Institutions with similarities to TCFD:
- ❑Three taxonomy initiaves:
  - ✓ Green Bond Endorsed Products Catalogue
  - ✓ Green Industry Guiding Catalogue (mandatory for sustainable financing purposes)
  - ✓ Technical Report on UN SDG Finance Taxonomy

## Hong Kong

Hong Kong Monetary Authority

- ❑ July 2021 Hong Kong Monetary Authority: draft guidance for TCFD-aligned disclosures;
- ❑ November 2021 Hong Kong Exchange: guidance on climate related disclosures, incorporating key TCFD recommendations
- ❑Plans for mandatory TCFD aligned disclosures by 2025.

# Aotearoa New Zealand Climate Standards

**Support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate resilient future.**

Aligned with the standards of the ISSB's draft global climate-related disclosures prototype, which is closely aligned with the TCFD.

The mandatory CRD reporting regime takes effect for accounting periods that start on or after 1 January 2023.

The XRB plans to develop more guidance on the standards over this year and re-issue supporting guidance in early 2023.

XRB
EXTERNAL REPORTING BOARD
*Te Kāwai Ārahi Pūrongo Mōwaho*

# Aotearoa New Zealand Climate Standards

## Key elements of the climate standards:

### Climate-Related Disclosures NZ CS 1

Enable primary users to assess the merits of how entities are considering climate-related risks and opportunities, and then make decisions based on those judgements.

Contains the climate-related disclosure requirements for each of the four thematic areas:

- Governance
- Strategy
- Risk Management
- Metrics & Targets

Also contains the assurance requirements for GHG emission disclosures.

### First time adoption of Aotearoa NZ Climate Standards NZ CS 2

Optional adoption provisions (transitional provisions)

It may take time to develop the capability to produce high quality climate-related disclosures and some disclosure requirements may require initial exemption.

Exemptions provided from providing comparative information and an analysis of trends.

If a CRE elects to use any of the transitional provisions, it must include a description of those used in a statement of compliance.

### General Requirements for Climate-Related Disclosures NZ CS 3

Establishes principles and general requirements for climate-related disclosures.

Includes materiality considerations and the disclosure requirements for comparatives, methodologies, assumptions and estimation uncertainty.

**Materiality:** An entity must disclosure all material information about its climate related risks and opportunities. Information is material if mis-stating or obscuring could reasonably be expected to influence decisions on an assessment of an enterprise value.

# Australia – Mandatory climate risk disclosures

- **The Australian Government is seeking to introduce a standardised, internationally-aligned reporting requirement for climate-related disclosures;**
- The standards will seek to **align with** climate risk disclosures in **international standards.** Have sought feedback on how the reporting requirements should be implemented.
- Disclosure requirements for climate-related financial risks could be introduced as early as 2024;

