From European strategy TO Luxembourg actions?

FLAVIA MICILOTTA, LGX DIRECTOR
From European strategy to Luxembourg actions

CONTENT

1. EU Timeline on Sustainable finance
   - Action Plans on financing sustainable growth
   - The sustainable proposal
   - Interdependencies

2. Sustainable finance and Responsible investment
   - Opportunities and barriers

3. Green Bonds: from Luxembourg and beyond
   - LGX: a core actor of the financial center
   - LGX: a key actor for Luxembourg Sustainable Finance
Major investments are needed to transform the EU economy to deliver on climate, environmental and social sustainability goals, including the Paris Agreement and the UN Sustainable Development Goals.

Sustainable finance makes sustainability considerations part of financial decision-making. This means more low-carbon, energy- and resource-efficient circular projects.

Integrating sustainability considerations will mitigate the impact of natural disasters as well as environmental and social sustainability issues that can affect the economy and financial markets.
“Our proposals will allow investors and individual citizens to make a positive choice so that their money is used more responsibly and supports sustainability.”

FRANS TIMMERMANS First Vice-President
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EU Timeline on Sustainable Finance

- **Paris Agreement**
  - December 2015

- **HLEG Interim report**
  - December 2016

- **HLEG Final report**
  - January 2018

- **Legislative Proposals**
  - March 2018

- **Final TEG report**
  - May 2018

- **Delegated Acts**
  - July 2018

- **One Planet Summit**
  - 2019 - 2022

- **High-level Expert Group on Sustainable Finance (HLEG)**
  - June 2019

- **Action Plan on Financing Sustainable Growth**
  - June 2019

- **Technical Expert Group (TEG) starts their work**
  - June 2019
## HLEG recommendations

| Develop a **sustainability taxonomy** at EU level by 2020, starting with climate change |
| Action Plan | ✓ |
| Clarify **investor duties** regarding sustainability in selected number of provisions (on a case-by-case basis), based on following principles |
| Action Plan | ✓ |
| Upgrade **disclosure rules** to make sustainability risks fully transparent, starting with climate change |
| Action Plan | ✓ |
| Enable **retail investors** to invest and benefit from sustainable finance opportunities |
| Action Plan | ✓ |
| Develop and implement official **European sustainability standards**, starting with **green bonds**. |
| Action Plan | ✓ |
| Establish a ‘**Sustainable Infrastructure Europe**’ facility to expand the size and quality of the EU pipeline of sustainable assets |
| Action Plan | ✓ |
| Encourage **sustainable finance excellence** by reforming the governance, financial culture and leadership of corporations |
| Action Plan | ✓ |
| Include **sustainability in the supervisory mandate** of the ESAs and extend the horizon of risk monitoring |
| Action Plan | ✓ |
The most urgent actions from the AP were taken forward as legislative Proposals in May 2018.

1. **Establish EU Sustainable Taxonomy**

   **Taxonomy Proposal**: Proposal setting out criteria to determine the environmental sustainability of an economic activity (‘taxonomy’).

5. **Develop Sustainability Benchmarks**

   **Benchmark Proposal**: Proposal to create two new categories of benchmarks: (i) a low-carbon benchmark, (ii) and a positive-carbon impact benchmark as well as minimum disclosure requirements for ESG benchmarks.

7. **Clarify institutional investors and asset managers duties**

   **Disclosure Proposal**: (i) introduce consistency on **how institutional investors and asset managers should integrate sustainability** in investment decision-making processes; (ii) increase transparency towards end-investors.

4. **Incorporate Sustainability into Financial advice**

   The Commission published the **final** version of the delegated act.
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Interdependencies

The interdependencies between financial institutions and environmental and social challenge

Financial institutions

Exposures

IMPACT
Sustainability frameworks

Environmental and social challenges

RISKS
Environmental, Social & Governance

SDGs: Sustainable Development Goals
Sustainable finance and responsible investments

SRI

“Sustainable and responsible investment ("SRI") is a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio.

