

The logo features the letters 'ESG' in a large, bold, black serif font. Below it, the word 'data' is written in a smaller, bold, black sans-serif font. Underneath 'data' is the word 'WEBINAR' in a bold, black, all-caps sans-serif font. At the bottom, the date '11.06.2020' and the time '10-11.45' are displayed in a bold, black sans-serif font, with 'CEST' written vertically to the right of the time. The background consists of several overlapping, semi-transparent geometric shapes in shades of green, pink, yellow, and blue.

ESG

data

WEBINAR

11.06.2020

10-11.45 CEST



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11.06.2020

10-11.45 ^{CEST}

Welcoming words by **OTHMAR LEHNER**
Director of the Centre of Accounting, Finance
and Governance, Hanken School of Economics

KEYNOTES

MEP SIRPA PIETIKÄINEN

MARTIN SPOLC

Head of Unit, DG FISMA,
European Commission

LARS MÜLLER

Policy Officer, DG ENV,
European Commission

10.30–10.50

PRESENTATION

THE ESG DATA REGISTER

KRISTIINA VARES-WARTIOVAARA

Portfolio Manager, Head of ESG, OP Financial Group

HANNA SILVOLA

Associate Professor, Hanken School of Economics

10.50–11.40

DISCUSSION

First group of respondents

OLIVIER BOUTELLIS-TAFT CEO, Accountancy Europe

RASMUS NIKOLAJ DUE SKOV Director, Head of Global Sustainability, Ørsted

ALEKSANDRA PALINSKA Senior Regulatory Policy Advisor, Efama

SINNE CONAN Director of European Affairs, Finance Denmark

ESKO KIVISAARI Deputy Managing Director, Finance Finland

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OTHMAR

LEHNER

Director of the Centre of Accounting,
Finance and Governance,
Hanken School of Economics





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SIRPA

PIETIKÄINEN

MEP



TOWARDS BETTER ESG DATA

Sirpa Pietikäinen

European Parliament

Sustainable finance – game changer

- **260 billion euros** of investments is needed annually to reach Paris goals & to support sustainable projects and transition
- Covid19 measures already over 3 trillion in the EU
- Climate risk is a financial risk - **151% rise** in past 20 years in direct economic losses from climate-related disasters (UNISDR)
- Shift in thinking - environmental and financial goals **not mutually exclusive**



EU Sustainable finance package 1.0

Based on HLEG recommendations and Action Plan

1



Establish EU Sustainable Taxonomy

5



Develop Sustainability Benchmarks

7



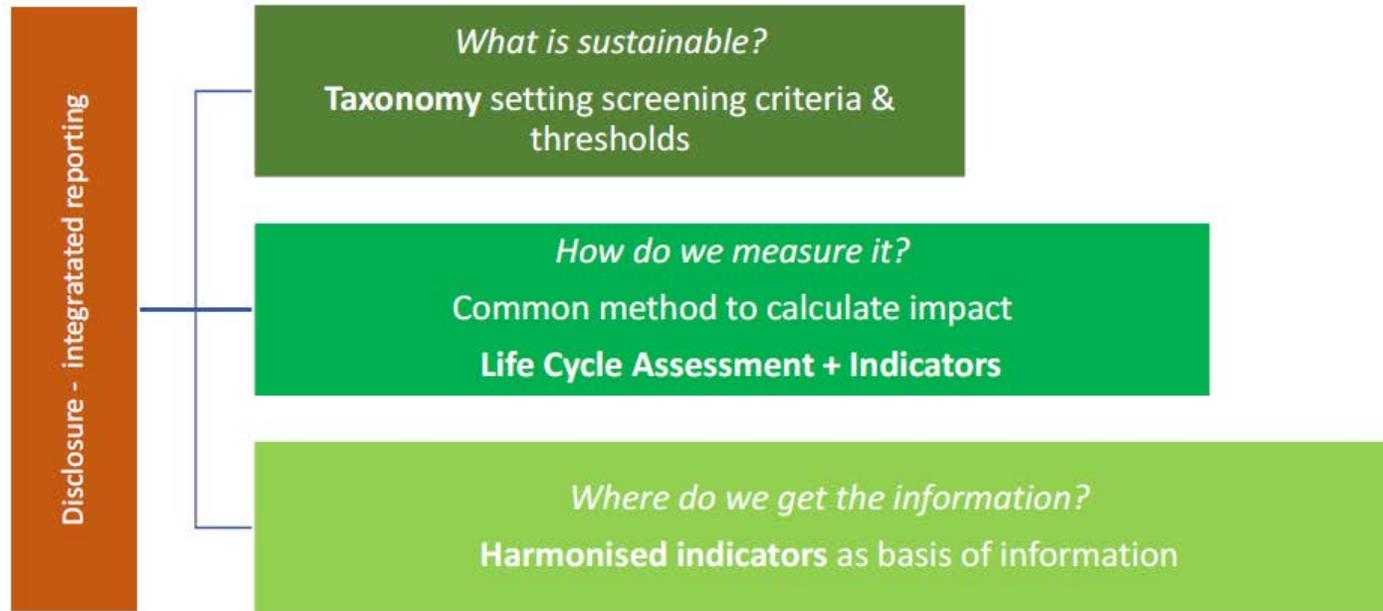
Disclosure: Clarify institutional investors and asset managers duties

4



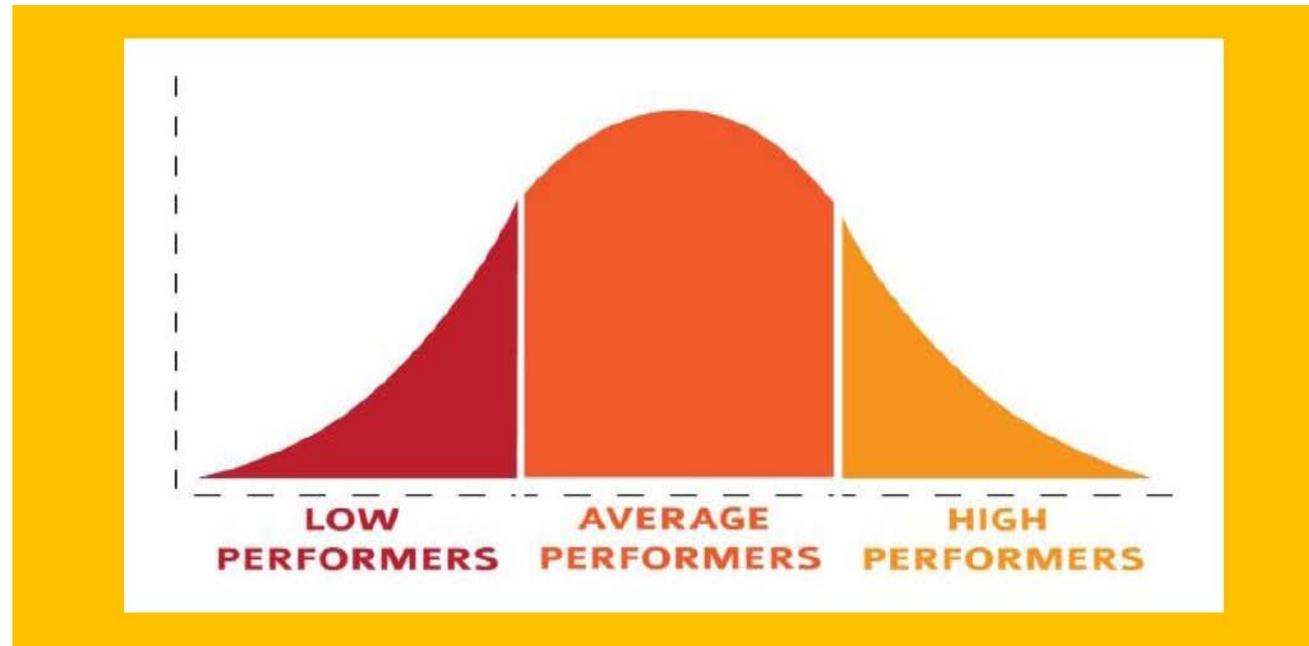
Incorporate Sustainability into Financial advice

Source: European Commission



Sirpa Pietikäinen, January 2019

Indicators



Simon

Towards better sustainability data

- Data on sustainability impact needs to be **comparable**
- **Harmonised indicators** as a foundation for data
- **Common methodology** - LCA and Natural Capital Accounting
- Indicators basis for integrated **reporting and accounting standards**
- Standards based on **existing good practice and reporting frameworks**
- **Audited management reports** - board responsible for the reported data
- **International standards** – sustainability IFRS
- Data should be **publicly accessible** – need for EU data register



Sustainable Finance 2.0

- EU Sustainable Finance legislation **changing incentives of market actors**
- **What next EU Sustainable Finance strategy should include?**
 - Extension of taxonomy to public finance and green recovery
 - DNSH
 - NFRD/Accounting directive
 - Company Law
 - Credit ratings
 - Basel and banking sector

Thank you for your attention!

sirpa.pietikainen@europarl.europa.eu

www.sirpapietikainen.eu

A handwritten signature in black ink, appearing to read 'Sirpa'.