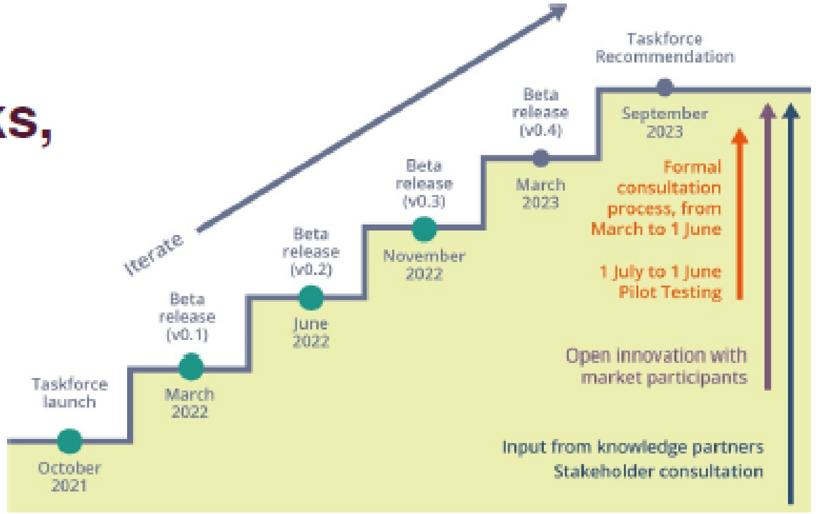
# Other initiatives – IFRS & ISSB

- ❑ In 2021, the IFRS foundation launches the International Sustainability Standards Board (ISSB)
- ❑ Building upon existing frameworks such as TCFD
- ❑ March 2022: ISSB launches consultation on two new disclosure standards (general sustainability + climate related);
- ❑ October 2022: ISSB confirms Scope 3 GHG emissions disclosure requirements

**Standards expected to be finalised in 2023**

# Taskforce for Nature-related Financial Disclosures

- **The TNFD aims to provide a framework for organisations to report and act on nature-related risks;**
- **Builds upon the 4-pillar structure of the TCFD to avoid repetition and accelerate market adoption;**
- **TCFD and TNFD aim to be comprehensive in their coverage of climate and nature related financial risks, and complementary in their usability an market adoption**




**The finalised framework is earmarked for release in late 2023.**

*Source: Taskforce for Nature Related Financial Disclosures*

# Science Based Net Zero Targets

SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

"Put forward **credible and transparent** transition plans on how to achieve net-zero, and submit those plans **before the end of this year.**

**António Guterres**
Secretary-General
United Nations

# Starting Point: Global Emissions Target

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

**SCIENCE**

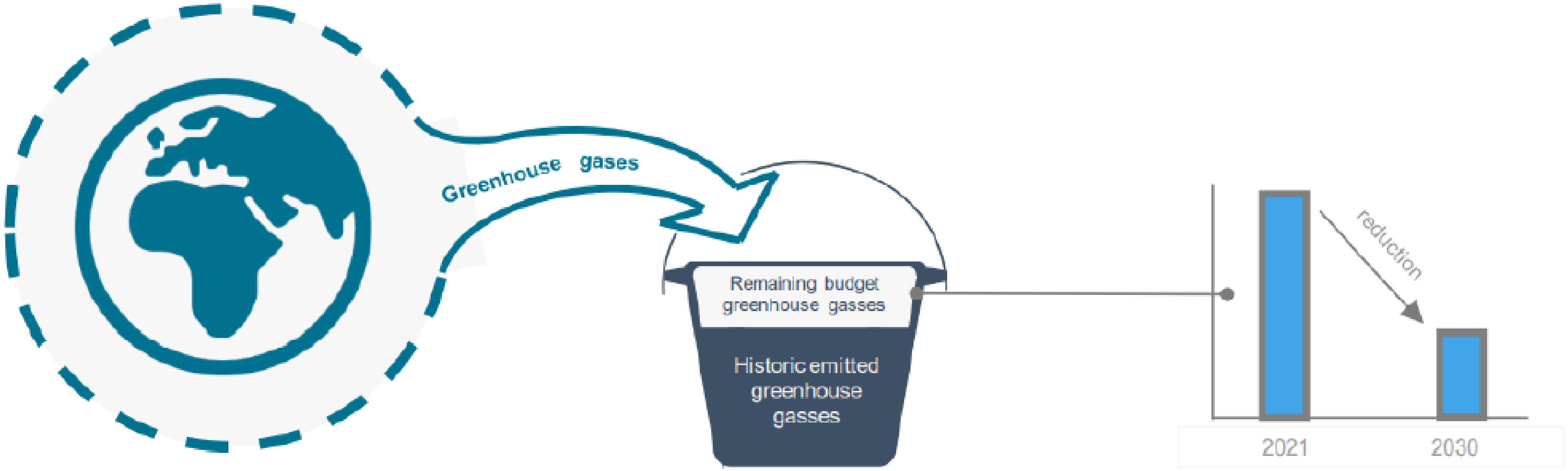
Develop global climate scenarios to stay below 2°C and 1.5°C global warming

