A COLLABORATION BETWEEN **GET INVOLVED & VELOS ADVISORY**

ESG INSIGHTS
IMPACTFUL AWARENESS

SEPTEMBER 2021

A Guide to ESG - the new megatrend

GET INVOLVED

VELOS ADVISORY

Table of Contents

ESG INSIGHTS
IMPACTFUL AWARENESS

PART 1: Definitions

GET INVOLVED

VELOS ADVISORY

DEFINITIONS

••• Sustainability and Sustainable Investments[1]

Sustainable Growth is the desire to achieve immediate results, without endangering the ability to achieve similar ones in the long-term. Sustainability harmonizes the contemporary goals with future aims and local objectives with the global ones. The desired results can be economic, environmental, or/and social. To achieve Sustainable Growth, the cooperation of nations, of supranational and local organisations of firms and of other stakeholders is needed.

Sustainable Investments[2] are defined as the investments on activities that facilitate the achievement of environmental and social objectives, without jeopardising the achievement of other goals. The firms that participate in these activities adopt good practices in the governance field. In 2020, the total value of sustainable assets amounted to over 35 trillion dollars[3].

••• What is ESG? [4]

The acronym ESG derives from the first letters of the words Environmental [E], Social [S] and Governance [G]. Specifically, the environmental parameters include the mitigation and adaptation to climate change, as well as to other broader environmental issues, such as natural disasters and the contamination of water resources. The social parameters, despite being more difficult to define compared to the environmental ones, include issues of inequalities, of obstacles to social inclusion, of discrimination, of protecting human rights and labour conditions. The parameter of Governance, in public bodies as well as in private organisations, includes the management structures, the improvement of labour conditions and compensation schemes of directors and play an important role in the incorporation of environmental and social parameters in the decision-making process.

••• Environmental Pillar [5, 6]

The Environmental Pillar includes two types of hazards. The first type of risk comprises exposures that are connected to or derived from climate change, such as extreme or long-lasting weather conditions (climate-related risks). The second type encompasses broader environmental hazards that are derived or

---

[1] Sustainable Development | European Commission
[2] Directive (EU) 2019/2088, Article 2, Paragraph 17
[3] Global Sustainable Investment Review 2020 | Global Sustainable Investment Alliance
[4] Overview of sustainable finance | European Commission
[5] ESG Risks: A new source of risks for the banking sector, Faidon Kalfaoglou, 2021 | Bank of Greece
[6] Understanding the "E" in ESG| S&P Global

caused by environmental deterioration and the destruction of ecosystems, such as the contamination of water resources and the loss of biodiversity (environmental risks). It should be mentioned that environmental risks include, but are not limited to, climate-related risks.

Environmental and climate-related risks are manifested in two main ways: by the materialisation of either physical or transition risks.

••• Physical and Transition Risks[7, 8]

Physical risks can be caused due to damages to assets, natural capital and/or human lives, by extreme and long-lasting weather conditions that are results of climate change and can result in production loss. Physical risks materialise either as extreme or long ones. Extreme risks materialize because of extreme weather conditions, such as heat waves, droughts, floods, when the consequences can be measured immediately. Long risks stem from gradual deterioration of the climate, such as the rise of sea levels and of the average global temperature among others, the consequences of which are perceived in the long-term.

The transition risks are defined as the hazards that are caused by the shift to a zero-carbon economy that aims to reduce the impact of climate change. Transition risks are increasingly affecting many sectors of the market.

••• Biodiversity [9, 10]

Biodiversity is defined as the total of living organisms, which inhabit on terrestrial and marine sources, other aquatic ecosystems as well as the ecological complexes that compromise the planet ecosystems. According to research of the United Nations (UN)[11], up to one (1) million species, from the total of eight (8), of flora and fauna will face extinction in the next decades.

The importance of Biodiversity lies in the fact that living creatures are interacting dynamically within the ecosystems and the loss of just one organism will have dire consequences, direct and indirect, to the food chain. Summarising, biodiversity is vital for the maintenance of clean water, fresh water, and good quality soil, which are jeopardised, directly or indirectly, due to human activities.

---

[7] Climate related risk drivers and their transmission channels | Bank for International Settlements

[8] Transitional Risk | Centre for International Climate Research

[9] Directive (EU) 2020/852, Chapter 1, Article 2, Paragraph 15

[10] Biodiversity loss: what is causing it and why is it a concern? | European Parliament

[11] World is 'on notice' as major UN report shows one million species face extinction | United Nations

••• Climate Change[12]

Climate Change is defined as the changes of climate in the planet due to human activities, which lead to the increased concentration of emissions, mainly of greenhouse emissions, in the atmosphere. The leading index for measuring climate change is the increase of global average temperature compared to pre-industrial levels.

According to estimations of Bank of Greece, Climate Change Impacts Study Committee (CCISC)[13] made in 2011, the global temperature has already risen by 1°C compared to pre-industrial levels.

Climate change mitigation[14] is the combination of all activities that intend to hold the increase in temperature well below 2°C, above the pre-industrial levels, and, as the Paris Agreement delimits, as close as possible to 1.5°C. Climate Change Adaptation[15] is defined as the adaptation process of the results and consequences, of actual and expected, of climate change.

••• Circular Economy[16, 17]

Circular Economy is an economic model of production and consumption, which aspires to extend, as much as possible, the cycle of products in order to reduce waste to the minimum possible level. The aim of preserving the value of existing materials, products, and other resources in the economy for as long as possible is achieved by sharing, leasing, reusing, repairing and recycling them.

By adopting Circular Economy models, it is feasible to reduce emissions and waste, develop innovative products and create new jobs.