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MARTIN SPOLC

Head of Unit, DG FISMA,
European Commission





EU Commission update

Renewed Sustainable Finance Strategy in the context of Green, Just and Resilient Recovery

Martin Spolc, DG FISMA

11 June 2020

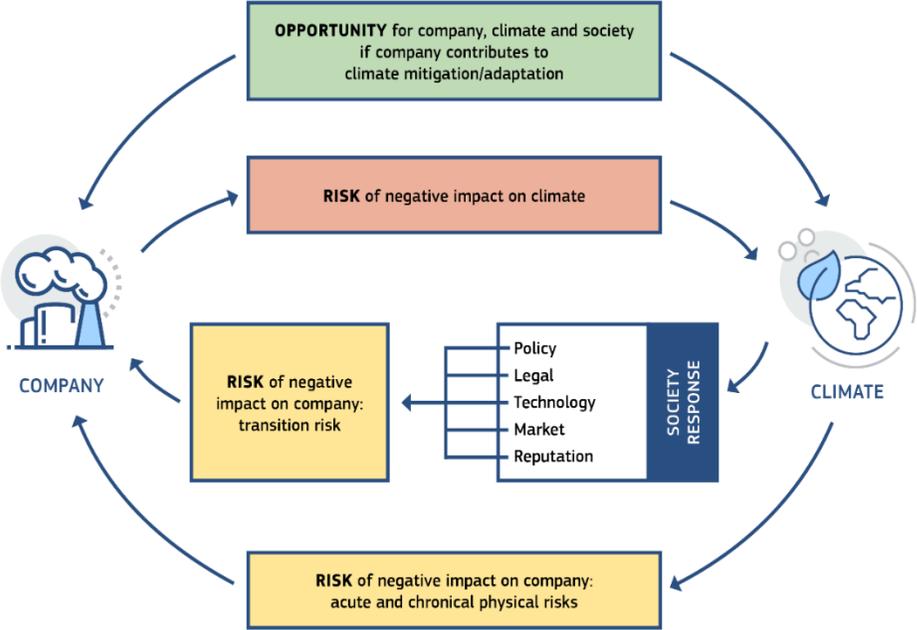
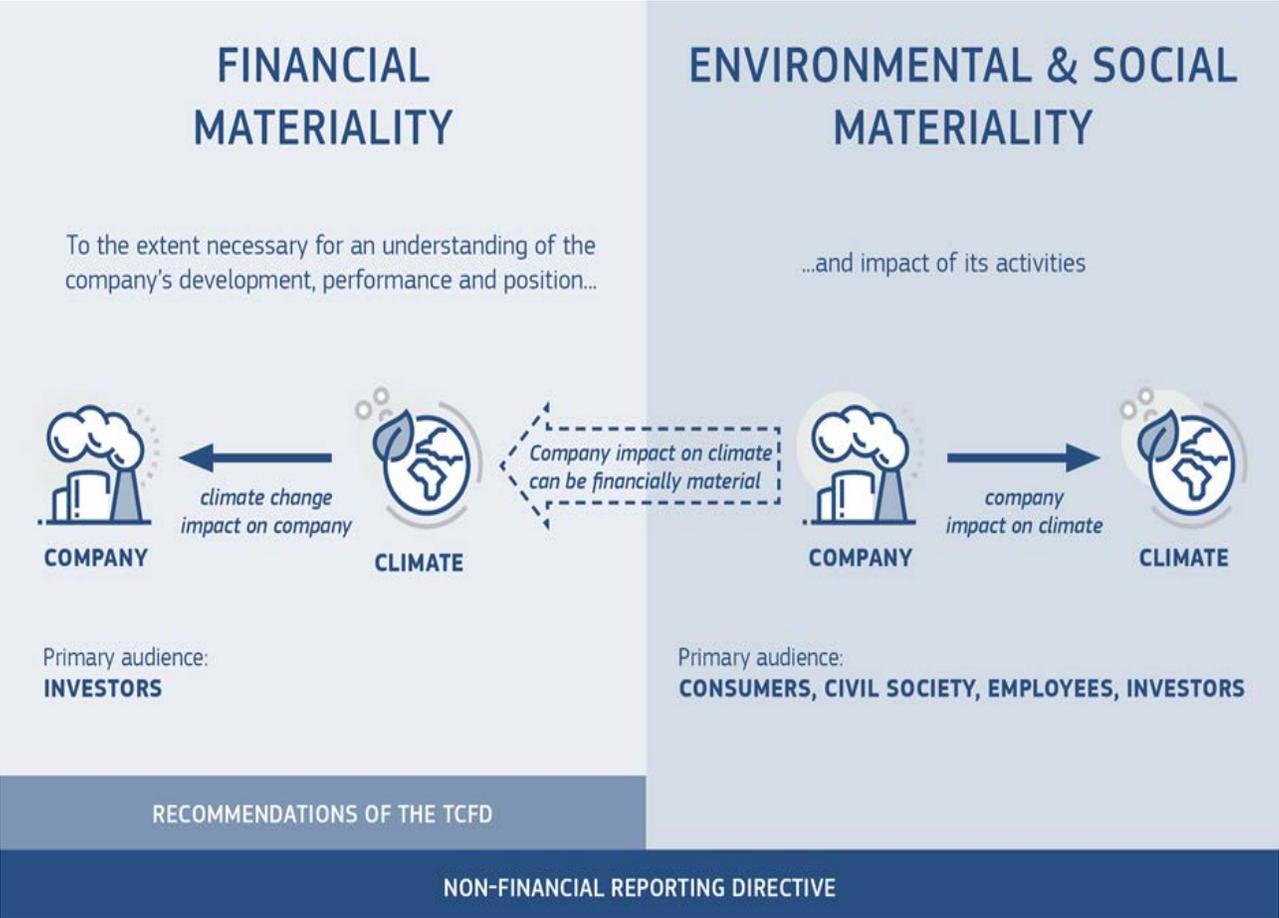
Action plan on financing sustainable growth

The Action Plan 2018 stretches across the whole investment chain

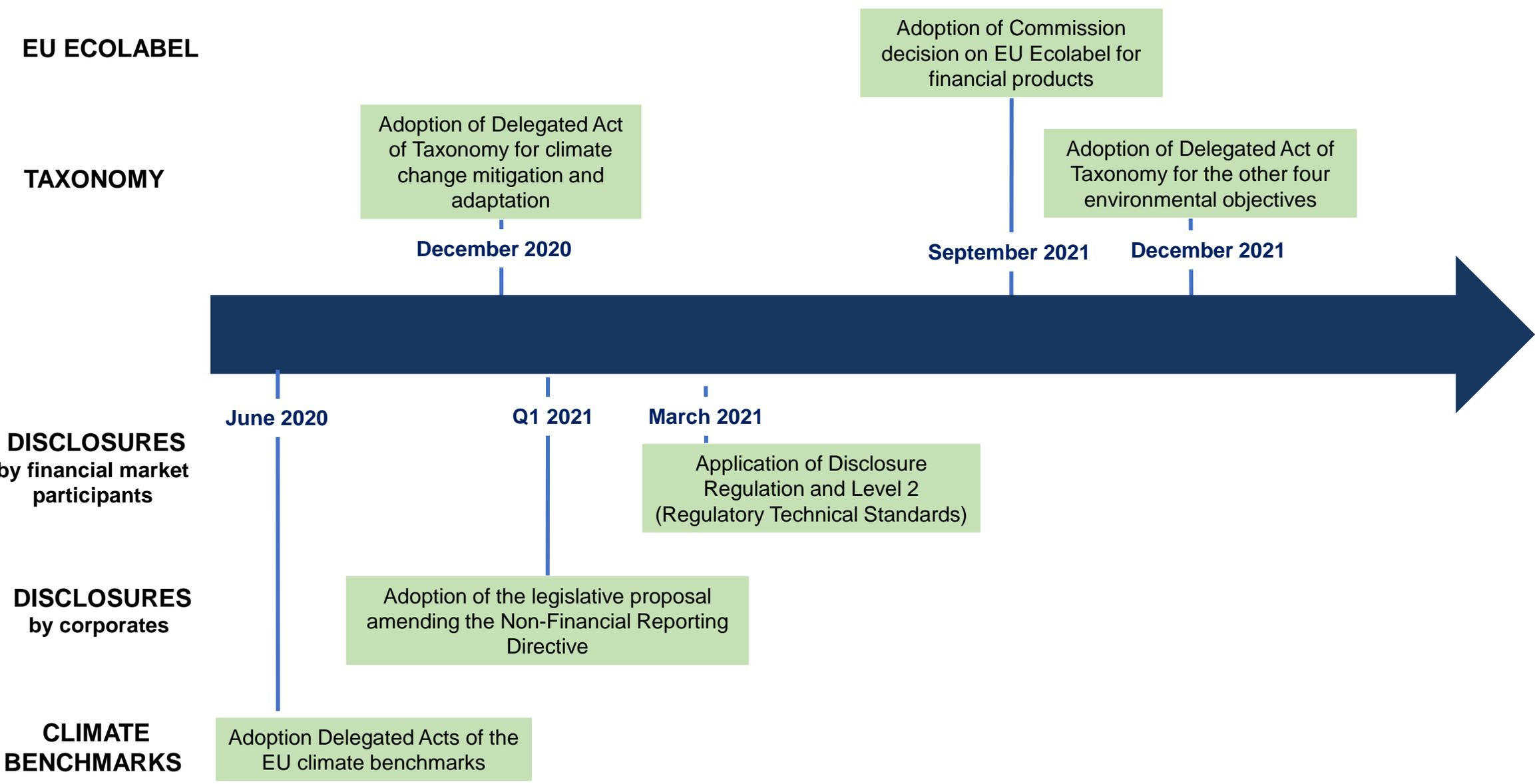
1	Taxonomy 	Develop an EU classification system for environmentally sustainable economic activities	6	Sustainability in research and ratings	Explore how credit rating agencies could more explicitly integrate sustainability in to their assessments. Study on sustainability ratings and research and exploring possible measures to encourage their uptake.
2	Standards and labels	Develop EU standards (such as EU Green Bond Standard) and labels for sustainable financial products (via Ecolabel) to protect integrity and trust of sustainable finance market	7	Disclosures by financial market participants 	Enhance transparency to end-investors on how financial market participants consider sustainability
3	Fostering investment in sustainable projects	Exploring measures to improve the efficiency and impact of instruments aiming at investment support. Mapping on investment gaps and financing.	8	Sustainability in prudential requirements	Explore the feasibility of reflecting sustainability in prudential rules (where justified from a risk perspective)
4	Incorporating sustainability in financial advice 	Amend MiFID II and IDD delegated acts to ensure that sustainability preferences are taken into account in the suitability assessment.	9	Strengthening sustainability disclosures by corporates	Enhance climate and sustainability-related information provided by corporations
5	Developing sustainability benchmarks 	Develop climate benchmarks and ESG disclosures for benchmarks	10	Fostering sustainable corporate governance & promoting long-termism	Collect evidence of undue short-term pressures from capital markets on corporations and consider steps for promoting corporate governance that is more conducive to sustainable investments.

