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Focus on ESG risk - the EU approach

Dominik Varga



From the coldest winter in Beijing's recorded history to the storm in Texas that surprised the world - extreme weather phenomena remind us again and again of the invasion of climate change into our daily routine. Climate risk can no longer be ignored and has to be taken into account in asset management as well.

Sustainable Finance Disclosure Regulation (SFDR)

In reaction to sustainable risks in the investment in financial instruments, the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector came into effect on 10 March 2021 (<https://blog.en.erste-am.com/eu-sustainable-finance-disclosure-regulation-and-its-impact-on-asset-managers>). The sustainability risk does not only include the increasingly more apparent climate crisis, but also every "environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment".

The SFDR aims at promoting the integration of sustainability risk management in investment decisions, at reducing the sustainability risk of financial products at standardising the disclosure, and at improving the transparency and comparability of sustainable financial products.

Two phases of implementation

The implementation comes in two phases. The first phase requires the principle-based disclosure from 10 March 2021 until the beginning of the second phase, the date of which has not yet been set. During this period, it is up to the asset managers to set the disclosure format. The investors can choose from several channels in order to learn about the way sustainability risks are being taken into account and controlled.

First, on the website. Corporate guidelines on sustainability risk management and the fee structures of fund managers in connection with sustainable investments are available on the website of the respective asset manager. Second, in the prospectus. For financial products that are categorised as promoting "environmental or social characteristics" or as sustainable investments, investors can find investment strategies in the prospectus in order to achieve such goals. Third, regular reports. The efforts aimed at achieving the sustainability goals can be found in regular reports, for example in the annual report of an investment fund.

In the second phase, which is scheduled to start on 1 January 2022 <" In der zweiten Phase, die ab dem 1. Januar 2022 beginnen soll" - weiter oben: "Die erste Phase erfordert eine prinzipienbasierte Offenlegung vom 10. März 2021 bis zum Beginn der zweiten Phase, deren Datum noch nicht festgelegt ist." ?>, the disclosure has to comply with the Regulatory Technical Standards (RTS), i.e. a secondary measure of the SFDR. The relevant disclosure has to be based on designated templates and standardised metrics. In particular, a so-called Principal Adverse Impact Statement (PAI) can be used in order to report on an annual basis once this has been decided. In accordance with the draft RTS, a declaration from the asset manager on the most important disadvantageous effects is supposed to provide the investors with a quantitative and qualitative overview of the aggregated, negative effects of investors that contains 16 obligatory performance indicators in the field of environmental and social aspects (including greenhouse gas emissions); among them biodiversity, waste, water pollution, gender diversity in the boardroom, and guidelines on banned weapons.

Our modus operandi

Erste Asset Management has always been a pioneer in sustainable investments. We pursue numerous different approaches that include ESG integration, exclusion, best-in-class and positive screening, themes, engagement, and active ownership (i.e. the exercise of voting rights for all mutual equity funds). We apply these approaches differently and with different focal points depending on the product design so as to ensure that the preferences of different investors can be fulfilled. [Our alliance with the World Wildlife Fund \(WWF\)](#), for example, started in 2006. Due to the environmental competence of the WWF, investments are deliberately made in sectors and technologies that bring advantages and thus create an impact. Our line of sustainable funds resorts to a range of criteria of exclusion and a best-in-class approach. The sustainable footprint of these funds is being closely assessed and monitored.

Risks and future outlook

It does not come as a surprise that the availability of data is the biggest challenge when it comes to the disclosure of sustainability information. However, said availability is being constantly improved by regulatory processes and the ESG awareness of the corporate world. Within the framework of the EU Regulation on non-financial disclosure, companies have to provide an increasing volume of non-financial information about their social and environmental impact in order to ensure that investors, civil society, and other stakeholders have access to the required data. It may occur that asset managers with global investments cannot obtain data, because companies from non-EU countries do not report or, indeed, have them. Given the pioneering role of the EU in the disclosure of sustainable finance, there should be a spill-over into non-EU regions sooner or later.

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