**BUDGET**

Determine global and sector budget greenhouse gases to stay below 2°C and 1.5°C global warming

**ALLOCATION/TARGET**

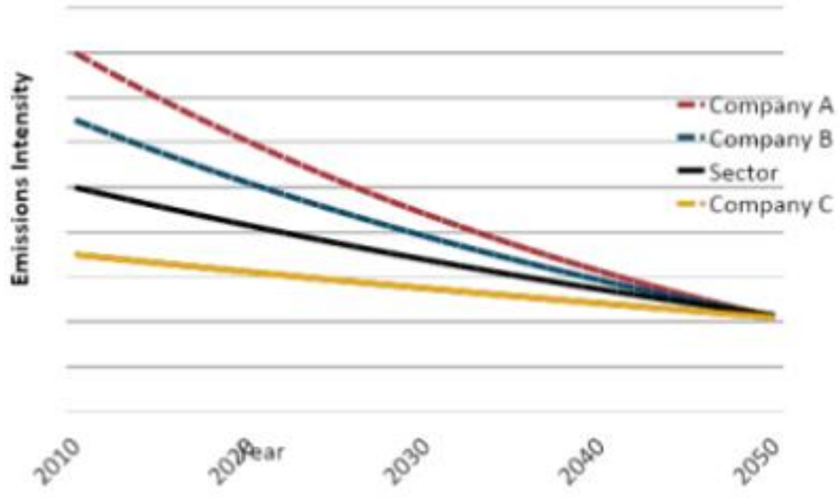
What's my share of the budget? How much can I emit, now and in the future?




A GHG budget is an estimate of the cumulative CO2 , methane, and other Kyoto gases that can be emitted over a period of time, while limiting temperature rise to a specific amount. Budget calculations are highly sensitive to assumptions regarding climate sensitivity and likelihood of temperature outcome, despite the apparent simplicity.

# Sectorial Target-Setting Approaches

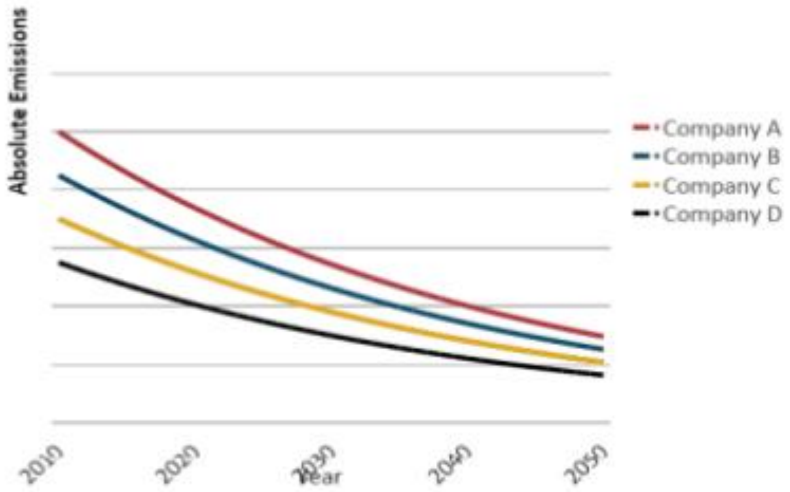
## Carbon intensity convergence




**Homogeneous sectors:**

- Power
- Cement
- Iron & Steel
- Aluminium
- Pulp & Paper
- Transport (some sectors)
- Buildings