Corporate reporting - double materiality

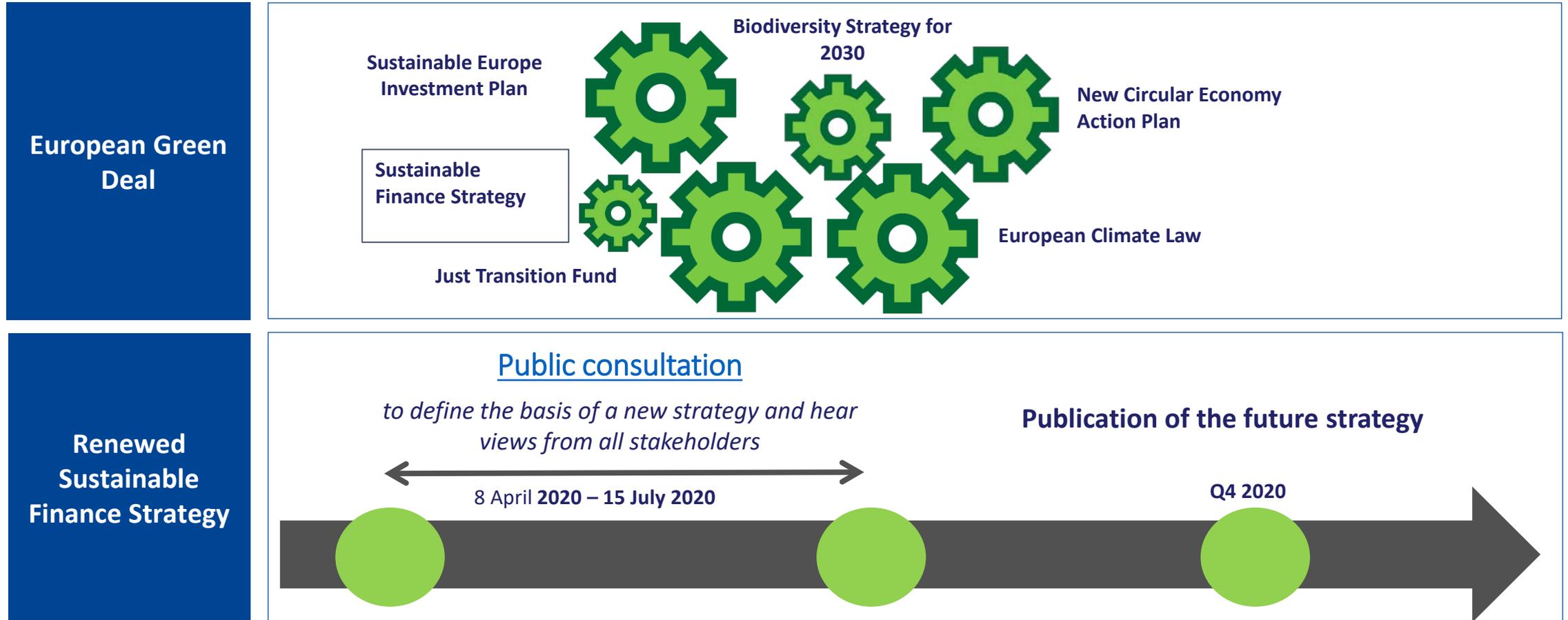
Two important perspectives are considered in COM work on corporate disclosures...



Timeline of key actions of the Action Plan



Renewed Sustainable Finance Strategy as part of the EU Green Deal



From Action Plan to Renewed Strategy

Action Plan on Financing
Sustainable Growth



Renewed Sustainable Finance
Strategy

Building on the 2018 Action Plan, the current context requires a more ambitious and comprehensive strategy



As the **EU moves towards climate-neutrality and steps up its fight against environmental degradation**, the financial and industrial sectors will have to undergo a large-scale transformation. Although the financial sector has already made considerable progress, its **transition is not fast enough to achieve the climate targets of 2030 and 2050**.



The 2018 Action Plan addressed the needs that were identified in the financial sector. The **Renewed Strategy will shift the focus to the real economy and corporates, as well as to public authorities and citizens** to give everyone the necessary tools to transition from brown to green.



The **COVID-19** pandemic has shown the critical **need to strengthen the sustainability and resilience** of our societies and the ways in which our economies function. In the next years, a more sustainable financial system will be essential to ensure a **green recovery** from the crisis and support the prevention of other pandemics in the future.

Overview of the Renewed Sustainable Finance Strategy

Targeted stakeholder questionnaire – 4 sections

1	General questions	<i>Overall ambition and pace of change in the financial sector to support the sustainability transition</i>
2	Strengthen the foundations for sustainable investment	<i>Improving and growing the existing toolkit for companies and investors that was laid out in the 2018 Action Plan on Sustainable Growth.</i>
3	Increased opportunities for citizens, investors and companies	<i>Maximising the impact of the frameworks and tools in our arsenal in order to 'finance green' as part of the EGD investment plan.</i>
4	Fully managing climate and environmental risks	<i>Measures to further contribute to 'greening finance'.</i>

The renewed strategy will also aim to provide policy tools for the financial system to support a sustainable recovery from COVID-19

Strengthen the foundations for sustainable investment

Improving and growing the existing toolkit for companies and investors that was laid out in the 2018 Action Plan on Sustainable Growth.

