ESG RISK QUARTERLY

ECOFACT's briefing for risk experts

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ECO:FACT

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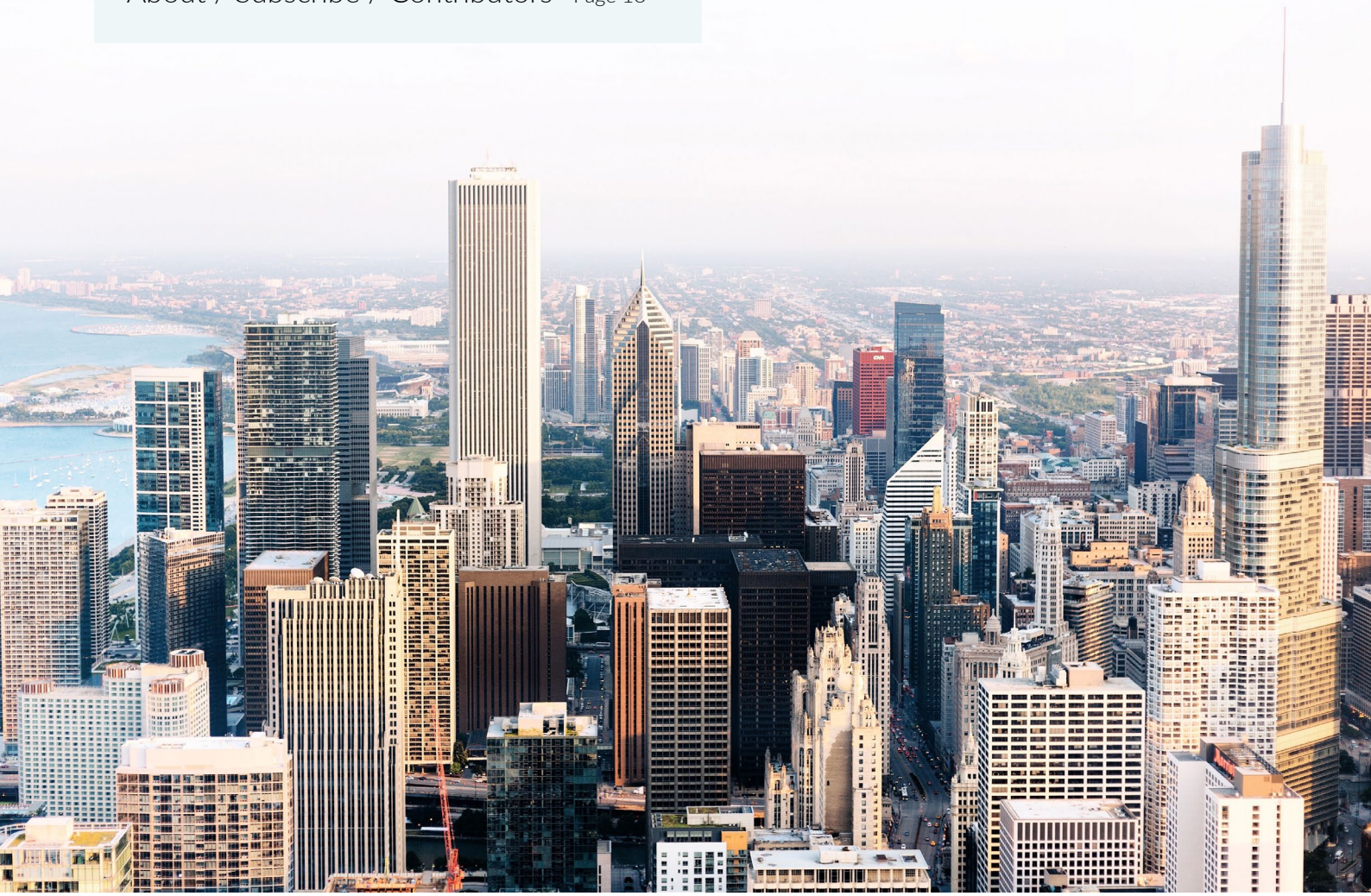

Editorial

Ten years of reporting on ESG risk: still going strong and taking it to the next level

When we launched the *ECOFACT Quarterly* 10 years ago, we aimed to deliver a package of hand-picked news items culled from the previous three months that would be of interest to financial institutions.