## Carbon emissions contraction




**Heterogeneous sectors:**

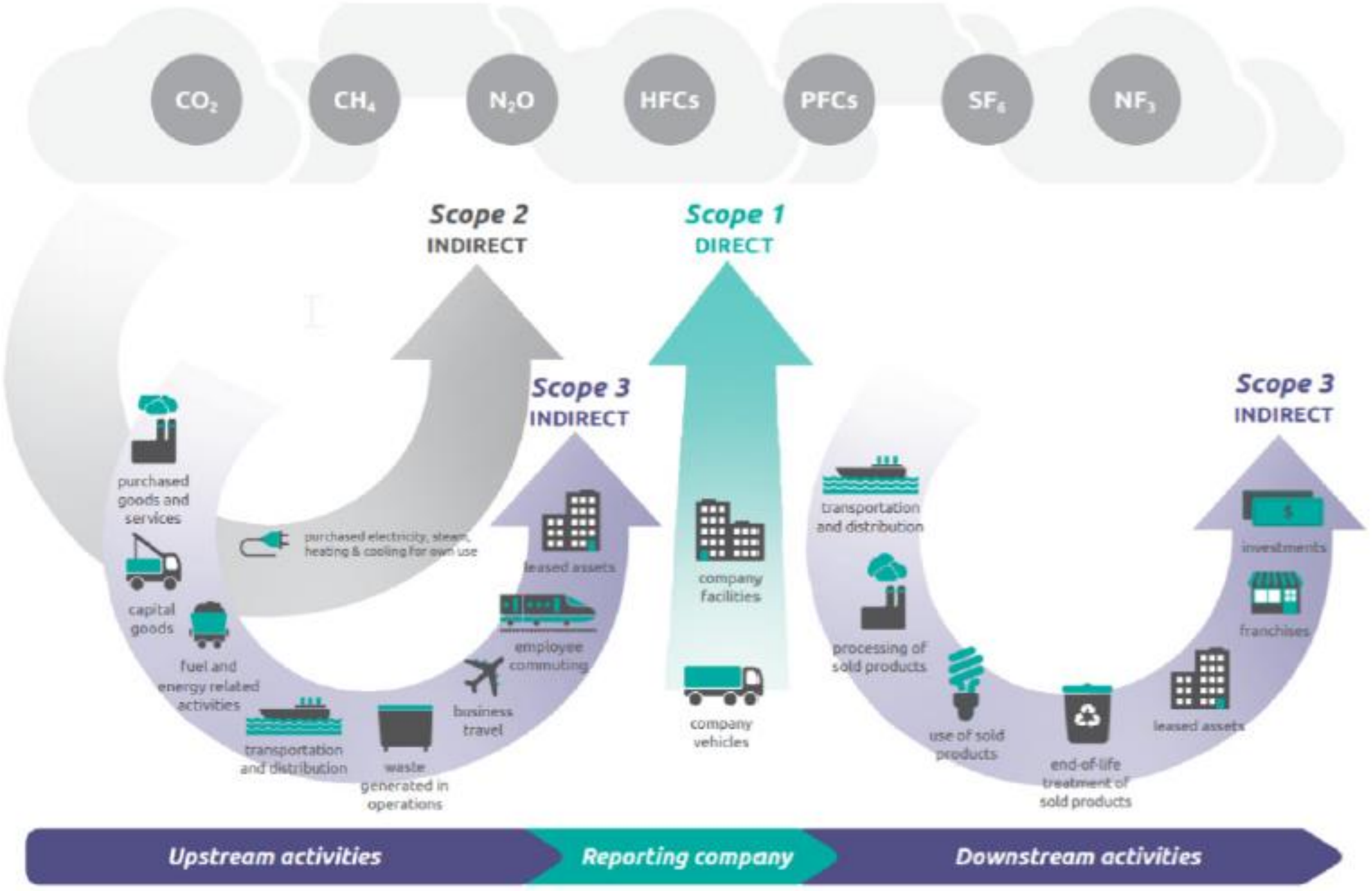
- Other industry

**Note**: an absolute contraction pathway for 1.5ºC has already been derived by the SBTi and requires a minimum 4.2% linear annual reduction or a 42% reduction over 2020-2030, whichever is higher.