Company reporting and transparency

Accounting standards and rules

Sustainability research and ratings

Definitions, standards and labels for sustainable financial assets and financial products

Capital markets infrastructure

Corporate governance, long-termism and investor engagement

Increased opportunities for citizens, investors and companies

Maximising the impact of the frameworks and tools to 'finance green' as part of the EGD investment plan

Mobilising retail investors and citizens

Better understanding the impact of sustainable finance on sustainability factors

Green securitisation

Digital sustainable finance

Project pipeline

Incentives to scale up sustainable investments

The use of sustainable finance tools and frameworks by public authorities

Promoting intra-EU cross-border sustainable investments

EU Investment Protection Framework

Promoting sustainable finance globally

Fully managing climate and environmental risks

Measures to further contribute to 'greening finance'

Identifying exposures to harmful activities and assets and dis-incentivising environmentally harmful investments

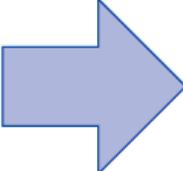
Financial stability risk

Credit rating agencies

Natural capital accounting or 'environmental footprint'

Improving resilience to adverse climate and environmental impacts

International Platform on Sustainable Finance



50%
OF GLOBAL GHG EMISSIONS



45%
OF GLOBAL GDP



50%
OF WORLD POPULATION

Thank you

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ESG data

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LARS MÜLLER

Policy Officer, DG ENV,
European Commission



The case for Natural Capital accounting

“Our entire economy is a subsidiary of nature”

Paul Polman - former Unilever CEO

Lars Müller DG ENV - Unit D2

ESG Data - capital for sustainable transition (11/06/2020)



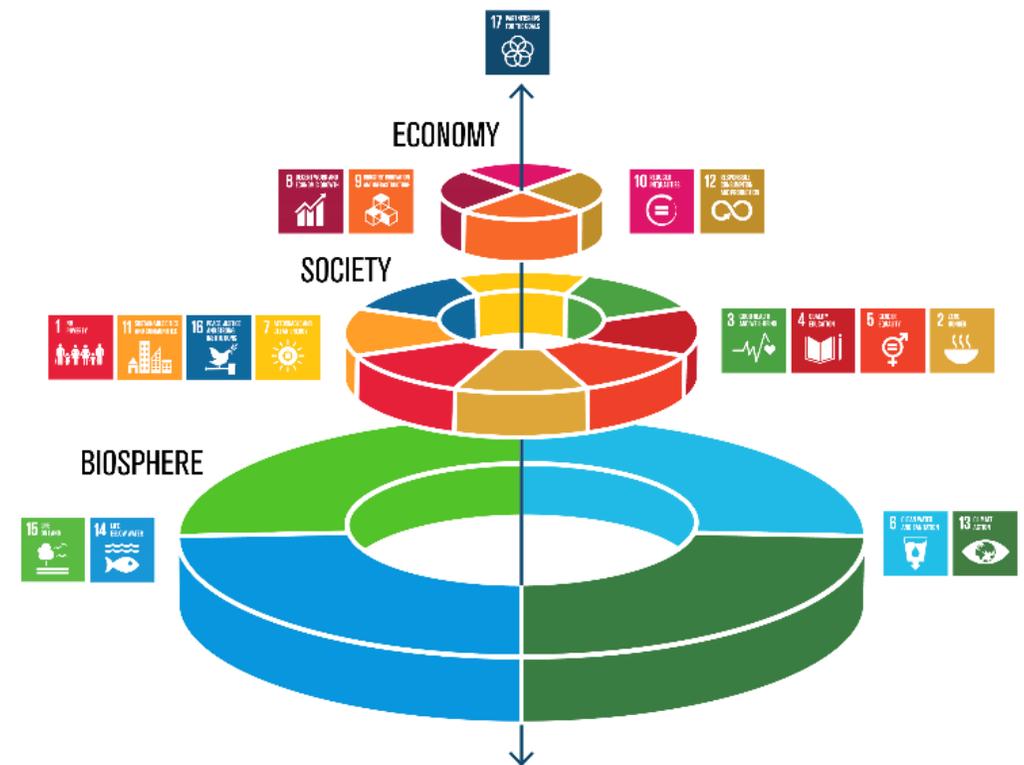
**Business @
Biodiversity**

European Union



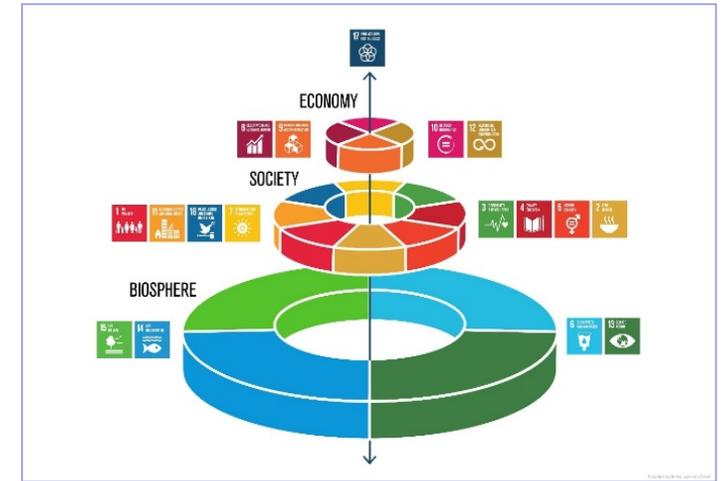
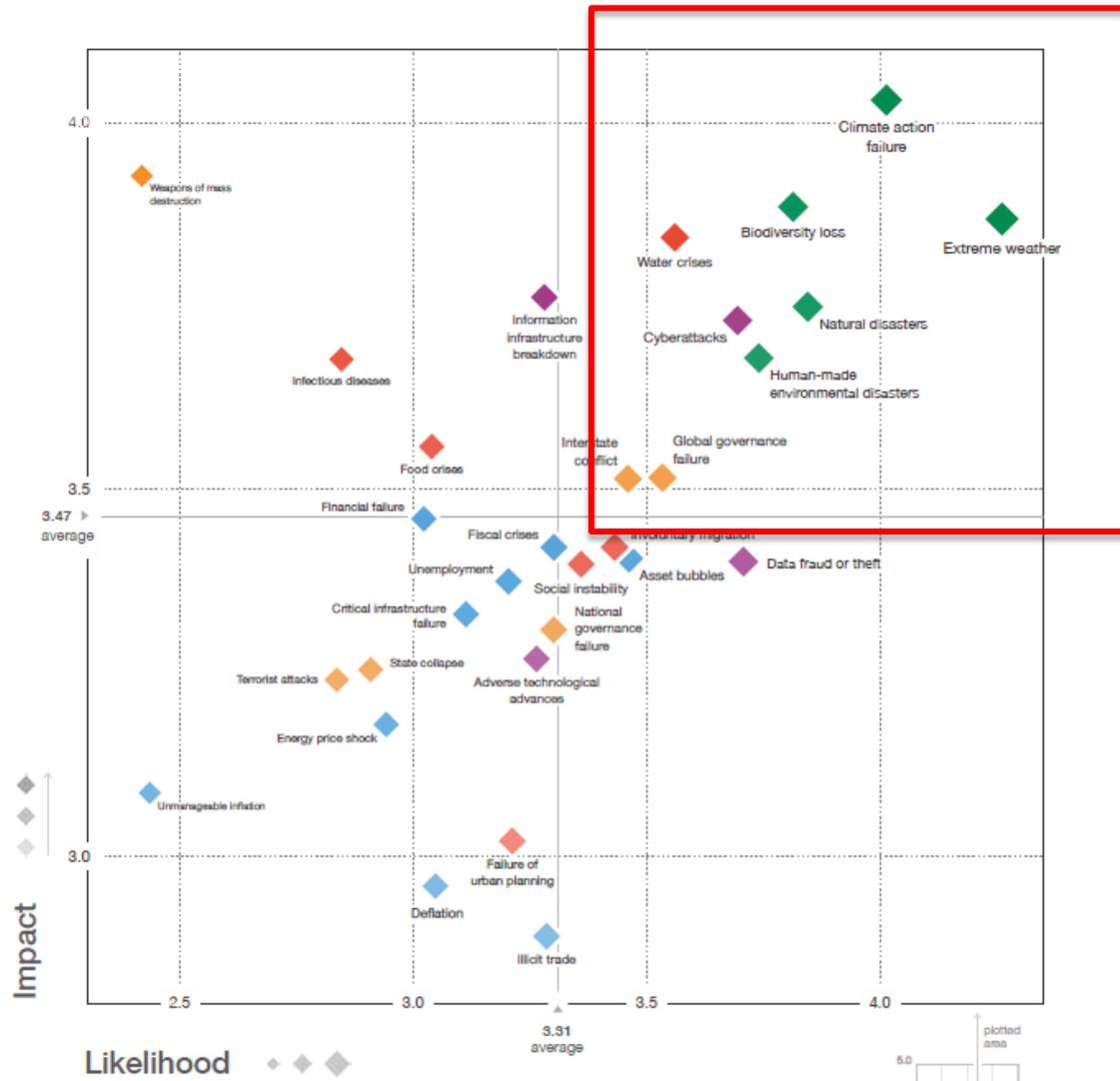
Natural Capital underpins our economy and well-being

- The biosphere is at the basis of the Sustainability
- More than half of global GDP is linked to nature
- Connections between biodiversity loss, climate change and pandemics
- Restoring biodiversity core part of recovery



Need for Action: All Natural Capital Degrading Rapidly

All environmental risks linked and jeopardizing Social and Economic Sustainability

