BRETTEVILLE CONSULTING

Latest European ESG trends: Time for action

ESG in the test of change

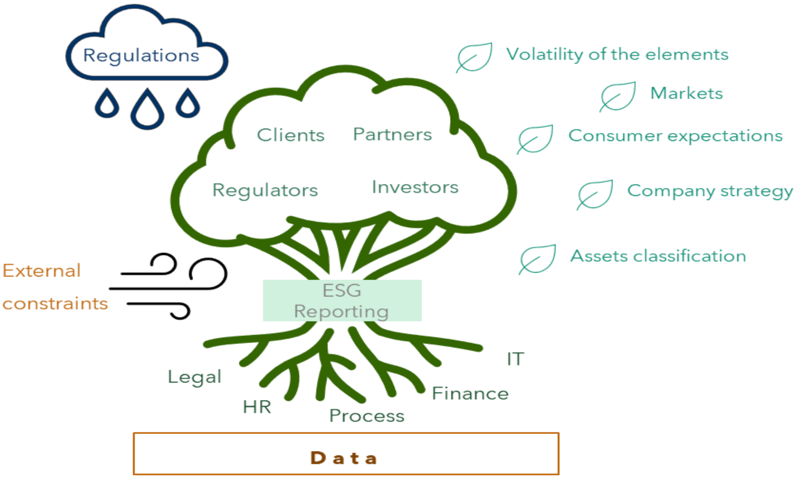
Beyond the theory, this is ESG put to the test : from data governance to strategic management.

Today, financial players are trying to find their place within growth, decline, inflation, recession, deflation, economic and business cycles : an economic world in perpetual motion.

Beyond these elements, there are structural trends such as **"green appropriation"** and **"ESG"**, driven by the awareness of all stakeholders (biodiversity degradation) and need for profound change (in ways of thinking and consumption habits).
The proof is a dedicated jargon such as "Greenflation" and "ecocide".

In response to this need, **green regulations** are being put in place: from "The Limits to Growth"* through Paris Agreement to SFDR and Taxonomy, CSRD tomorrow. It is by **regulating the financial market** that the wheel will be set in motion, as it is the first cog (asset managers, banks, insurers, etc.).

However, one-off events (**geopolitical** for instance, but not only) can **reshuffle the deck and require strong reactivity**. The Russian-Ukrainian conflict is a concrete example of such an event. Having political, social and human impacts, but also economic ones in financial markets, more specifically in fossil fuel and armament sectors.



In order to ensure a **better control** of the repercussions on the organisation and a **correct communication** towards markets (investors, customers) and towards regulators. It is necessary to :
- know in depth the economic environment
- have the right information
- monitor the exposures

The implementation of a **chosen data governance** may appear exaggerated and costly at first. However, in the long term, this will enable to benefit from better quality data and data management to facilitate strategic arbitration and improve reactivity to external events.

To accomplish this, among other things, the question of the degree of the "**look-through**" comes up. Portfolios need to become more transparent to obtain a greater visibility of markets. Is the 1st level sufficient?

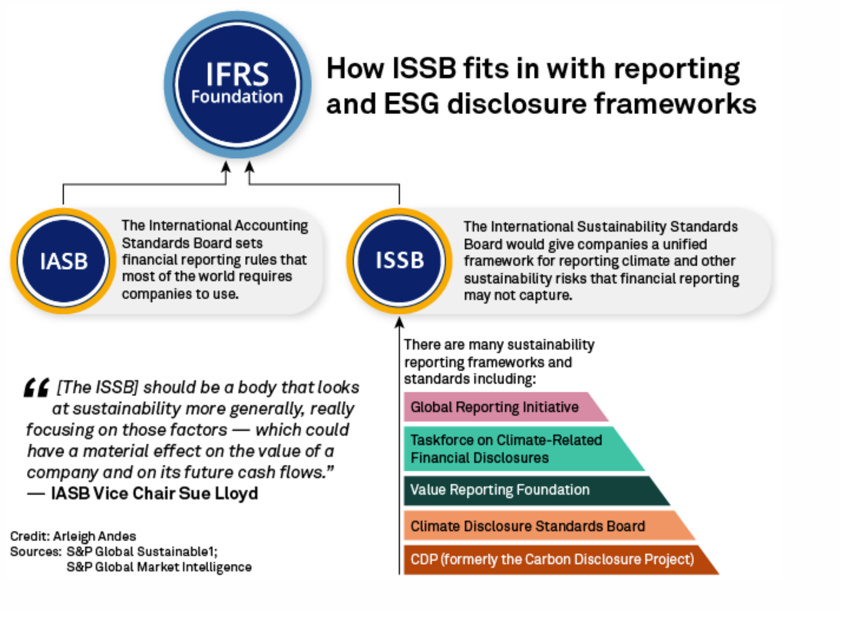
Very recently, analysis of clients' private equity portfolios, has demonstrated the importance of the 3rd level of transparency. Thanks to our partnership with **Amindis**, we have been able to highlight the evolution of green exposure regarding the level of transparency available (1st , 2nd or 3rd). This led especially to a readjustment of the investment policy and to a review of the portfolio's assets.