••• Social Pillar[18, 19]

A firm's Social Pillar consists of its relationship with the community as well as the total of its stakeholders, such as its employees, suppliers and clients. The Social Pillar should be taken into consideration in the formation of the corporate structure as well as in the decision-making process. This can be achieved by two approaches. The first one is to tackle broad social issues, while the second approach is to protect the stakeholders' welfare. Firms and organisations are called to include broad social issues such as human rights, labor relation and the quality and safety of their products in the decision-

---

[12] Climate change and sustainability | Bank of Greece

[13] The environmental, economic and social impacts of climate change in Greece, Climate Change Impacts Study Committee, Bank of Greece, June 2011

[14] Directive (EU) 2020/852, Chapter 1, Article 2, Paragraph 5

[15] Directive (EU) 2020/852, Chapter 1, Article 2, Paragraph 6

[16] Directive (EU) 2020/852, Chapter 1, Article 2, Paragraph 9

[17] Circular economy: definition, importance and benefits | News, European Parliament

[18] ESG Risks: A new source of risks for the banking sector, Faidon Kalfaoglou, 2021 | Bank of Greece

[19] What is the "S" in ESG? | S&P Global

making process. Furthermore, they should tackle broader social issues such as inequality, inclusiveness, unemployment and investing in the human capital. The total of the decisions and practices on the aforementioned issues make up their Corporate Culture.

••• Corporate Social Responsibility (CSR)[20, 21]

Corporate Social Responsibility (from now on CSR) is defined as the inclusion of social and environmental issues to the activities and practices of the firm. The CSR practices of a firm are strongly influenced by their communication and interaction with their stakeholders.

For a firm to be considered socially responsible, it should not only honor its legal obligations but also go beyond them and invest in the society and the environment. CSR is complementary, not a substitute, to the legal framework of labor, social and environmental issues.

CSR practices can be grouped into two subcategories: the social and environmental ones. Social practices include the investment in human capital, health and safety as well as the management of changes occurring in the firm or/and in the society where it operates. Environmental practices include activities that are affiliated with the management of the materials used in the production process.

••• Corporate Culture[22]

According to Gorton and Zentefis, culture can be defined as the values, ethics, customs as well as the language that are used by a group. Similarly, Corporate Culture includes the overall norms and rules that the management imposes to the entire organisation, leading to influencing the behavior and the operation processes of the firm. Finally, Corporate Culture affects the decision-making process that is associated with the firms' structure and partnerships.

The difference between Corporate Social Responsibility and Corporate Culture lies in the fact that the former is an extroverted practice while the latter is an introverted one.

[20] Corporate Social Responsibility | Athens Exchange Group
[21] GREEN PAPER: Promoting a European framework for Corporate Social Responsibility| European Commission
[22] Corporate culture as a theory of the firm: The role of values, customs, and norms | VOX, CEPR Policy Portal

••• Disclosures[23, 24]

Firms, especially listed companies, are required to disclose specific information on their financial and non-financial figures that may affect their results and their sustainability. For example, according to the directive 2004/109/EC of the European Parliament and Commission, listed companies are obliged to disclose in a yearly and six-month basis their financial statements, potential noteworthy changes in the shareholders structure and ad hoc inside information that can affect their securities price.

Investors as well as institutions[25] now require that the firms and organisations not only to disclose financial information, but to also include more qualitative data such as the integration of sustainability risks, the measurement of their activities' impact on sustainability or the promotion of ESG parameters in the decision-making process.

••• Stakeholders[26]

All the groups of people that are affected by the activities, the practices and the results of an organisation are called Stakeholders. According to the GRI standards of 2016[27], a firm's stakeholders are composed of its clients, suppliers, employees (as well as their potential employees), the societies where it operates, the legislators and its shareholders.

An ever-growing number of companies are putting an emphasis on the communication and interaction with their stakeholders (Stakeholder Engagement). The purpose of communicating is to take into consideration the stakeholders' expectations and concerns in the firms' decision-making process. The participation of stakeholders can lead, at least in long-term, to more sustainable results for the company as well as for the society.

••• Governance[28]

The Governance Pillar includes all the applied set of rules, operations and structures of an organisation by the management to ensure reliability, transparency, equality and inclusiveness of stakeholders in the firm's procedures.

In Public bodies, governance is about the culture and the institutional environment in which citizens and stakeholders interact and participate. In firms, corporate governance includes the relations between the management,

---

23 Directive (EU) 2013/50/EU
24 Transparency requirements for listed companies | European Commission
25 Directive (EU) 2019/2088
26 Concept for Stakeholders Engagement, Interreg Central Europe, Riccardo Cariani
27 GRI 102: GENERAL DISCLOSURES 2016
28 Concept of Governance | International Bureau of Education

the Board of Directors, the shareholders and other stakeholders. Corporate governance[29] incorporates the goal-setting, monitoring and evaluating procedures.

A key Governance issue that organisations are facing is to determine the role of the Board of Directors, as well as its composition, its diversity and the efficiency of the internal control. The governance of organisations is called to monitor and encompass environmental and social parameters in their decision-making process.

• • • Board of Directors Diversity (BoD Diversity)[30]

A Board of Directors can be regarded as diverse when it is composed of members of various characteristics, not only limited to professional criteria. There are different types of diversity, with the main ones being the nationality, the age, the race and the gender. BoD diversity helps, at least theoretically, by adding a wider range of perspectives to the concerns and issues of stakeholders. Furthermore, by aiming at a diverse board, the number of potential members expands, increasing the possibility for employing members compatible with the corporate culture in place.

It is noteworthy that during the third quarter of 2019, the milestone of having women representing the 20% of board members in companies listed in the S&P 500 was achieved[31]. At the same time, national diversity was only 10% as compared to the 8.4% of 2008.

• • • Proxy Voting[32]

Proxy Voting is defined as the delegation of voting rights, of a number of shareholders, to a representative (an individual or a legal entity). This practice is mostly used by minority shareholders, authorising a third-party legal entity, so to have a stronger influence in the decision-making process of a listed entity. The main reasons that Proxy Voting is selected is that the representative may be more informed as compared to the average shareholder or/and the shareholder may be unable to attend the General Assembly.