It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long term returns for investors, and to benefit society by influencing the behaviour of companies.”

1. Sustainability themed investment;
2. Best-in-Class investment selection;
3. Exclusion of holdings from investment universe;
4. Norms-based screening;
5. ESG Integration factors in financial analysis;
6. Engagement and voting on sustainability matters;
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Overview of SRI strategies in Europe

- Best-in-Class: 2015 - 493,375,585,734; 2017 - CAGR +9%
- Sustainability Themed: 2015 - 145,249; 2017 - CAGR +1%
- Norms-based Screening: 2015 - 5,087,774,314,981; 2017 - CAGR -21%
- ESG Integration: 2015 - 5,087,774,314,981; 2017 - CAGR +27%
- Engagement and Voting: 2015 - 4,270,045; 2017 - CAGR +7%
- Exclusions: 2015 - 4,857,550; 2017 - CAGR -3%
- Impact Investing: 2015 - 9,832,975; 2017 - CAGR +5%
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Global Status of SRI assets by region 2014-16

<table>
<thead>
<tr>
<th>Region</th>
<th>2014</th>
<th>2016</th>
<th>Growth over period</th>
<th>Compound Annual Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>$10,775</td>
<td>$12,040</td>
<td>11.7%</td>
<td>5.7%</td>
</tr>
<tr>
<td>United States</td>
<td>$6,572</td>
<td>$8,723</td>
<td>32.7%</td>
<td>15.2%</td>
</tr>
<tr>
<td>Canada</td>
<td>$729</td>
<td>$1,086</td>
<td>49.0%</td>
<td>22.0%</td>
</tr>
<tr>
<td>Australia/New Zealand</td>
<td>$148</td>
<td>$516</td>
<td>247.5%</td>
<td>86.4%</td>
</tr>
<tr>
<td>Asia ex Japan</td>
<td>$45</td>
<td>$52</td>
<td>15.7%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Japan</td>
<td>$7</td>
<td>$474</td>
<td>6689.6%</td>
<td>724.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$18,276</strong></td>
<td><strong>$22,890</strong></td>
<td><strong>25.2%</strong></td>
<td><strong>11.9%</strong></td>
</tr>
</tbody>
</table>

Note: Asset values are expressed in billions. Asia ex Japan 2014 assets are reported in US dollars based on the exchange rates at year-end 2013. All other 2014 assets, as well as all 2016 assets, are converted to US dollars based on exchange rates at year-end 2015.

US$22.9 trillion

- Europe 52.6%
- United States 36.1%
- Canada 4.7%
- Australia/NZ 2.3%
- Asia ex Japan 0.2%
- Japan 2.1%
2 From European strategy to Luxembourg actions
The main drivers for SRI demand and strategy (1/2)

- Legislative
- Materiality
- Demand from institutional investors
- Notion of fiduciary duty
- Demand from retail investors
- International initiatives (UN PRI etc.)
- External pressure (NGOs, media, trade unions)
- Other
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The main drivers for SRI demand and strategies (2/2)

- Financial opportunity
- Risk management
- Looking for stable long-term return
- Responsibility to client/Fiduciary duty
- Address climate change and other environmental issues
- Generational transfer of wealth
- Contribute to local community development
- Other
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Deterrants for Sustainable investment

- Performance concerns
- Risk management
- Lack of viable product/options
- Lack of qualified advice/expertise
- Mistrum/concern about greenwashing
- Other

ESG integration continues to rise

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1 900 040</td>
</tr>
<tr>
<td>2015</td>
<td>2 646 346</td>
</tr>
<tr>
<td>2017</td>
<td>4 239 932</td>
</tr>
</tbody>
</table>

2019 - 13
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The rise of Retail investors