**by Donella H. Meadows, Dennis l. Meadows, Jorgen Randers, William W. Behrens III*

ESG on display

Ensuring a better control of the entity is only the first step, it is also necessary to know how to present it and be reactive. Therefore, a shift towards dynamic reporting is crucial.

While new global ESG-related standards will continue to emerge, global bodies such as the International Sustainability Standards Board (ISSB) can help tackle the lack of a **common basis** for consistent disclosure standards across jurisdictions and industries.



Abreast, the focus of regulation-setting bodies has been directed more towards the **environmental factors** than on social factors. However, in 2022, we could experience an increasing convergence on requirements relative to **social issues** accompanied by a growing pressure to measure the impact and not only the input.

As the company's "**shop window**", **reporting** remains the keystone of communication. It is no longer a mere regulatory requirement but an **element of differentiation, seduction and communication**.

To be competitive, companies must be reactive to risks and changes, make their communication evolve according to the market's evolutions and investors' and clients' expectations: **transparency, reliability, quality, finesse of analysis**.

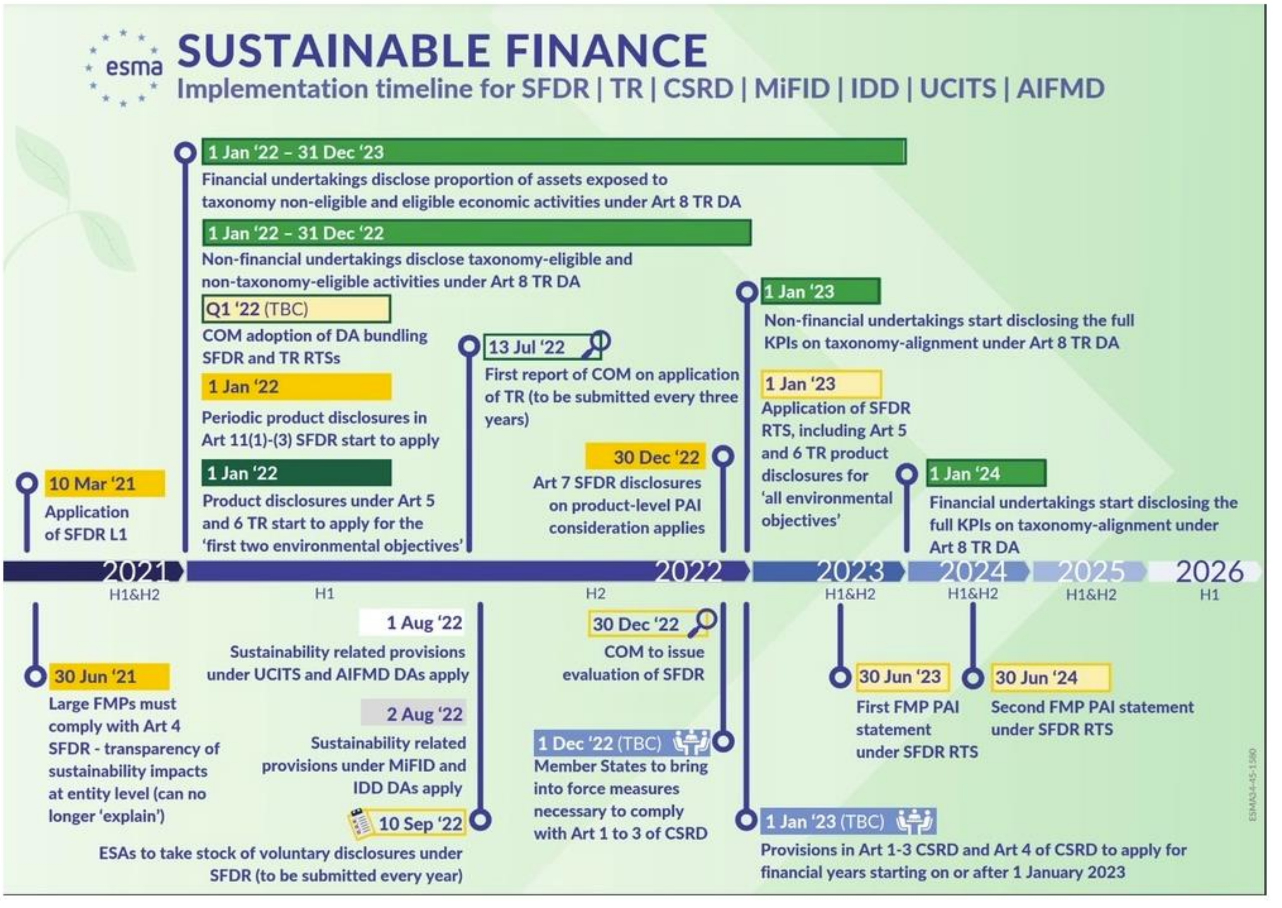
Software or data providers are also rushing into this change such as Moody’s which is launching a review of its ESG assessment methodology (including new subcategories, increasing the number of industry framework, adding on overall ESG grade). Or others like MSCI, AM Best and S&P Global.