Sustainability issues are now higher in investors' (and shareholders') agenda, leading to a choice of a representative who is knowledgeable on

---

[29] G20/OECD Principles of Corporate Governance | Organization for Economic Co-operation and Development
[30] Diversifying the board – a step towards better governance | ACCA
[31] Board Diversity: No Longer Optional | Harvard Law School Forum on Corporate Governance
[32] What is a Proxy Vote? | Corporate Finance Institute

ESG issues and practices. It is noteworthy that proxy voting support on ESG resolutions, among the 50 bigger capital management firms, increased to 46% in 2019 from the 27% of 2015[33]. Moreover, according to a study carried out in 2020 by the Organisation for Economic Co-operation and Development, the total value of the ESG portfolios held by professionals amounted to 17.5 trillion dollars[34].

••• ESG Due Diligence[35]

In short, ESG Due Diligence aims to the gathering of the necessary data, insights and other information on a firm practice on ESG issues, for the benefit of another firm. This research objective is the prevention and management risks for the beneficiary company on important issues such as a merger or acquisition with another entity, and the selection of a supplier.

Investors as well, are focusing more on ESG Due Diligence, as contemporary research display that firms with high ESG rating achieve higher results and returns. According to Fidelity International[36], enterprises with high ESG rating, during the period of January and September 2020, showed higher returns each month, except April, than the enterprises with low ESG rating. Moreover, the share prices of firms with high ESG rating had smoother fluctuations than of the share prices of firms with low ESG rating, in the same period of time.

---

[33] 2019 ESG Proxy Voting Trends | Morningstar

[34] ESG Investing: Practices, Progress and Challenges | Organization for Economic Co-operation and Development

[35] ESG due diligence - How it's done & why | Goby ESG Solutions

[36] Chart Room: The clear link between ESG and returns | Fidelity International

ESG INSIGHTS

IMPACTFUL AWARENESS

PART 2: ESG Advancements

GET INVOLVED

VELOS ADVISORY

Agenda 2030 for Sustainable Development[37]

In 2015 the entire country-members of the United Nations (UN) agreed on the ratification of 17 shared goals that have to be achieved by 2030, to promote peace and growth for all humanity and the planet. These 17 goals are called the Sustainable Development Goals (from now on SDGs) and are further specialised into 169 targets and 231 unique indicators that aspire to be used as measurement for the progress to sustainability. These goals can be separated into 3 pillars, the environmental, the social and the economic.

Image 1: The 17 Sustainable Development Goals of the United Nations | Source: United Nations (UN)

The approval of Agenda 2030 highlights the correlation between different goals, as the achievement, or not, of one goal, directly affects the results of other goals. Moreover, with the SDG 17 (Partnerships for the Goals) the need of cooperation, between governments, supranational organisations and the private sector to achieve these shared goals, is stressed. It was also agreed to give priority and the needed assistance to countries that are further away from the completion of the mentioned goals. Finally, the promotion of the Agenda 2030 has already impacted significantly the decision-making processes of societies and economies, as the SDGs are designed as to bring forth the importance of all stakeholders, regardless of if it is governments, supranational organisations or firms.

[37] Sustainable Development Goals Knowledge Platform | United Nations

Paris Agreement[38, 39, 40]

On December 12th, 2015, one of the most significant global agreements on environmental issues and on the determination of shared goals and obligations, was signed by 194 countries. Its aim is to maintain the rise of global temperature well below 2°C, and as close as possible to 1.5°C, compared to pre-industrial levels. The agreement covers the period from 2020 and aspires to achieve climate neutrality by 2050.

The Paris Agreement obliges the most gas emitting countries to reduce their emissions as well as to contribute to the climate mitigation and adaptation initiatives of economically developing countries. It installs an institutional framework to attain transparency in monitoring and reporting the progress of the agreed goals, as well as the potential of revising them.

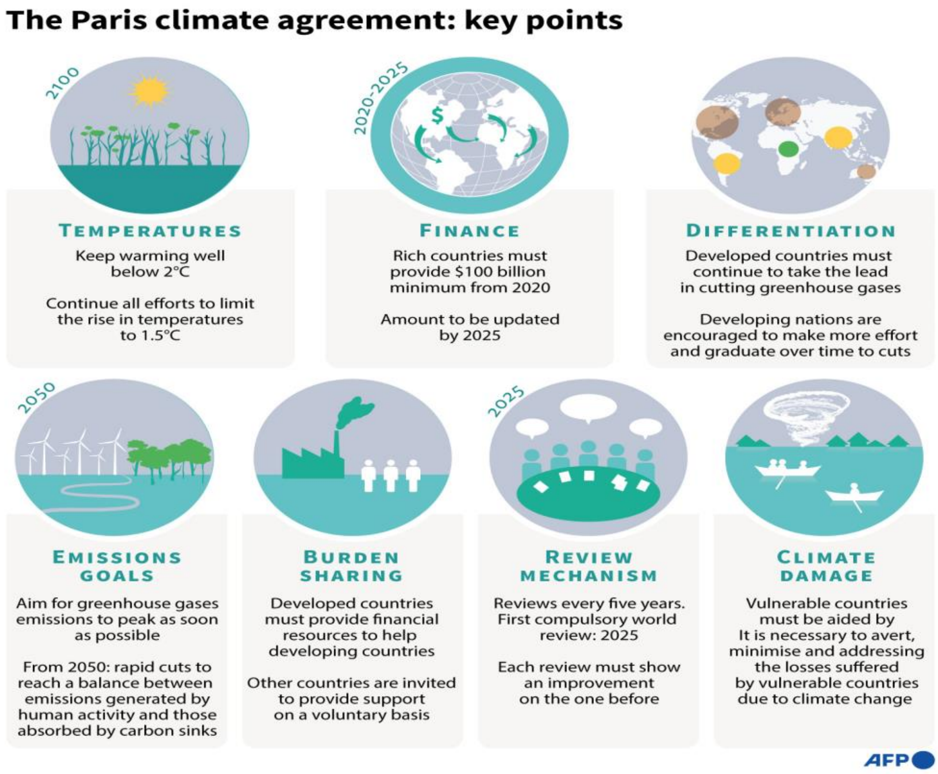


Image 2: Paris Climate Agreement key points | Source: European Data News Hub

On 21 of April 2016, European Union signed the Paris Agreement. The current aim of EU[41] is to reduce carbon dioxide (CO_2) emissions by 55% until 2030, compared to 1990 levels. In June 2021, the European Parliament legislated the European Climate Law, making the political commitment of the European Green Deal for a climate neutral Europe until 2050 to a legal obligation.