Ten years ago, the primary risk perspective was reputational. However, as you will be aware, over the past decade much has changed in the way the financial sector, governments, and companies identify and manage ESG risk.

While reputational risk continues to be of interest to our readership, we also acknowledge that risk management is rapidly evolving. Attention is increasingly being paid to ESG risks across different business lines and industry segments. The concept of double materiality – the idea that risks and opportunities are potentially material in terms of both financial risk and their broader impact – is gaining traction. And we would be remiss if we failed to mention that emerging regulation and international standard-setting also reflect these trends.

The tenth anniversary of the *ECOFACT Quarterly* presented a perfect opportunity to take stock of these developments and ensure that we continue to provide a publication that meets your changing needs. **This is why we have expanded the scope of news that we monitor. You will now see summaries of ESG risk news that are also relevant from an investment or real-economy perspective**. It is also why we have changed the name of the publication to *ESG Risk Quarterly: ECOFACT's briefing for risk experts*. And since we were in the mood for change, we are also debuting a new look.

Our readership is growing, too: we are welcoming asset owners and asset managers as subscribers, and entities outside the financial sphere are also perusing these pages. However, no matter which institution or industry our readers hail from, they share a common interest in prioritizing and managing ESG risk professionally. A big thank you to all our stalwart subscribers for their continued interest in this report, and I thank the team at ECOFACT for keeping the publication relevant over all these years.

We look forward to sharing another 10 years of the *ESG Risk Quarterly* with you. Please **let us know** what you think about these changes.

Olivier Jaeggi

What's new?

A new name

The *ESG Risk Quarterly* reflects our consideration of a broader range of issues monitored by risk management professionals. This adjustment in scope will mean a stronger focus on ESG risk, over and beyond reputational risk issues.

Navigation aids

Icons in the bottom right-hand corner of each page make moving around the document quick and easy. The house takes you to the table of contents; the question mark takes you to information on ECOFACT, how to subscribe, and contributors.

A new section: Spotlight

Spotlight showcases a collection of interrelated news alongside ECOFACT's analysis of a hot topic that we think requires a deeper dive. This section will offer interesting and impactful stories that directly influence the work of risk professionals.

International standards

Updates on cross-sector environmental and social standards that might be relevant as benchmarks for risk assessments.
Scope: key developments related to the most important international environmental and social standards.

➔ One step closer to international sustainability reporting standards – a collaborative process

Tasked with creating baseline standards for capital markets' disclosure of sustainability information, the International Sustainability Standards Board (ISSB) released its first two exposure drafts ***IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*** and ***IFRS S2 Climate-related Disclosures***. The documents draw on the recommendations of the Task Force on Climate-related Financial Disclosures and the Sustainability Accounting Standards Board's industry-specific disclosure standards. To promote this work, the IFRS Foundation and Global Reporting Initiative have announced the members of their respective standard-setting boards. Their standard-setting activities will be coordinated by the ISSB and the Global Sustainability Standards Board. March 31, 2022

Why we think it matters: We are tracking the convergence of reporting standards and the merging of groups that oversee these standards. This suggests welcome movement toward more universally accepted, comparable, and consistent sustainability disclosure specifications, which will help inform investors' decision-making. Policy Outlook subscribers can read more about this convergence **here**.

Read more (1) ➔ Read more (2) ➔

➔ What should qualify as a sustainable investment in the EU? Disagreement abounds

In February 2022, when the EU Commission proposed including nuclear and natural gas activities in the EU's sustainability taxonomy, it provoked a wave of disagreement. Civil society, member states, and lawmakers are concerned about labeling these activities as "green." Members of the EU Parliament have **highlighted** the Russia-Ukraine conflict as a good example of why the Union must rapidly eliminate its dependence on natural gas. **Critics** feel that natural gas is incompatible with the EU's commitment to climate neutrality. The Commission's own expert group, the **Platform on Sustainable Finance**, notes that some nuclear activities do not meet the requirements of the Taxonomy Regulation. A vote in Parliament is expected in July, but the outcome of official negotiations is uncertain. Meanwhile, the taxonomy investment rules on bio-energy (energy derived from burning wood, crop residues, etc.), bio-plastics, and bio-chemicals have been **legally challenged**. March 30, 2022