It is therefore necessary to move from static regulatory reporting towards a **dynamic reporting** (reactive and adaptative) that will require :

- A well-structured organisation (dedicated team, defined roles and responsibilities,...)
- Optimised and controlled processes
- High quality data and governance (internal and external : providers)
- Innovative solutions (look-through, reporting,…)

So, let’s get ready at all ESG levels !

A tough sustainable finance implementation timeline from 2022 focusing on reporting



Regulatory focus

The European Commission places sustainability considerations at the heart of its financial system to support the transformation of the European economy in line with the objectives of the European Green Deal.

Objective : a greener, more resilient and circular financial system (Sustainable Finance Plan).

Name	Description	Regulatory text	Expectations
Sustainable Finance Disclosure Regulation - SFDR	The European Sustainable Finance Disclosure Regulation, published in November 2019, imposes new obligations of transparency on all financial services actors in the European Union. The intention of the SFDR is to introduce consistency and clarity on how institutional investors, such as asset managers, insurance companies, pension funds, banks or investment advisors should integrate ESG factors in their investment decision-making process. Regulatory Technical Standards: The SFDR RTS sets out the content, methodology and presentation of Article 8 and 9 disclosures, along with PAI disclosures. The implementation of the SFDR RTS has been delayed to 1 January 2023.	EUR-Lex - 32019R2088 - EN - EUR-Lex (europa.eu)	*June 2021* For entities with more than 500 employees, publication on their website of their policies for managing sustainability risks and negative impacts in investment decisions *January 2022* Integration of new elements related to sustainability risks in the First Periodic Reports at product level, and in the pre-contractual documentation for products covered by Articles 8 & 9 *June 2022* Publication, for entities with less than 500 employees, on their website, of their sustainability risk management policies and the negative impacts of investment decisions *December 2022* Updated pre-contractual documentation for all products to incorporate negative impacts of sustainability factors *June 2023* First report, at entity level, on a full year, of the negative impacts in investment decisions (PAI)
Taxonomy regulation - TR	EU-wide classification system or 'framework' provide with a common language to identify to what degree economic activities can be considered environmentally sustainable. Technical screening standards criteria: The TSC set out the conditions under which an economic activity qualifies as contributing substantially to the environmental objectives and for determining whether that economic activity causes no significant harm to any of the other environmental objectives in the Taxonomy.	EUR-Lex - 32020R0852 - EN - EUR-Lex (europa.eu) EUR-Lex - 32021R2178 - EN - EUR-Lex (europa.eu) EUR-Lex - 32021R2139 - EN - EUR-Lex (europa.eu)	*January 2022* Obligations to publish information concerning the first 2 environmental objectives in prospectuses and periodic reports and periodic reports of Article 8 and 9 product of SFDR, as well as on the website *June 2022* Publication of the Delegated Acts relating to the 4 environmental objectives *January 2023* Obligations to publish information concerning the 4 remaining environmental objectives in prospectuses and periodic reports of the so-called Article 8 and 9 products of SFDR, as well as on the website
CSRD (NFRD)	The Corporate Sustainability Reporting Directive (CSRD) is a proposal to revises and strengthens rules introduced by the Non- Financial Reporting Directive (NFRD). It aims to ensure that companies report reliable and comparable sustainability information that investors and other stakeholders require.	EUR-Lex - 32014L0095 - EN - EUR-Lex (europa.eu)	If they the European Parliament and Council reach an agreement in the first half of 2022, the Commission should be able to adopt the first set of reporting standards by the end of 2022. Companies would then have to publish reports in 2024 covering the financial year of 2023.