[38] Paris Agreement on Climate Change | European Council
[39] EU and the Paris agreement: towards climate neutrality | European Parliament
[40] 2030 climate & energy framework | European Commission
[41] 2030 Climate Target Plan | European Commission

European Green Deal[42, 43]

On July 14th, 2019, the European Commission approved of a set of proposals that aspire to transform the European economy and society into the first continent with no net emissions of greenhouse gases, having its economic growth disconnected from resource use by 2050.

The European Green Deal is expected to create new potentials for innovation and investments, to reduce emissions, to facilitate job creation, to address energy poverty, to reduce external energy dependency and to improve the health and wellbeing of the European Union citizens. The European Green Deal is a landmark agreement as it recognizes the correlation and importance of the ESG parameters.

The European Green Deal is divided into many unique sets of goals in order to achieve the expected results, as described above. Firstly, it is aimed at "Making transport sustainable for all", and more specifically, it aims to reduce, by 55% emissions from cars and by 50% emissions from vans. The goal is for new cars to have zero emissions by 2035. Furthermore, the European Green Deal aspires to "Clean the energy system of the EU". The European Commission proposes to increase the binding renewable energy target for 2030 to 40%. Finally, the EU should have a leading role on global climate actions and initiatives. More specifically, it is noted that the EU will invest 30% of the EU's Neighbourhood Development and International Cooperation Instrument[44] to support climate objectives so that approximately one third of the world's public climate finance comes from the EU and its Member States.

Image 3: The 11 sections of European Green Deals | Source: Martel Innovate

[42] A European Green Deal | European Commission
[43] Delivering the European Green Deal | European Commission
[44] Global Europe: Neighbourhood, Development and International Cooperation Instrument| European Commission

Greenwashing and the European Framework to tackle it [45]

Recently environmental issues have been increasingly impacting the decision-making process, as well as the overall business model of firms. On many occasions, the Board of Directors of a firm has been pressured by various stakeholders, to take into account environmental issues. Greenwashing is defined as the practice of misinforming, by its management, a firm's shareholders, investors and consumers about the environmental impact of their products and services.

Greenwashing risks have risen since the adoption of Agenda 2030, the Paris Agreement and the European Green Deal. To tackle this, the European Green Deal includes that "Companies making 'green claims' should substantiate these against a standard methodology to assess their impact on the environment". Furthermore, the European Commission recognizes that there should be a common framework that offers reliable information on the environmental results of firms and their products.

The financial system will benefit from a common and reliable framework, which will regulate and offer protection against Greenwashing risks, as in recent years a 30% increase of ESG assets[46] has been recorded. Credit Institutions are increasing their investments in such assets. It is noteworthy that in the Euro Area, at the end of 2017, there were 72.7 billion euros of outstanding green bonds (0.4% of the overall debt securities of the euro area) while at the end of 2020, this number increased to 314.4 billion euros (1.7% of the overall debt securities of the euro area)[47].

For the most efficient transition of the European Economy to a zero-carbon economy, the European Commission has decided to develop, an initially non-mandatory, standard for green bonds (European Green Bond Standard)[48]. If adopted, it will be used as a gold standard on how firms and public authorities can develop the green bond markets and how to raise capital for the accomplishment of ambitious large-scale goals that have been set by the European Green Deal. This standard will have a positive impact on both the bond issuers and the investors. Bond issuers will be able to reliably prove that the investments in their securities are environmental and are fulfilling the EU Taxonomy criteria. Investors will be able to monitor and compare the available investment opportunities and to trust that their investments are environmentally sustainable. It is proposed that bonds that are accepted by the European Green Bond Standard be regulated by the European Securities and Markets Authority (ESMA).

---

[45] Initiative on substantiating green claims | European Commission

[46] ESG assets may hit $53 trillion by 2025, a third of global AUM | Bloomberg

[47] Green Bonds: A Snapshot of Global Issuance and Irish Securities Holdings | Central Bank of Ireland

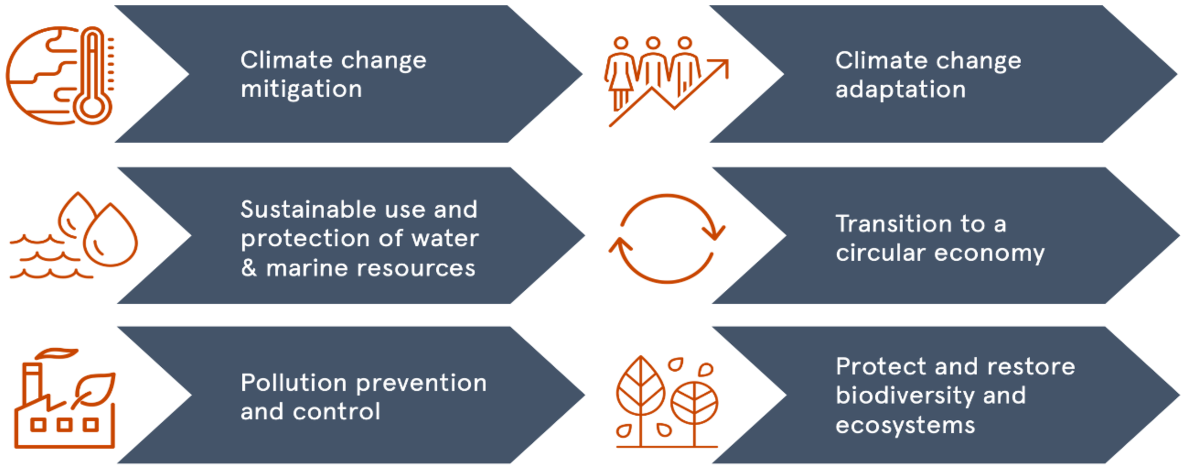
[48] European green bond standard | European Commission