Read more (1) ➔ Read more (2) ➔ Read more (3) ➔

➔ Trailblazing due diligence rules for companies proposed

The **proposed EU Directive on Corporate Sustainability Due Diligence** is a determined move away from a voluntary approach to corporate responsibility. Consisting of binding requirements, the directive aims to enhance companies' understanding of how their business activities affect the communities and environments in which they operate. This means that they will have to meet minimum requirements to identify, prevent, halt, and/or mitigate adverse impacts associated with direct and indirect business relationships in their value chains. A **statement** from Principles for Responsible Investment highlights several changes that the organization believes the directive needs to instigate so that investors can "better manage their exposure to sustainability issues." February 23, 2022

Why we think it matters: Because this directive is so far-reaching and requires the examination of companies' entire value chains, its impact is likely to extend far beyond the EU's borders. Moreover, other jurisdictions may be tempted to follow the EU's example. Policy Outlook subscribers can access more information **here**.

Read more ➔

➔ Tougher European ESG reporting rules

The European Banking Authority has published its **final draft implementing technical standards** governing Pillar 3 disclosures of ESG risks. After an earlier **review** of ESG reports found "shortcomings," including misleading disclosures of token ESG activities, the new requirements define binding and detailed templates, tables, and instructions. These apply to the entirety of an institution's financial activities. To ensure the enhanced consistency, comparability, and meaningfulness of disclosures, the newly detailed quantitative and qualitative indicators measure exposure to climate change events. They also indicate the extent to which sustainability and ESG considerations are embedded in an institution's risk management, business model, and strategy. Checks for consistency with the European Green Deal and Paris Agreement goals are built into these requirements. January 24, 2022

Policy Outlook subscribers can access more information **here**. And this **briefing** may also be helpful.

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What we're watching

Here are a few anticipated actions that our **Policy Outlook** research has revealed. ECOFACT's team of legal analysts monitor regulatory developments related to sustainable finance and corporate responsibility in more than 50 jurisdictions, including the EU, and those of financial sector regulators, stock market authorities, and multilateral organizations. Please **contact us** for more information on regulatory trends.

Jurisdiction	What's on our radar	Date of next expected development
United Nations	Part two of the UN Biodiversity Conference of the Parties (COP15) meeting will conclude. Delegates will be making decisions about the post-2020 global biodiversity framework. **Read more** (for Policy Outlook subscribers) →	May 8, 2022
European Union	The beginning of EU negotiations about the Directive on Corporate Sustainability Reporting. **Read more** (for Policy Outlook subscribers) →	Q2
Organisation for Economic Co-operation and Development OECD	The OECD is expected to publish due diligence guidance entitled *Managing Climate Risks and Impacts through Due Diligence for Responsible Business Conduct: A Tool for Institutional Investors.* **Read more** (for Policy Outlook subscribers) →	Q2 or Q3 2022

Open consultations

Our **Policy Outlook** database tracks open consultations that are relevant to the wider financial and insurance industries as well as corporate actors. Organizations and governments solicit structured feedback from stakeholders during these events. Interested parties can comment on the materials that are issued to promote dialogue. Please **contact us** for more information on open consultations.

Authority	Consultation topic	Deadline for input
European Union	The proposed Directive on Corporate Sustainability Due Diligence. **Read more** (for Policy Outlook subscribers) →	May 23, 2022
Taskforce on Nature-related Financial Disclosures (TNFD)	The beta version of the TNFD reporting framework. **Read more** (for Policy Outlook subscribers) →	June 1, 2022
International Sustainability Standards Board (ISSB)	The first two proposed ISSB standards (exposure drafts) for sustainability disclosures for the capital markets. **Read more** (for Policy Outlook subscribers) →	July 29, 2022

Source: ECOFACT's Policy Outlook, a database of in-depth analyses of sustainable finance and corporate responsibility regulatory initiatives across the globe. More information: **https://www.ecofact.com/policyoutlook/**

Spotlight

A deeper dive into news, issues, or developments that have received significant attention in the past quarter. We also explain why we think the topic is important to your work.

➔ Why is biodiversity such a hot topic?

Biodiversity is a hot topic because so many aspects of the economy rely on the services that nature provides. This means that a loss in biodiversity is a financial threat and therefore a significant risk. Diversity in natural systems is **decreasing** at a speed not seen since the last **mass extinction**. Mammal, bird, fish, reptile, and amphibian populations have decreased by an average of **68 percent** since 1970. The financial sector is beginning to recognize that this unprecedented loss of life poses a hazard to the reliable functioning of the financial system.