UCITS / AIFMD DA	Legislative measures requiring integration of sustainability factors and sustainability risks into UCITS and AIFMD regimes UCITS : 2020/043 AIFM : Delegated Regulation (EU) No 231/2013	UCITS : EUR-Lex - 32021L1270 - EN - EUR-Lex (europa.eu) AIFM : EUR-Lex - 32021R1255 - EN - EUR-Lex (europa.eu)	*August 2022* Integration of sustainability risk and sustainability factors in : - company governance and management - investment decision, oversight and conflict of interests - processes, systems and internal controls - Reporting - HR management, retain the necessary resources and expertise for the effective integration - risk management policy - by considering principal adverse impacts of investment decisions on sustainability factors
MIFID DA	Legislative measures requiring integration of sustainability factors and sustainability risks into MIFID II Delegated Directive (EU) 2017/593 Delegated Regulation (EU) 2017/565	**Product governance obligations:** EUR-Lex - 32021L1269 - EN - EUR-Lex (europa.eu) **Investments firms :** EUR-Lex - 32021R1253 - EN - EUR-Lex (europa.eu)	*August 2022* Integration of sustainability risk, sustainability factors and sustainability preferences in: - Consistency of financial instruments - Risk management - Client oriented product - Portfolio description - Adequate policies and procedures - …

Bretteville Consulting offer

Between forerunners and latecomers, there is a world where 'intelligent' implementation has its place.

Beyond the attention paid to disclosure and reporting requirements, we believe that the next challenges brought in 2022 will be on :

- The Social aspect in ESG, following the sanitary crisis
- The standardization of ESG accounting,
- The "double materiality" of CSRD in terms of companies impact on environment and the climate-related risk they face
- The next level of control: green auditing

"Green race" is on, but not without supervision. Regulators will tackle greenwashing and promote transparency, monitor, assess and analyze ESG market and risk.

Here are the main domains in which Bretteville Consulting can support you:

1 Sustainable strategy

- Definition of the ESG ambitions
- Roadmap delineation
- Implementation of framework and organizational impact
- Consideration of ESG criteria in performance evaluation and compensation frameworks
- Status report and flash audit
- Benchmark of portfolio, entity and tools
- Market Watch : Screening of Greentech's, ESG Data providers, FinTech's and Regtech's

2 Compliance

- Alignment of governance structures with ESG regulatory requirements and best practices
- Diagnosis and measurement of the impact of new regulations
- Training of managers and employees on regulations and climate risk issues
- Regulatory watch

3 Climate and ESG risk management

- Climate and ESG risks impact assessment : identification, quantification and management
- Consideration of impacts on credit risk, market risk and operational risk
- Integration of climate and ESG risks in risk mapping
- Materiality analysis, definition and production of KPIs
- Analysis and implementation of climate stress tests

4 Climate and ESG reporting

- Implementation of processes and controls related to the implementation of reporting
- Data collection and quality control
- Development and automation of reporting
- Production of reports (outsourcing activity)
- Combined offer (Bretteville Consulting + Greentech specialized in ESG reporting)

5 Data governance

- Data quality management (golden source, availability, ownership, …)
- Analysis of ESG data provider (Arbitration rules)
- Outsourcing data supervision
- Implementation of data collecting and managing tool

6 Project Management

- Project or program animation
- Business process redesign
- Identification, selection and implementation of tools
- Review of the processes

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