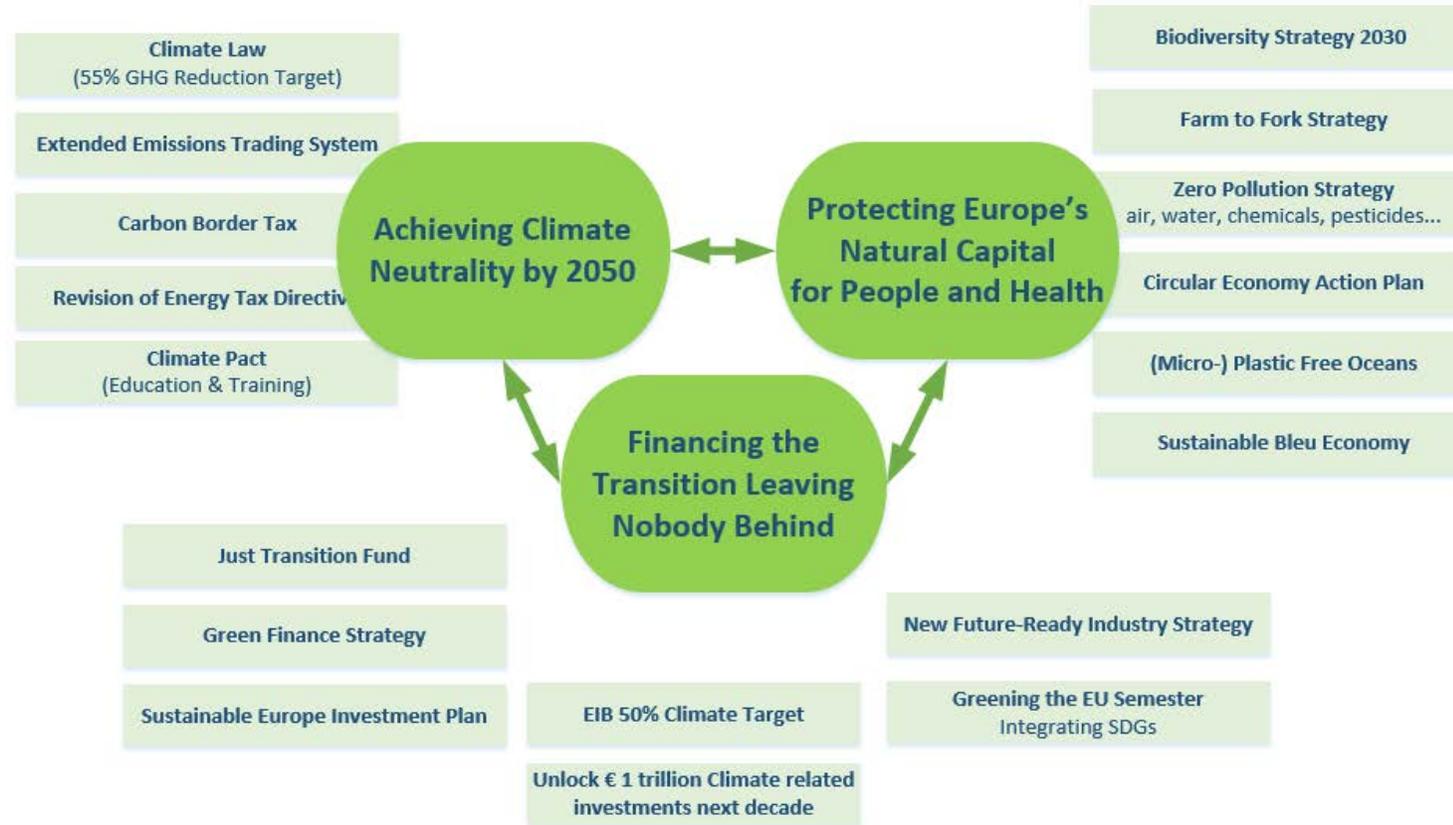


Environmental (and social) risks are not (properly) managed in the board rooms due to lacking means of measuring and valuing them.



Opportunities for action: The European Green Deal

Prioritizing Green Beyond Climate - Moving Sustainable Finance Centre Stage –
« Working with Business and Other Stakeholders on Promoting Standardized Natural Capital Accounting Practices in the EU and Globally » (EGD p.17)



A Comprehensive Framework for Efficiently Managing Environmental and Social Risks & Opportunities whilst Future Proofing Businesses & Economies



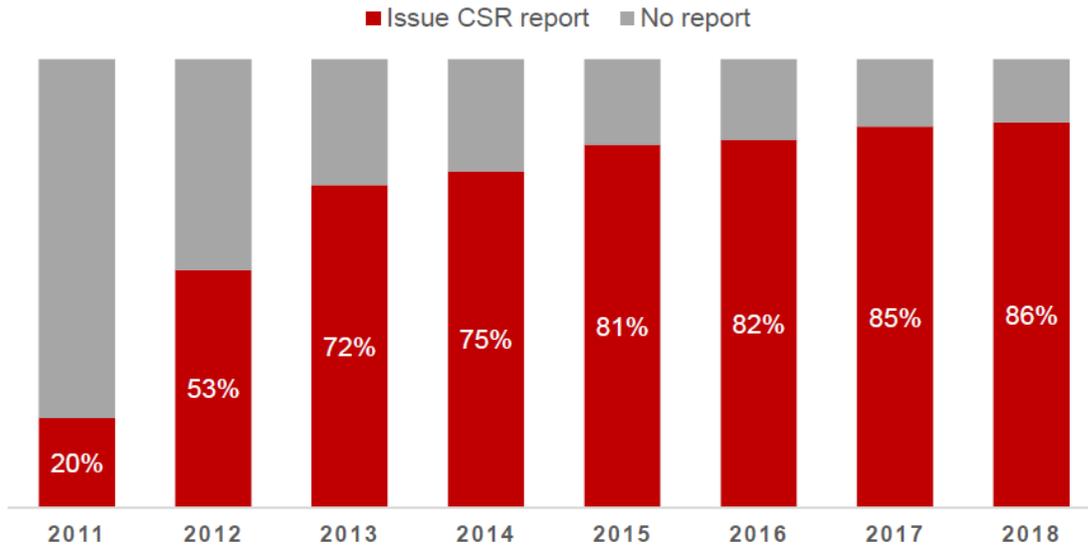
Mainstream Natural Capital Management Accounting

Addressing the lack of (relevant) primary impact and performance data

ESG-Related Information Abounds

The rapid rise of CSR reporting has given researchers new data sets to study

From a minority of the S&P 500 in 2011 ...



... to a clear majority in 2018.

Source: Governance and Accountability Institute

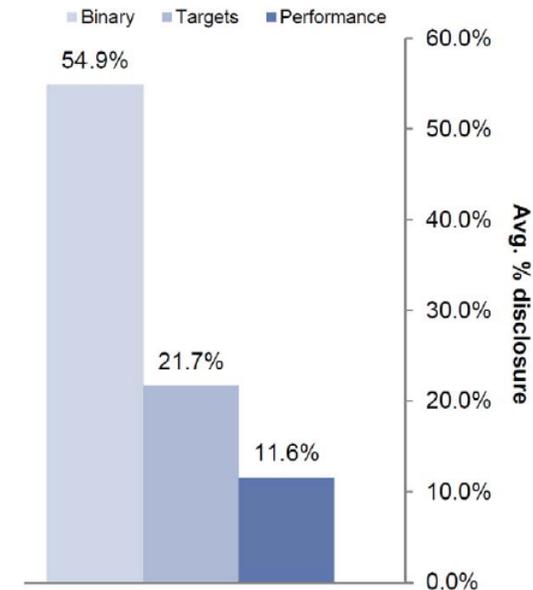


© SASB

Data Quality Lags Data Volume

Most ESG reporting covers policies and targets—not performance—limiting usefulness

Goldman Sachs found only **11.6%** of metrics were performance data



Source: Goldman Sachs Global Investment Research, *The PM's Guide to the ESG Revolution*, April 18, 2017.