What is biodiversity?

The term reflects the variety and variability of life in a particular area. It encompasses genetic, species, and functional variation.

International conventions

The problem is receiving attention from international governments. The Conference of the Parties to the **Convention on Biological Diversity** is meeting to negotiate a text for the Post-2020 Biodiversity Framework, which is a plan to transform the relationship between human societies and nature guided by the shared vision of "living in harmony."

What's the approach?

This issue is becoming more important to investors: The **CDP's 2022 questionnaire** for companies added questions about governance, commitments, monitoring, and reporting on biodiversity issues. The financial sector as well as its regulators and standard-setters also have the issue on their radar.

The **Network for Greening the Financial System** – a group of central bankers – believes that "nature-related risks could have significant macroeconomic and financial implications" and has made five recommendations on how to integrate these risks into central banks' mandates. Other groups, such as the **World Economic Forum** and the **UN Environment Programme**, are weighing in (see table below) because "the amount of money being invested in **nature-based solutions** is not nearly enough."

Why we think it matters: Rapidly growing awareness of biodiversity as a risk factor appears to be closely following the path that climate awareness has taken. Much like climate change, acting swiftly to tackle nature loss is essential. The **Taskforce on Nature-related Financial Disclosures** has issued an initial draft of a **disclosure framework** to guide reporting, which is aligned with the framework of the Task Force on Climate-related Financial Disclosures. We expect nature-related reporting requirements to take a similar trajectory to those for the climate.

Recent publications

Network for Greening the Financial System	World Economic Forum	Finance For Biodiversity	Global Canopy & UN Environment Program Finance Initiative	UN Environment Programme
Central banking and supervision in the biosphere: An agenda for action on biodiversity loss, financial risk and system stability	**Scaling Investments in Nature: The Next Critical Frontier for Private Sector Leadership**	**Towards an Integrated Transition Framework Managing Risks and Opportunities at the Nature-Climate Nexus**	**Testing a nature-related risk framework in the consumer staples sector**	**The State of Finance for Nature in the G20 report**

High-risk sectors

News on risk factors and trends, regulations, and best practices associated with key high-risk sectors.

Oil & Gas | Mining | Forestry | Agriculture | Utilities | Chemicals | Other

Risk factor

European human rights court tackles Norway's Arctic drilling case

The European Court of Human Rights (ECHR) has asked Norway to respond to charges that allowing new oil and gas drilling in the Arctic during an environmental crisis may breach fundamental freedoms. The request was accompanied by a warning that the case may potentially be designated an "impact" case, meaning it could have international ramifications. Such a designation would prioritize a relatively swift legal process, and potentially provide climate activists with a new, breakthrough avenue for redress. After repeated defeats in the Norwegian courts, the ECHR's interest in the case is seen as a victory for environmental groups. Norway is Western Europe's biggest oil and gas producer, and it has battled with local environmental organizations over drilling licenses in the Barents Sea for years. January 3, 2022

Read more

Risk factor

Private equity's exemption from most disclosure rules hides fossil fuel investments

Private equity tycoons are secretly building vast fortunes from the global climate crisis by investing in the fossil fuel sector, a new investigation reveals. Unlike banks, which are under pressure to lead the green climate transition, the multi-trillion private equity sector is exempt from most financial disclosure rules. This makes it extremely difficult to track its growing private equity portfolio of carbon-intensive energy projects, according to an investigation by corporate accountability non-profits LittleSis and the Private Equity Stakeholder Project. In 2020, state-owned institutions such as public pension funds invested 22 percent of their portfolios in private equity, yet many people may not even be aware that they are implicated in these investments. To promote greater accountability, the Private Equity's Dirty Dozen report names controversial firms such as The Carlyle Group, Kohlberg Kravis Roberts & Co., and ArcLight Capital Partners. February 15, 2022