EU Taxonomy [49, 50]

To fulfill the European Union environmental and energy targets by 2030, as well as the European Green Deal obligations, it is necessary to finance and invest in environmentally sustainable initiatives. To achieve this, a common 'language' and set of definitions of what is considered 'sustainable' is needed. For this reason, the 'Action Plan on Financing Sustainable Growth' that was laid out by the European Commission has set the creation of a European classification system as a priority.

The EU Taxonomy establishes a list of environmentally sustainable activities, and it aspires to assist the increase of environmental investments and to facilitate the completion of the European Green Deal. The EU Taxonomy classification system offers to the legislators, the companies and to the investors a reliable method of grouping initiatives as environmentally sustainable or not.

The directive on the establishment of a framework to facilitate sustainable investment sets six (6) environmental objectives[51, 52]. More precisely, these objectives are: climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control and the protection and restoration of biodiversity and ecosystems. For each of these objectives, there is a technical explanation and criteria, resulting in the facilitation of judging whether an initiative is environmentally sustainable or not.



Imagine 4: The Six Environmental objectives of the EU Taxonomy | Source: Future Fit Business

According to Article 3 of the Directive (EU) 2020/852, an initiative can be defined as environmentally sustainable when it assists at least one of the six environmental objectives and does not significantly harm any of the other

[49] EU taxonomy for sustainable activities | European Commission
[50] A Short Guide to the EU's Taxonomy Regulation | S&P Global
[51] Directive (EU) 2020/852, Chapter 2, Article 9
[52] For the definitions of these goals please visit the Directive (EU) 2020/852, Chapter 2.

environmental objectives, as well as aligning with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labor Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

Stress Tests on preparedness on climate-related issues

The consequences of the environmental risks and -especially- of the climate change are becoming even more evident in the global financial system. Credit Institutions should include, in their decision-making process as well as business planning, forecasts for these risks. Otherwise, there is the risk of profitability loss and of having to adapt to a renewed framework if the firm delays to take action on these issues. For the most efficient monitoring of the preparedness level of banks to face environmental risks, a growing number of regulatory authorities have decided to conduct Stress Tests on climate related issues.

Climate-Change Stress Tests Announced

Country	Authority	Dates
Australia	Australian Regulatory Prudential Authority	Designed in 2020; to be executed in 2021
Brazil	Banco do Central Brasil	Announced on 8 September 2020; results expected April 2022
Canada	Bank of Canada, Office of the Superintendent of Financial Institutions	Announced on 16 November 2020; detailed scenarios and information not expected until end-2021. Results date not disclosed
Eurozone	ECB/European Banking Authority (EBA)	Announced in November 2020; date set for 2022. Results date not disclosed
France	L'Autorité de contrôle prudentiel et de résolution (ACPR)	Conducted in December 2020; results expected April 2021
Hong Kong	Hong Kong Monetary Authority	Banks contacted on 4 December 2020; planned for 2021. Results date not disclosed
Singapore	Monetary Authority of Singapore	Guidelines published in December 2020; results expected by June 2022
UK	Bank of England	Test set for June 2021; results not expected until 2022

Image 5: Announced Climate-related Stress Tests. | Source: FitchRatings[53]

The structure of Stress Tests on climate-related risks[54] presents a challenge for the regulators as they will have some noteworthy differences from the traditional Stress Tests caried out by banks. First of all, the traditional Stress Tests take into consideration a period from 3 to 5 years, whereas the hazards of climate change will need 30 to 50 years to become evident. Another issue that may affect the reliability of the Stress Test results is that there are no historical data on the correlation of climate change and credit loss.

[53] Climate Stress Tests to Be Mainstream for Banks, Insurers | Fitch Ratings
[54] Challenges in Stress Testing and Climate Change | Bank Policy Institute

The French Prudential Supervision and Resolution Authority (Autorité de contrôle prudentiel et de résolution - ACPR)[55], carried out the first Stress Tests on climate-related issues, globally, from July 2020 to April 2021 in nine French banks and 15 insurance firms. The period tested was from 2020 to 2050, and physical risks -such as damages from potential disasters- as well as transition risks of moving to a more environmentally friendly assets, were examined. The results of the Stress Tests highlighted the need, for the banks, to speed up the inclusion of climate-related risks in their business models.

Task Force on Climate-Related Financial Disclosures [TCFD][56, 57]

In 2015, the Task Force on Climate-Related Financial Disclosures (from now on TCFD) was founded by the Financial Stability Board [FSB] with the goal to develop consistent and reliable climate-related financial risk disclosures. These disclosures can be used by corporations, banks and investors for the efficient reporting to the stakeholders. With a better reporting on environmental risks, they will be able to be included efficiently on the risk management and on the decision-making process.

In 2017, TCFD published its proposals on financial disclosures framework on environmental issues[58], in order corporations to be able by the better reporting to distribute more efficiently their capital. Their recommendations are separated on four (4) topics that represent on how firms operate on Governance, on Strategy, on Risk Management and on Metrics and Targets.