© SASB

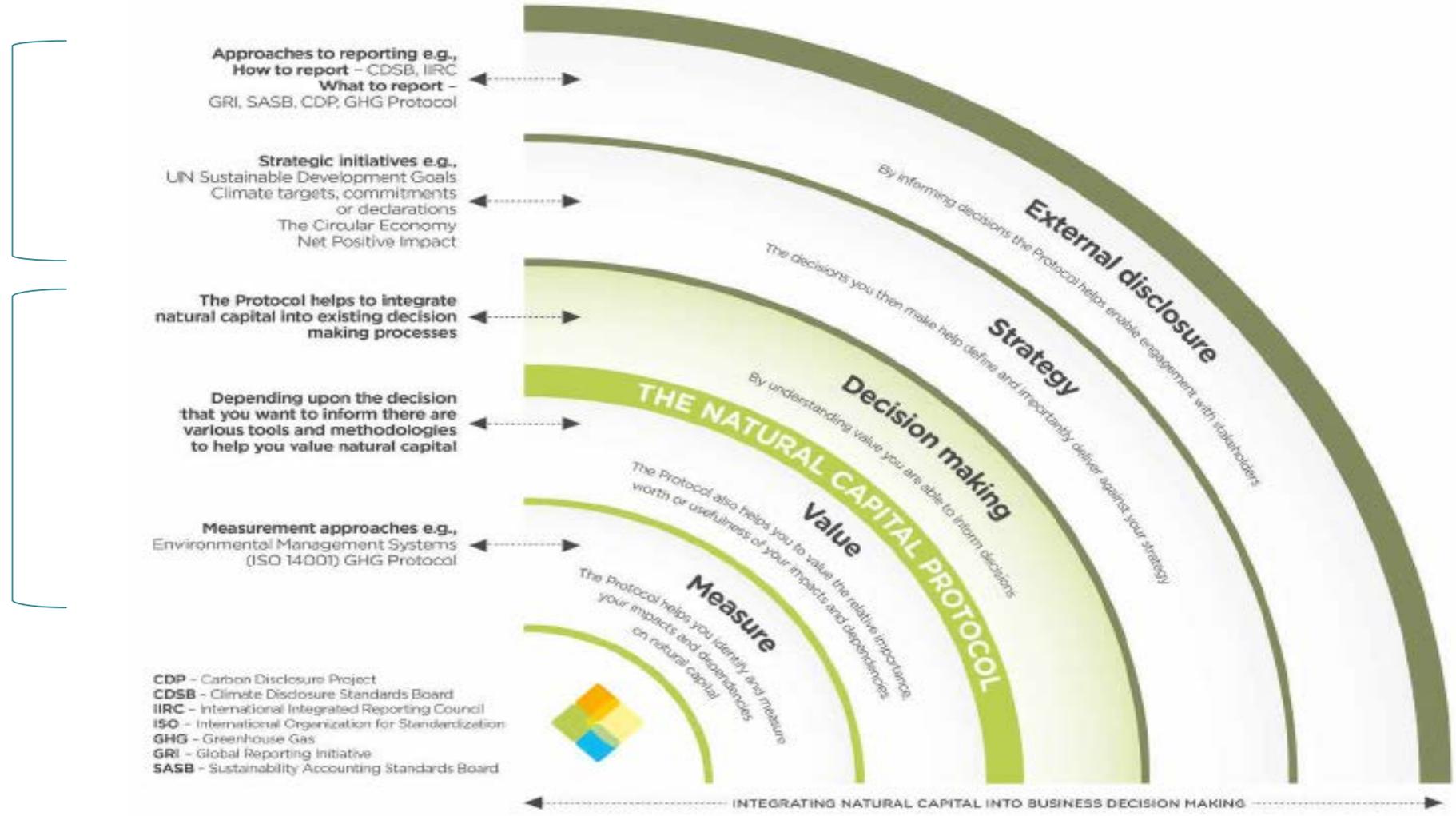
Priority: Mainstream Natural Capital Management Accounting

Supporting Sound (Internal Operational) Investment Decisions

Complementing Financial and Non-Financial Information Framework

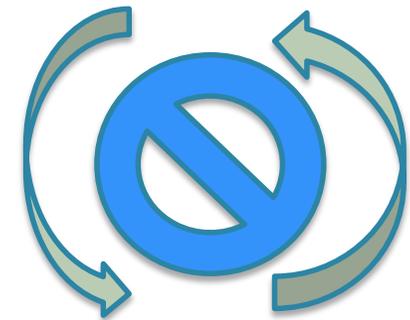
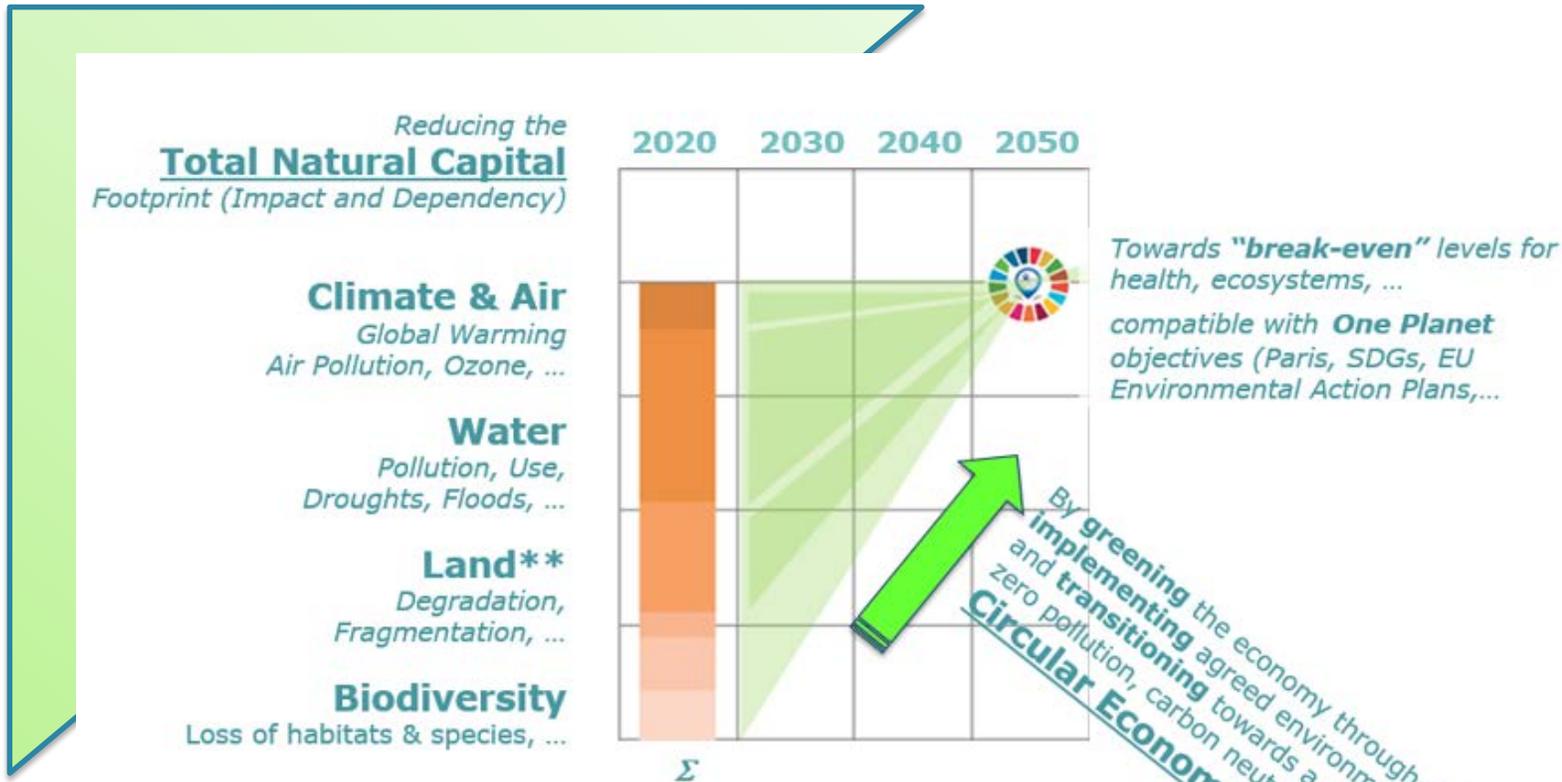
« reporting »

« accounting »



Priority: Mainstream Natural Capital Management Accounting

Enabling a Universal Environmental Management Framework (also) Suitable for Mobilizing Businesses and Other Economic Actors



“Do-No-Significant-Harm”