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Risk factor

Greenwashing is rife in the fossil fuel sector, study concludes

Words don't match actions in the fossil fuel sector, according to the most comprehensive study to date. Published in a peer-reviewed scientific journal, the paper examined the records of four major companies – ExxonMobil, Chevron, Shell, and BP – over the 12 years up to 2020. Researchers found a sharp rise in mentions of "climate," "low-carbon," and "transition" in annual reports, often accompanied by pledges to invest in alternative, low-carbon energies. However, a concurrent analysis of these companies' hydrocarbon production, expenditures, and earnings during that period tells a different story. With global regulations still enabling the sector to thrive, financial dependence on fossil fuels continues. This is coupled with an increase rather than a decrease in exploration. Judging these companies' most recent spending on clean energy to be relatively insignificant, the study concludes that accusations of greenwashing appear to be well-founded. February 17, 2022

Read more

Risk factor

New tracking tool to detect greenwashing in fossil fuel financing

Despite countless net-zero commitments since the Paris Agreement, fossil fuel financing has grown, with USD 742 billion in fossil fuel financing approved in 2021 alone, according to the Banking on Climate Chaos 2021 report. To promote greater accountability, Reclaim Finance and more than 15 NGOs have launched the Oil and Gas Policy Tracker, which provides detailed assessments of financial institution policy restrictions on fossil fuel financing. Results reveal that many institutions don't even have an oil and gas policy. And with one glowing exception, France's la Banque postale, those that do have a policy either merely restrict unconventional activities or continue to support the development of new fossil fuel ventures tied to distant and ill-defined carbon transition goals of achieving "net zero by 2050." March 24, 2022

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Oil & Gas Mining Forestry Agriculture Utilities Chemicals Other

Risk factor

Methane emissions from oil and gas endanger climate goals, make investments more risky

The International Energy Agency (IEA) expanded its Global Methane Tracker 2022 this year to include a full set of country-level estimates of methane emissions from the energy sector (including oil, natural gas, coal, and bioenergy). The IEA's work shows that 40 percent of human-caused methane releases come from this sector. Methane is a greenhouse gas that significantly contributes to climate change. It has been pointed out that methane emissions jeopardize the Paris Agreement goal of limiting global warming to 1.5°C. Highlighting the risks to investors, Carbon Tracker reminds the financial sector that net-zero commitments should include engagement on methane. It also reminds them that policymakers have fossil fuels in their sights, which carries regulatory risk especially if there are financial penalties for poor performers. The Global Energy Monitor reports that if all new coal mining projects currently under development start operations, methane emissions could increase by 21.6 percent. March 15, 2022

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Read more (3) → Read more (4) →

Risk factor

Report: Business inaction undermines green climate targets

Despite the recent global deforestation commitments made at COP26, the latest Forest 500 report finds that major investors are still failing to address the deforestation risks responsible for 15 percent of global carbon emissions. Environmental organization Global Canopy tracked commitments made by 500 of the key banks and agribusinesses linked deforestation via beef, soy, palm oil, and timber enterprises. The latest data finds that roughly one-third of these companies have no policies in place to halt deforestation and continue to finance companies with no commitments to end it. The report warns that these industries will struggle to implement new due diligence regulations, such as the one recently passed in the UK and those currently pending in the EU and US. January 13, 2022

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Read more (3) → Read more (4) →
Read more (5) →

Risk factor

Study: Green mining boom poses significant sustainability risks

Expansive mining searches for "green growth" metals such as cobalt, copper, and lithium (some of the primary metals used in electric vehicles) pose significant risks for sustainable development efforts, warns a new briefing paper entitled *People and nature first: safeguards needed in mining exploration*, published by the International Institute for Environment and Development (IIED). Exploration licenses tend to cover huge areas of land to maximize the chances of discovering minerals. In many countries, these exploration licenses are incentivized, giving investors exclusive rights. Yet exploration often occurs without effective safeguards such as environmental and social impact assessments, enforced protection of no-go areas, or free, prior, and informed community consent. To offset these sorts of oversights, IIED is offering advice to governments, civil society, and local communities on best-practice safeguards. February 16, 2022

Read more →

Risk factor

Can synthetic palm oil help save the world's tropical forests?