On Governance, firms are recommended to disclose the role of the management in assessing risks and opportunities deriving from the climate. On Strategy, firms should disclose the actual and expected consequences of climate-related risks and opportunities, on their businesses, strategy, and financial planning where such information is material. On Risk Management, corporations should disclose the procedure of identifying, assessing, and managing climate-related risks. Finally, on the Metrics and Targets category, companies should disclose the data used on their Metrics and Targets to assess and manage climate-related risks and opportunities where such information is material.

After the publishing of the 2020 report, more than 1,500 organisations globally have supported the TCFD recommendations and around 60% of the 100 biggest listed companies support or have already adopted the TCFD recommendations or both. In the financial year of 2019, firms that are in the

[55] French banks told to speed up response to climate change | REUTERS
[56] Climate change presents financial risk to the global economy | Task Force on Climate-Related Financial Disclosures
[57] TCFD – Task Force on Climate-related Financial Disclosures | United Nations
[58] Task Force on Climate-related Financial Disclosures, Overview | Task Force on Climate-Related Financial Disclosures

energy market or on the constructing sector, were the leaders on disclosing according to the TCFD framework. Finally, there is still need for further transparency on the disclosures from asset managing firms.

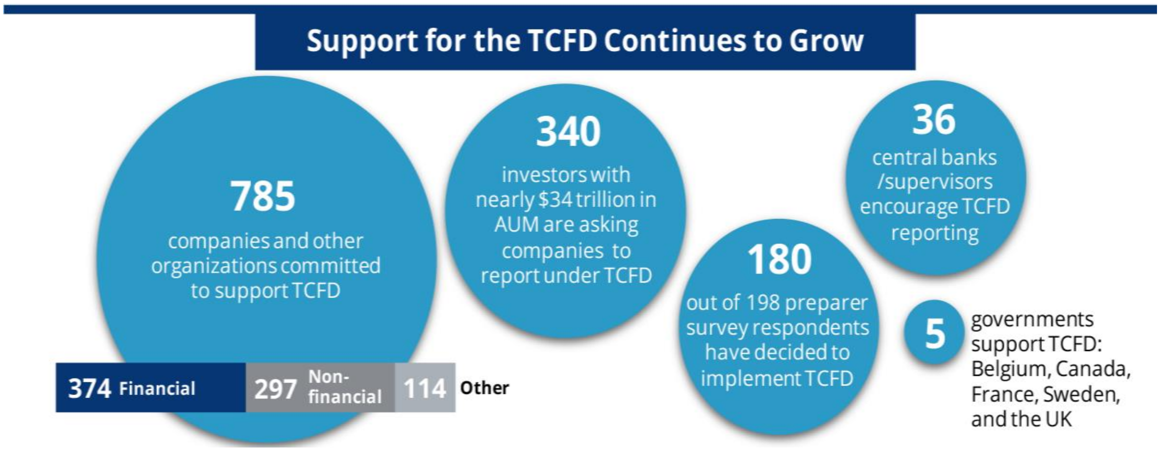


Image 6: 2019 TCFD Status Report, Additional Themes and Findings. | Source: Manifest Climate

Action Plan on Financing Sustainable Growth[59]

In March of 2018, the European Commission adopted the 'Action Plan on Financing Sustainable Growth', in order to face two immediate needs: the maximization of the financial system impact on sustainable and inclusive development, by financing the long-term needs of society and the enhancement of the financial stability with the inclusion of environmental, social and governance (ESG) parameters in the decision-making process.

The Action Plan is comprised of 10 main goals that can be separated in three (3) categories. More specifically, these categories are i) Reorienting capital flows towards a more sustainable economy, ii) Mainstreaming sustainability in risk management, and iii) Fostering transparency and long-termism.

The category 'Reorienting capital flows towards a more sustainable economy' aims to the developing of a common European classification system for sustainable actions, to be able to distinguish which actions should be considered environmentally sustainable and which not. Moreover, the aspiration of creating standards and labels for sustainable products, such as the objective of designing a common framework for the improvement of the European Green Bonds market. To achieve the international obligations of the European Union as well as of the European Green Deal it is crucial to foster investment in sustainable projects.

[59] Action Plan: Financing Sustainable Growth | European Commission

The incorporation of sustainability considerations in financial advice by the European Securities and Markets Authority will contribute to the achievement of the above-mentioned goals. Finally, recognizing that the benchmarks play an important part in the configuration of the prices of financial instruments and of other assets at the financial system, the European Commission deems necessary the development of sustainability benchmarks.

The second category emphasizing on the 'Mainstreaming sustainability in risk management'. In summary, it aspires i) to achieve a more efficient inclusion sustainability in market research and credit ratings, ii) to clarify institutional investors' and asset managers' duties and iii) to incorporate sustainability in prudential requirements for banks and insurance companies.

Finally, the last category 'Fostering transparency and long-termism', aims to strengthen sustainable disclosures and accounting and the promotion of corporate governance and the mitigation of capital market short-termism to take into consideration sustainability.

ESG Indices[60]

Financial Indices are a method of monitoring the general course of a market or of a group of companies. Indices are developed by grouping a number of firms according to specific criteria, such as their capitalization, the sector they operate or the location of their headquarters and aim to monitor the overall results of this group. Depending on the criteria used, financial indices can be characterized as broad or specific.

Listed companies are growingly incorporating ESG issues and practices in their decision-making process, as well as disclosing corporate reports with results on these issues. In the beginning of 2020, ESG assets value reached around 35.3 trillion dollars[61]and are expected to increase significantly in the following years. Furthermore, there are historical data that strongly correlate the ESG and financial results of a corporation. This correlation adds to the importance of a firm's ESG results, as they can impact the overall results of the firm. Taking all these into consideration, investors should know a firm's ESG data to be able to make the most efficient investment decisions.

---

[60] ESG Reporting Guide, 2019 | Athens Exchange Group

[61] Global Sustainable Investment Review 2020 | Global Sustainable Investment Alliance

Image 7: Examples of ESG Indices | Source: Enel Group

In the last years, some important ESG indicators have been developed by acknowledged organisations, such as the S&P 500 ESG Index[62], the FTSE4Good[63] and the GLOBAL100[64]. The number as well as the standardisation of the indices are expected to develop further in the next few years.