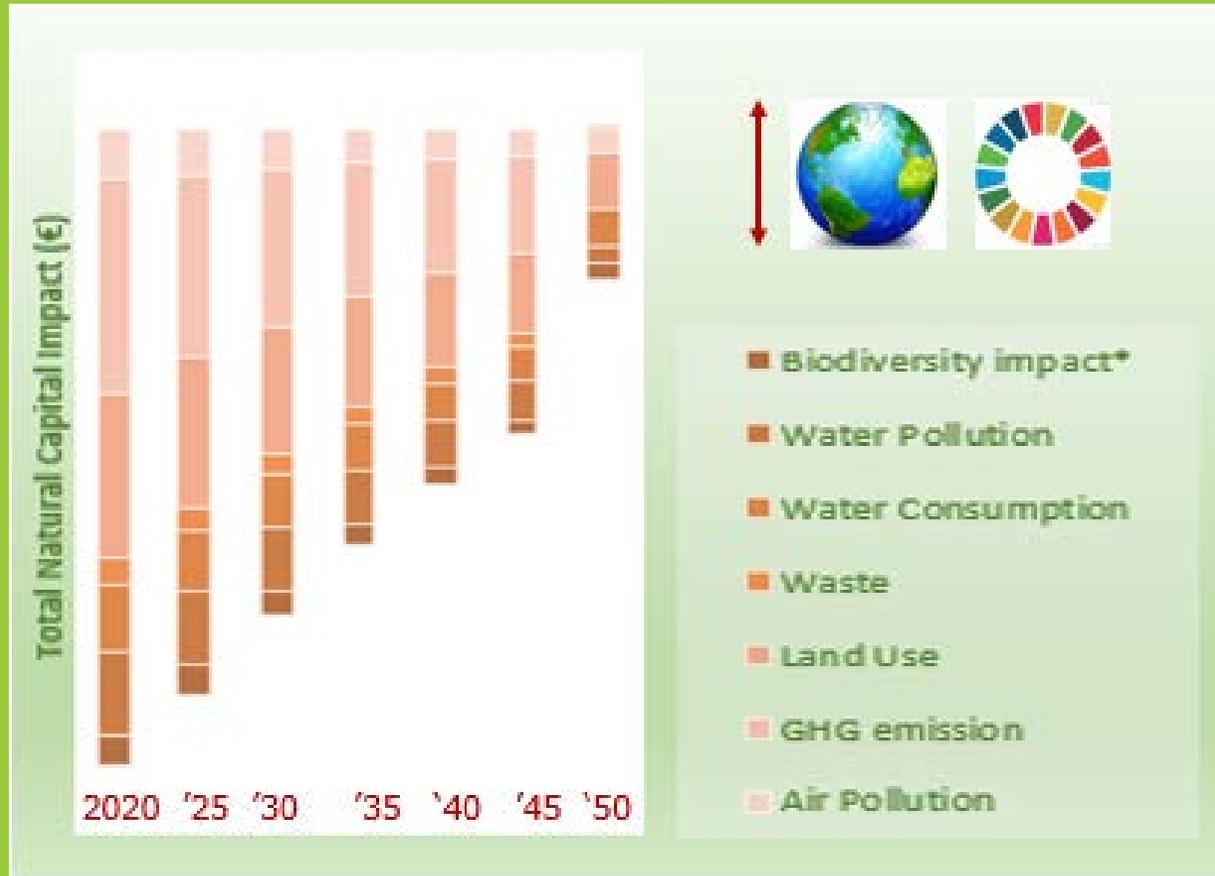
* Applicable universally at international, national, regional, sectoral, corporate and project level

** Also covering the (solid) waste, raw material and energy sources agenda



Need for Action: Total (Environmental) Impact Management

For Efficient Mitigation Management of Impacts & Dependencies



- To **avoid shifting** instead of reducing (total) **risks** and impacts at high economic and social costs («DNSH»)
- To facilitate **system-based solutions** (called for by WEF, EEA, ...)
- To enable **integration** of environmental management **with traditional risk management** approaches and **mobilize business** and investors
- To enable better planning and decision making («future proofing»)
- ...



Natural capital : **Move beyond** measuring only **impacts** to also measuring dependencies

Measuring the impacts alone often fails to lead to better decision-making - without any idea of what this means for your business

→ move from measuring only impacts to also measuring dependencies

→ **move beyond measuring to also valuing**

Identifying value = what nature means to us – makes it visible in decision-making



Priority: Mainstream Natural Capital Management Accounting

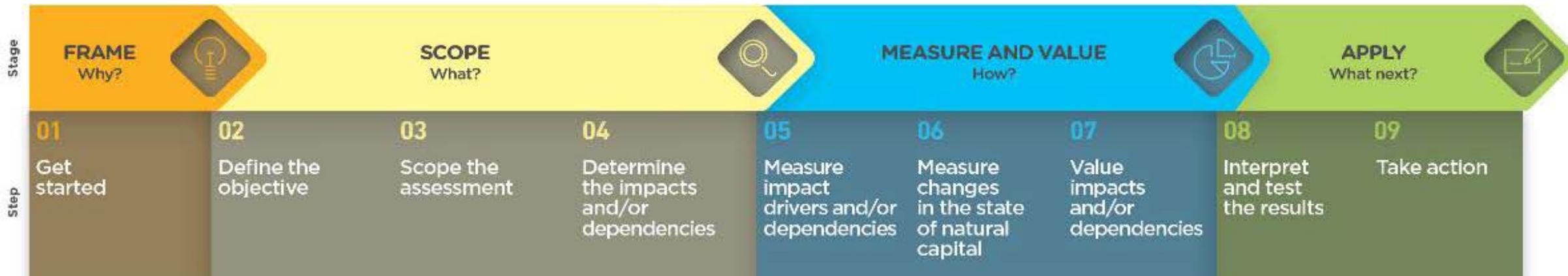
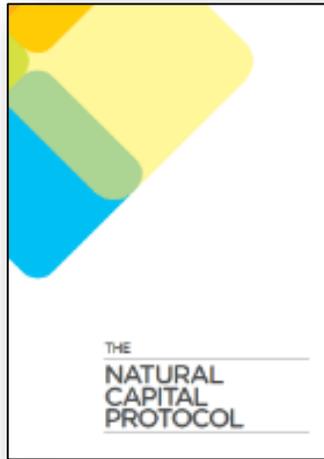
Organizing and producing data (accounting) for better understanding and managing natural capital footprint (impacts, dependencies, and related risks and opportunities)

- What is the natural capital footprint of my activity for a given period (e.g. fiscal year)?
- How important is each natural capital category (air, water, land, biodiversity) vs. the total?
- How is the footprint distributed geographically and along stage of the supply or value chain?
- How do I expect the footprint to evolve in time and across locations?
- Are these footprints causing business continuity or other risks now or in the future?
- Should I take risk mitigation measures and if so, where to concentrate efforts?
- How is the footprint comparing to those of other companies, sectors, countries, ... ?
- How is my footprint evolving over time? Is it evolving according to the plan?



Natural capital accounting is rapidly gaining interest

The Natural Capital Protocol - a standardized framework for business to identify, measure and value its direct and indirect impacts and dependencies on natural capital



| Take home message?

Assessing, accounting and valuing a company's impacts and dependencies on natural capital*, and how this translates into financial risk, equips the management with a sustainability metric for the 21st century.

*Air (incl. Climate) / Water / Land use / biodiversity

Thank You - Your feedback is welcome!



| THANK YOU FOR YOUR ATTENTION!



More info at:

<https://ec.europa.eu/environment/biodiversity/business/>



The logo for ESG data features the letters 'ESG' in a large, bold, black font, with the 'E' and 'S' partially overlapping. Below 'ESG' is the word 'data' in a smaller, lowercase, bold, black font. The text is set against a background of overlapping geometric shapes in shades of green, pink, yellow, and blue.

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PRESENTATION OF THE ESG DATA REGISTER

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**KRISTIINA VARES-
WARTIOVAARA**

Portfolio Manager, Head of ESG,
OP Financial Group





Opinion on ESG data in the EU: from expensive good to strategic public infrastructure

Kristiina Vares-Wartiovaara
OP Asset Management
11.6.2020

What problems with ESG data do we have?

There are currently 600+ ESG data providers* globally and each of them is doing:



☹️ Corporate **ESG disclosure** is very poor and **needs more prescriptive guidance****

☹️ **Low comparability** of ESG data from different providers***

☹️ Companies **burdened by questionnaires**

☹️ **High cost & low accessibility:** ESG data is not affordable to certain stakeholders (small investors, non-complex market players, some researchers, etc.)

☹️ **Low correlation in ESG ratings******

☹️ **Evaluation & data mistakes:** unlike investment analysts, ESG analysts cover hundreds of companies and do not know them well

*) SustainAbility “Rate the Raters 2020”

***) Landmark analysis of 1000 EU ESG reports by the Alliance for Corporate Transparency, February 2020

****) Kotsantonis, S., and Serafeim, G. (2019). Four things no one will tell you about ESG data. Journal of Applied Corporate Finance 31 (2), Spring 2019, pp. 50-58.

*****) Berg, F., Koelbel, J. F., and Rigobon, R. (2019). Aggregate confusion: the divergence of ESG ratings. MIT Sloan School Working Paper 5822-19

What is our solution?