1'

# The Scope 3 Challenge

# True zero – Importance of Scope 3 reporting




Source: GHG Protocol

# The Scope 3 challenge

Scope 3 emissions account for around 75% of a companies GHG emissions*

- **Scope 3 Reporting in New Zealand**
- **Mandatory reporting may become the norm**
  - ISSB guidance to include Scope 3 emissions;
  - SEC climate related rule proposal
- **Difficulties measuring indirect emissions in value chain**

* *As estimated by the Carbon Data Project (CDP)*

*(Sources: FTSE Russell, The COP27 Net Zero Atlas, Dec 2022; Climateworks Centre Net Zero momentum tracker , Dec 2022)*

# What are the standards for Scope 3

- ISSB has confirmed phase in of Scope 3. Temporary exemption allowing companies to delay disclosure of Scope 3 for a minimum of one year when applying the standard.

- **What does Scope 3 mean for Science Based Targets:** SBTs define 'how much' and 'how fast' an organization needs to reduce its emissions to meet the goals of the Paris Agreement.

- Near-term SBTs (five years) must include 68% of Scope 3 emissions (if they make up 40%+ of total emissions)

** As estimated by the Carbon Data Project (CDP)*

*(Sources: FTSE Russell, The COP27 Net Zero Atlas, Dec 2022; Climateworks Centre Net Zero momentum tracker, Dec 2022)*

# Regulatory focus on risk management & greenwashing

# Global crackdown on Greenwash

- **SEC Fund Names Rule & ESG disclosure requirements**
  - **Nov 22' -** GSAM paid the SEC $4million to settle charges of failing to correctly incorporate ESG research into investment procedures and branding
  - **May 22' -** BNY Mellon penalized $1.5 million for misstatements and omissions about ESG representations in mutual funds;
- **European Union Regulation –** SFDR defines which investments or economic activities can be considered sustainable or climate friendly;
  - **Deutsche Bank & DWS offices raided as part of an investigation by BaFIN into statements made in DWS' annual report about ESG claims**
  - **March 2023 –** Anti-greenwashing law will require companies substantiate claims against a standard methodology to assess their impact on the environment ('Product Environmental Footprint').
- **Canadian Securities Administrators (CSA)** publishes guidance on greenwashing and disclosures.
- **ASIC & ACCC** targeting greenwashing, Corporations Act 2001 prohibits false or misleading statements in relation to financial products
  - **March 23' –** ASIC launches greenwashing court action against Mercer pension fund, accusing it of misleading members about the sustainability of investment options

# Closer to home…

Statutory obligations are set out in the fair dealing provisions in the Financial Markets Conduct Act 2013 (FMCA).

Fair Trading Act – prohibits misleading or deceptive conduct, false or misleading representations, and making of unsubstantiated claims.

Guidance references FMA's power under Part 8 of the FMCA to use 'stop orders' to prevent the use of 'restricted communications'

# FMCA guidance

The Guidance states that the central consideration for determining whether an advertisement breaches the FMCA will be the "**overall impression** as perceived by the consumer or investor".

Meaning:

- advertising that is not actually misleading or deceiving can breach the FMCA provided it is *likely* to mislead or deceive
- the intention of the advertisement is irrelevant
- advertising (or conduct generally) is more likely to mislead where a financial product is complex, or where the investor base being targeted is vulnerable or ill-informed,
- representations that are true and verifiable in isolation are capable of generating a confusing or misleading impression when viewed holistically, and
- omissions, whether deliberate or inadvertent, can be misleading if the omission leaves the audience with an overall misleading impression.

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# Questions?

# New climate page

## Climate and ESG

The Financial Services Council (FSC) recognises that climate and ESG considerations are important to all our members and their customers, and is keeping abreast of the significant changes occurring in this space. As these considerations become legislated requirements, we continue to provide regular submissions toward climate and ESG-related initiatives for the financial services sector for the benefit of our members, consumers and New Zealand.

On this page you'll find:

- links to relevant resources and websites
- information about current and upcoming FSC climate and ESG submissions
- recent and topical NZ and international climate and ESG news

https://www.fsc.org.nz/topics/climate-and-esg

Financial Services Council NZ

# Upcoming events



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