<table>
<thead>
<tr>
<th>Year</th>
<th>Retail</th>
<th>Institutional</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>3.40%</td>
<td>96.60%</td>
</tr>
<tr>
<td>2015</td>
<td>22%</td>
<td>77.93%</td>
</tr>
<tr>
<td>2017</td>
<td>30.77%</td>
<td>69.23%</td>
</tr>
</tbody>
</table>
Luxembourg Stock Exchange - LGX

Green Bonds: from Luxembourg to beyond

Launch of LGX

- 10th Anniversary CAB bond – by EIB
- Launch of CUFE-CNI and SSE Green indices

2007
- First Climate Awareness bond – by EIB

2008
- First Green bond – by World Bank

2014
- First local government Green bond – by Province of Ontario

2016
- Largest Nordic Green bond – by Kommuninvest
- First Chinese Green bond in Euro – by Bank of China
- First sovereign Green bond – by Republic of Poland

2017
- First Chinese domestic Green bond – by ADBC
- First Sustainability Awareness Bond — by EIB
- 1000 year bond – by Ørsted
- First Forestry bond – by Landshypotek Bank
- 10th Anniversary of Green bond – by World Bank

2018

2019

Biggest Sustainable Development bond in CAD – by World Bank
Luxembourg Stock Exchange - LGX
LuxSE/LGX – a core actor of the financial centre

For issuers and asset managers:
- Access to international investors
- Visibility
- Support for the launch and distribution of funds

For service providers*:
- Pre-listing advisory services
- Efficient and predictable listing process
- A one-stop-shop for regulatory reporting

For investors:
- High transparency
- Easy access to information
- Increased comfort

*including amongst others law firms, listing agents and banks
In 2016 we dared to transform the market’s best practices into mandatory admission criteria.

In 2018 these criteria have converged into general market practice.

LuxSE/LGX – a core actor of the financial centre

CLASSIFICATION

Green bonds
Social bonds
Sustainability bonds

TRANSPARENCY AND DISCLOSURE

Use of proceeds
Investment policy and strategy
Impact objectives
External reviews and labels

COMMITMENT TO ONGOING REPORTING
### Luxembourg Stock Exchange - LGX

**LGX – a partner of choice for Luxembourg SF Roadmap**

<table>
<thead>
<tr>
<th>Task</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formalize and communicate an ambitious, tailor-made and clear</td>
<td>Ambitious definition of a full service Green exchange project</td>
</tr>
<tr>
<td>sustainable finance strategy</td>
<td></td>
</tr>
<tr>
<td>Set up a coordinating entity</td>
<td>Creation of LGX, the primary Green platform for the global capital markets community</td>
</tr>
<tr>
<td>Leverage financial sector expertise</td>
<td>Creation of mandatory admission criteria and efforts to mainstream Sustainable finance</td>
</tr>
<tr>
<td>Raise awareness and integrate sustainability into education and</td>
<td>- Continuously working to educate the market on Green and Sustainable finance</td>
</tr>
<tr>
<td>professional training</td>
<td>- 220 press and public appearances</td>
</tr>
<tr>
<td>Promote innovation</td>
<td>Launch of SOL and Green Bond Connect</td>
</tr>
<tr>
<td>Develop expertise and best practice</td>
<td>- Participation in EU Commission HLEG and TEG</td>
</tr>
<tr>
<td></td>
<td>- Launch of ESG reporting guidelines for listed companies and sustainable investment products</td>
</tr>
<tr>
<td>Analyse and redesign the system of incentives and taxation</td>
<td>N/A</td>
</tr>
<tr>
<td>Lead by example and ensure proof of concept</td>
<td>- ESG / LGX Certification</td>
</tr>
<tr>
<td></td>
<td>- Pioneer work by creating LGX</td>
</tr>
<tr>
<td></td>
<td>- Constant innovation from LGX</td>
</tr>
<tr>
<td>Measure progress</td>
<td>LGX is the world leader in Green bond listings and the reference platform for Green Bond issuers</td>
</tr>
</tbody>
</table>
THANK YOU

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