Public corporate ESG database in EU

should be viewed as a **strategic infrastructure investment**:

1. Financial & non-financial
MATERIALITY DEFINITION

2. DATA COLLECTION
& DISTRIBUTION
(+some quality assurance)

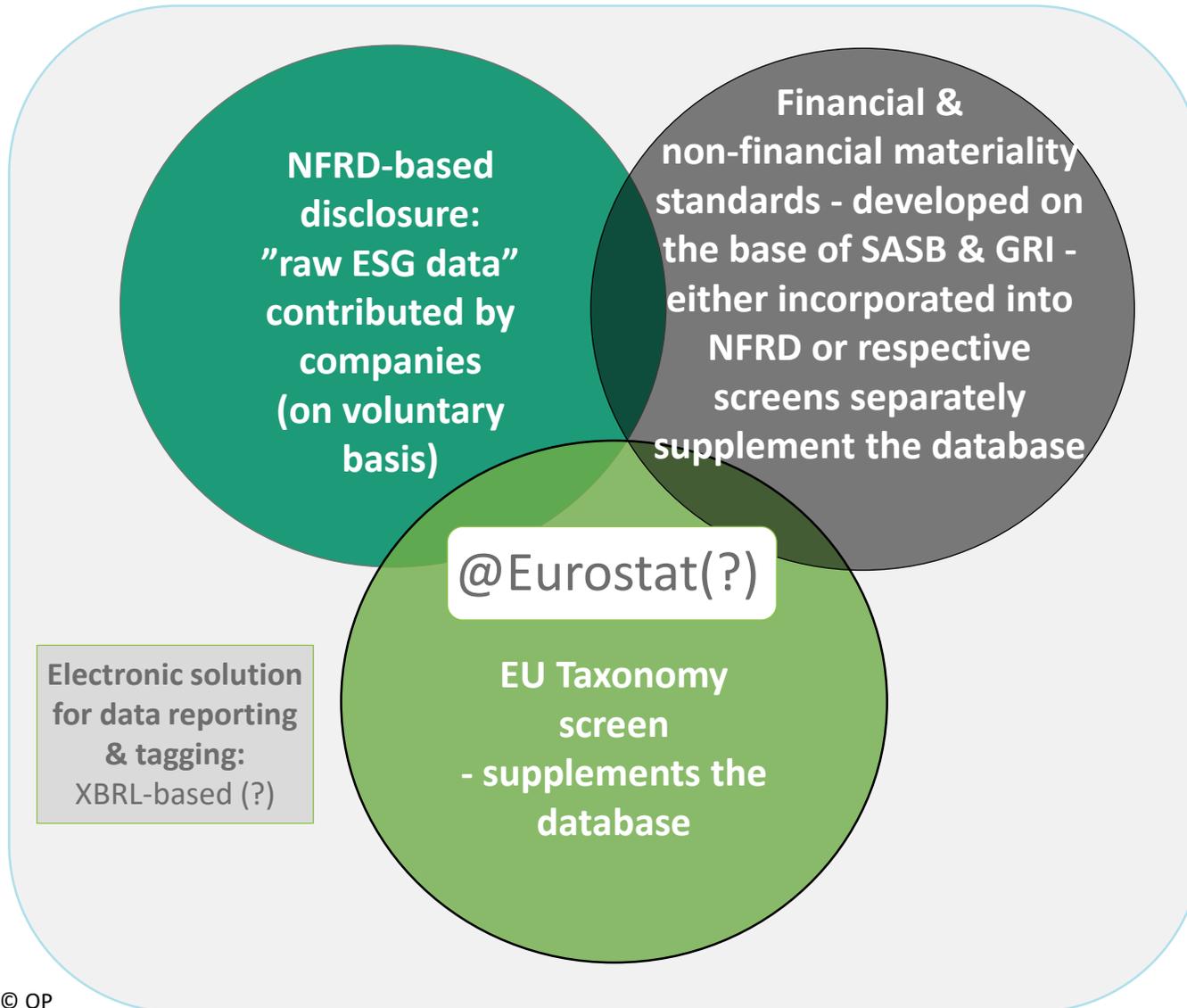
3. ANALYTICS
value-added services
(ratings, rankings, etc.)

PUBLIC

PRIVATE

- Joint initiative in October 2019 by OP group, Aktia Bank, Hanken Business School & Aalto University
- + November 2019: supported by **Finance Finland**
- + 2020: supported by the **European Association of Co-operative Banks**
- + 2020: **South Pole** supports by doing methodological research
- 9.6.2020: joint call for EU action by EACB, EBF, EFAMA, ESBG, Insurance Europe and Pension Europe

Public ESG database in the EU



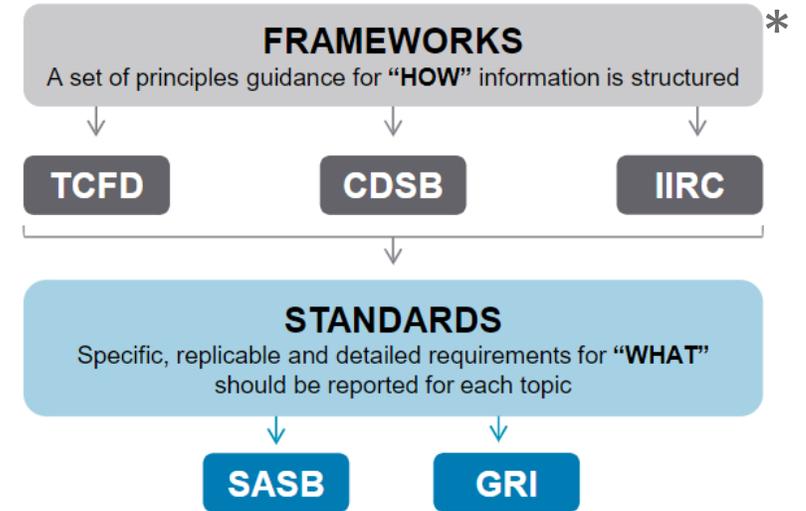
Benefits:

- **Improved decision-making usefulness** of the data: automatic EU Taxonomy & financial materiality screens
 - **Motivation for corporates to report:** ensuring access to finance
 - **Accessible & free / affordable** data
 - **Standardised** data for all use purposes & SMEs benefit from clearly defined & focused ESG reporting
 - **Better integratable with financial data**
-
- More efficient and inclusive sustainability work
 - Creating best practice example for the rest of the World

What kind of best practices can EU build on?

There are not many public corporate "raw" ESG databases & database pilots – what can we learn from them? **

Database name	
EU	European single electronic data access point
EU	European Financial Transparency Gateway
International	CDP
US	EDGAR
Canada	SEDAR
Japan	Environmental Reporting Platform



Best practices of corporate ESG reporting & financial materiality take years to develop:

- GRI (1997>) & SASB (2011>) planning cooperation regarding mapping of their methodologies & metrics
- SASB is globalizing fast:
 - ✓ 18% of metrics are non-global due to high regulation in certain sectors like finance, health care & infrastructure – SASB is working on globalizing them
 - ✓ 64% of companies referencing SASB in their communications & 43% of organizations licensing SASB standards domiciled outside USA in 2020

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HANNA SILVOLA

Associate Professor

Hanken School of Economics





HANKEN

Why the ESG data register is needed?

Dr. Hanna Silvola
Associate Professor of Accounting

Hanna.Silvola@hanken.fi

Unstandardized ESG frameworks, ratings and rankings



HANKEN

Source: *Score! Making the Most of Raters and Rankers* –report: https://uploads-ssl.webflow.com/5d5c269b98d227a3d0669e85/5dc5b8a0a52bdb87cf80bf6d_Buzzword-GRI%20ESG%20Raters%20and%20Rankers-FINAL-2-25-19-3.pdf

- » The correlation among the agencies' *ESG ratings* is on average **0.61** while *credit ratings* from Moody's and Standard & Poor's are correlated at **0.99** (Berg et al. 2019).
- » Aim of the Sustainable Finance Action Plan is to *integrate* these ratings
- » Especially SME's suffer from lack of financial *materiality* standard - which ESG metrics' disclosure will secure financing?

Why do ESG ratings differ?



HANKEN

- » **Scope divergence** (one rating agent include greenhouse gas emissions, human rights, and corruption in its ratings scope, while another doesn't include the same).
- » **Weight divergence** (e.g. valuing E more than S&G or valuing human rights more than corruption)
- » **Measurement divergence** (ratings agencies measure the same ESG issue using different indicators, e.g. one might evaluate a firm's labor practices on the basis of workforce turnover, while another counts the number of labor cases against the firm)
- » **Source of the data** (some agencies use only publicly available data while some send questionnaires to companies)

- » Information needs of shareholders and various stakeholders
- » Relative costly ESG data increase inequality between small and large users of ESG information
 - » Vanish private investors' and smaller market players' competitive edge
- » EU considers ESG as part of fiduciary duty – based on which ESG info..? Needs to be **transparent**.
- » Consequences on valuation
 - » Weak ability to price ESG externalities (e.g. global prices for carbon)
 - » Weak ability to price ESG into corporate valuation
- » **Compliance** with the upcoming EU ESG disclosure regulation **is at risk** without standardized and publicly available ESG information



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DISCUSSION



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- **OLIVIER BOUTELLIS-TAFT**
CEO, Accountancy Europe
- **RASMUS NIKOLAJ DUE SKOV**
Director, Head of Global Sustainability, Ørsted
- **ALEKSANDRA PALINSKA**
Senior Regulatory Policy Advisor, Efama
- **SINNE CONAN**
Director of European Affairs, Finance Denmark
- **ESKO KIVISAARI**
Deputy Managing Director, Finance Finland

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