ATHEX ESG Index[65]

On August 2nd, 2021, the index for measuring the financial returns of the most active companies on ESG issues that are traded on the Athens Exchange Group (ATHEX) started to be calculated. The name of this index is 'ATHEX ESG Index' and its symbol both in Greek and in English is 'ATHEX_ESG'. Although initially the index comprised thirty-five (35) listed companies, as of November 2021, sixty (60) listed firms with the highest ESG scores will be included. ATHEX ESG Index starting price was set at one thousand (1.000) units and will be updated each November on a yearly base. As index type, it is in the category of Weighted Capitalisation.

Index Name (GR)	Index Name (EN)	Symbol (GR)	Symbol (EN)	ISIN Code	CFI Code	FISN Code
Δείκτης ATHEX ESG	ATHEX ESG Index	ATHEX_ESG	ATHEX_ESG	GRI99158A008	TIEFPX	ATHEX/ESG IDX GR

Image 8: ATHEX ESG Index Characteristics | Source: Athens Stock Exchange

62 The S&P 500 ESG Index: Defining the Sustainable Core | S&P Global
63 FTSE4Good Index Series, Index Overview | FTSE4Good
64 Global 100 Rankings | Corporate Knights
65 Characteristics - Methodology - Composition ATHEX ESG Index | Athens Exchange Group

The ESG rating is calculated with the methodology proposed in the 2019 ATHEX ESG Information Disclosure Guide. The data, which made up the initial composition of the index is based on the 2019 results and derive from the study of the Laboratory of Investment Applications of the National and Kapodistrian University of Athens titled 'ESG Study on Athens Stock Exchange'. For a corporation to be included in the ATHEX_ESG, it should be listed on ATHEX, to have minimum ESG scoring of 0.3 and to have free float (an index that calculates the influence small shareholders in a firm) greater than 15%.

The yearly ranking of the included companies will depend on their ESG scoring. Each firm's weighted capitalization and weight will be the product of the free float and ESG scoring, with a maximum weight of 10%. In other words, the change of the financial returns of a participating company changes by 5%, the ATHEX_ESG index will be affected only by the firms' weight on the index. Finally, this index can be used as a comparison tool for the financial returns of firms that have adopted -even to a certain extent- and are applying ESG practices with those of the firms that have still to adopt them.

ESG Agency Ratings[66, 67]

The goal of these agency ratings is to assess objectively the results of companies, nations, mutual and exchange-traded funds on environmental, social and governance issues and risks.

Evaluations by third-party independent bodies can contribute to the detection and better understanding, by the investors, of the ESG financial materials of an organisation and the way these parameters can potentially impact them. Taking into consideration that the ESG parameters are considered important financial information as well as the fact that a positive correlation on ESG and financial returns has been observed make having reliable data on these issues a necessity.

The use of various methodologies and data for the assessment of ESG results renders impossible the creation of broad base standardized results. Therefore, for the same organisation there may by multiple ratings, some of which with noteworthy differences.

[66] Why ESG ratings matter and how companies use them | Simply Sustainable

[67] Top ESG Rating Providers | BrokerChooser

Image 9: Examples of ESG Agencies Ratings | Source: OMV Sustainability Report 2020

The rating agencies, by taking into consideration the ESG results and policies in place, assess the organisation by using specific data and procedures and then categorize it according to its performance (the number and names of different categories depend on the rating agency as there is no common practice in place). The most prominent ESG rating agencies are the MSCI ESG Rating[68], the Sustainalytics ESG Risk Ratings[69] and the ISS ESG[70].

The Non-Financial Reporting Directive (NFRD)[71, 72]

According to the laws of the European Union, specific companies, mostly big and listed ones, are required to disclose specific information and data. The Directive 2014/95/EU, which amended the 2013/34/EU Directive, known as 'Non-Financial Reporting Directive' (from now on NFRD) places rules for disclosing non-financial information, such as diversity issues.

This directive applies to companies or groups of at least five hundred (500) employees that are headquartered within the European Union. The concerned companies have to disclose data on environmental and social issues, labour conditions, human rights, anti-corruption and bribery. Furthermore, the directive introduces the Double Materiality approach, according to which firms should inform on sustainability issues that affect their operations as well as on how their operations affect the environment and the society.

68 MSCI ESG Rating
69 Sustainalytics ESG Risk Ratings
70 ISS ESG
71 Directive 2014/95/EU
72 Corporate sustainability reporting | European Commission

On April 21st, 2021, the European Commission proposed the amendment of the Non-Financial Reporting Directive with the 'Corporate Sustainability Reporting Directive' (from now on CSRD) in order to extend the range as well as the scope[73] of NFRD. The proposal aspires to extend the NFRD to the totality of big and listed firms (except listed micro-enterprises) and to make them audit the reported information. It also recommends, a more detailed reporting standards and the sustainable data to be disclosed in digital -machine readable- formats.

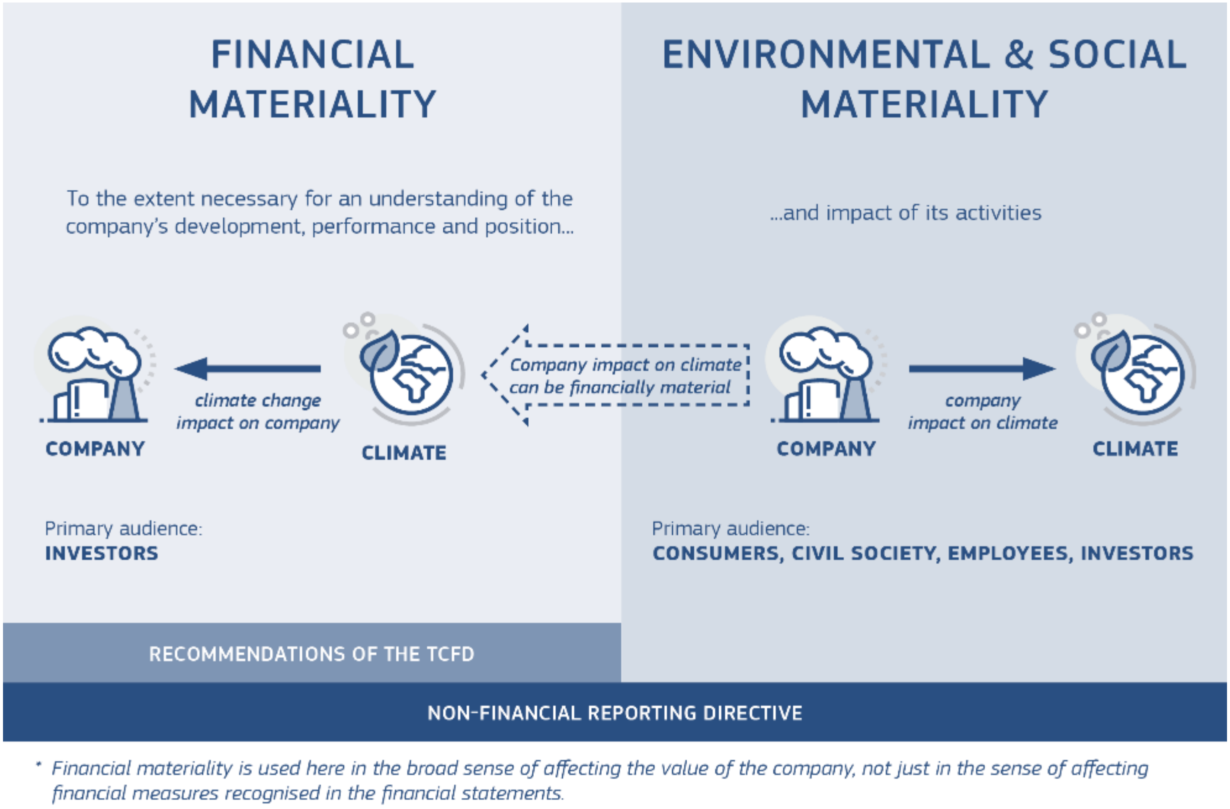


Image 10: Double Materiality approach | Source: Journal of the European Union, (2019/C 209/01)

Fiduciary Duty and Sustainability[74]

Fiduciary Duty, between counterparties is defined as the legal obligation of the one of the counterparts, the fiduciaries, to act solely on the interest of the other counterpart, the beneficiary. This duty burdens professionals that consult on economic, investing or legal issues or/and manage assets. The fiduciary, unless permission is given, should not benefit from the legal relationship with the beneficiary in any way.

[73] Corporate Sustainability Reporting Directive | Eur-Lex
[74] Fiduciary Duty in the 21st Century | UN Environment programme financial initiative

Fiduciary Duty is even more important in the financial sector, as each investor wishes that his/her consultant or asset manager to be bind by law so as not to act against him/her. The fact that the ESG issues and practices are growingly considered important financial information that impact portfolio results. So according to the fiduciary duty the financial consultants, are obliged to consult and inform their clients on environmental, social and governance issues.

In the guidebook for Principles for Responsible Investing[75] of the United Nations, the duties of the fiduciary are emphasized and analysed. It is important that the fiduciary acts with honesty for the interest of the beneficiary, to comprehend and include - in the decision-process- the views and proposals of his/her client on sustainability, to balance actual and potential conflicting interests of different beneficiaries and not to act for his/her own benefit. Moreover, the fiduciary should act with prudence and include ESG financial data in the investing decision-making process, be an active owner in the companies he/she invested in so as to guarantee the best possible ESG results and contribute to the stability and resiliency of the financial system.

Fiduciary Duty[2]	Fiduciaries shall:
Duty of Care/Prudence	Act in good faith, exercising the same care that an ordinarily prudent person in a like position would exercise under similar circumstances. Diversify investments, unless the purposes of the fund are better served without diversification. Take into consideration both general economic conditions and any asset's special relationship to the institution's charitable purposes.
Duty to Investigate	Make a reasonable effort to verify facts relevant to fund management and investment.
Duty to Minimize Costs	Incur only reasonable costs.
Duty of Loyalty	Avoid self-dealing, misuse of funds and other misconduct.
Duty of Obedience (often included as part of loyalty)	Perform duties with loyalty to the entity's mission and obedience to non-profit purposes.[3]

Image 11: Sources of Fiduciary Duty | Source: Mondaq

Finally, financial consultants should disclose their investment practices and methods to their clients and highlight how the clients' sustainable preferences were included in the used investment practices.

[75] The modern interpretation of fiduciary duty | Principles for Responsible Investment

VELOS ADVISORY

Velos Advisory is an international strategic corporate advisory boutique, specialising in delivering cross border, high-level corporate governance and shareholder Activism advisory, transactional execution and communications solutions aimed at delivering powerful and transformative results.

VELOSADVISORY.COM

GET INVOLVED

Is all about us getting involved

Get Involved is a youth-led initiative based in Athens, set up in 2017, which organises events and projects for university students. Its goal is to promote economic literacy by developing hybrid events that use experimental education as its main axis. Moreover, **Get Involved** aims to popularise an interdisciplinary approach to contemporary economic issues and strategically organises events in conjunction with various stakeholders.

GETTINGINVOLVED.GR

AUTHORS

Anthony Efstathiadis
Evangelos - David Delimosis
Georgios Routsos

CONTRIBUTORS

Petros Dimitropoulos
Maria Charilai Roukoutaki

EDITORS

Aemilia Varfis
Vasilis Angelopoulos