Numerous start-ups are developing synthetic palm oil in the lab, hoping to slow the loss of tropical forests to oil palm cultivation. With demand for palm oil expected to double by 2050, interest in sustainable alternatives is keen. The yeast microbes in laboratory-produced oils can be fed with waste materials or commodities that do not pose a threat to tropical agriculture. Microbial oils can also be produced anywhere, reducing the distance to consumers. However, producing microbial oils is still a challenge. Efforts thus far to develop more productive yeast strains have had limited results. Some estimate that – at best – microbial oils are likely to be around four times more expensive than palm oil, which is why some start-ups target more pricey consumables such as cosmetics. Regulatory support is likely to be key to market transition at scale. January 5, 2022

Read more →

Oil & Gas | Mining | Forestry | Agriculture | Utilities | Chemicals | Other

Risk factor

Uzbekistan: Cotton Campaign ends call for global boycott of Uzbek cotton

Cotton Campaign has ended its call for a global boycott of cotton from Uzbekistan, following a report published by Uzbek Forum for Human Rights, which found no evidence of central government-imposed forced labor in the 2021 harvest period. Since 2009, 331 international brands and retailers have boycotted cotton products from Uzbekistan over the use of child and forced labor. Although Uzbek Forum's report found that cotton was now harvested without state-imposed forced labor, field monitors nevertheless found cases of coercion and interference by local authorities. The Cotton Campaign urges clothing brands interested in sourcing cotton from Uzbekistan to conduct human rights due diligence, and to ensure that there are independent mechanisms in place for the prevention of forced labor, monitoring, grievance, and remedy. March 16, 2022

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Risk factor

Scientists say chemical pollution has now surpassed planetary limits

There are now more chemicals in our environment than the planet can cope with, according to an international scientific study of the ways that manufactured chemicals affect global ecosystems. In 2009, experts outlined nine safe world boundaries. They include greenhouse gas emissions, forests, biodiversity, fresh water, and the ozone layer. Due to the large number of more than 350,000 different types of manufactured chemicals, including pesticides, industrial chemicals, antibiotics, and plastic, experts have not previously been able to reach a conclusion on the state of this particular boundary. Scientists say we have already crossed four other planetary boundaries — global heating, the destruction of wild habitats, loss of biodiversity, and nitrogen and phosphorus pollution. With long-term plastic mass now twice the mass of all living things, for example, this study now adds chemical pollution to that list. January 18, 2022

Read more →

Risk factor

UN resolution on plastics; biggest multilateral environmental deal since the Paris Agreement

Signed by 175 UN member states, the UN's draft resolution to end plastic pollution considers the problem from a life-cycle approach by addressing its production, consumption, and disposal. Although details still need to be ironed out, it is expected to come into effect in three years. Meanwhile, research continues to reveal plastic's pervasiveness (detected at the earth's poles and in snowfall in the Alps), its significant carbon footprint (up to 15 percent of the carbon budget by 2050), and its presence in the human body (detected in blood for the first time). The Organisation for Economic Co-operation and Development also reported on the material's "worsening environmental impact." March 2, 2022

Why we think it matters: Although many actors in the plastics industry are trying to limit the discussion to improved recycling, there are indications that plastic is becoming a liability.

Read more (1) → Read more (2) →

Best practices

The World Economic Forum joins push for sustainable crypto

The World Economic Forum has teamed up with CoinDesk, a news site specializing in digital (crypto) currencies, to launch the Crypto Impact and Sustainability Accelerator (CISA), which aims to shape the future of crypto-enabled ESG efforts. Beating back against crypto energy usage concerns, the initiative hopes to facilitate communication and collaboration across sectors. With mass crypto adoption expected in the next few years, the multi-stakeholder projects made possible through the new accelerator aim to develop collaborative mechanisms that create common research standards and ESG metrics. The joint initiative also aims to help accelerate existing sustainability initiatives and expand training and certification programs. Other CISA commitments include a digital ethnography of crypto-enabled financial inclusion efforts, the development of a toolkit on decentralized autonomous organizations, and the management of a net-zero crypto workshop series. January 14, 2022

Read more →

High-risk sector controversies

This table shares SIGWATCH data on NGO campaigns and financial institutions' exposure to criticism from NGOs. It also provides ECOFACT-curated links to sector-related controversies from the last quarter as well as our risk rating.

Sector & subsector		Level of controversy: Number of NGO campaigning actions per quarter in the last five quarters (2021 Q1, Q2, Q3, Q4; 2022 Q1)	FI exposure: % share of NGO actions criticizing FIs (SIGWATCH data) / ECOFACT risk rating	Noteworthy news
Forestry	Logging and plantations	123, 104, 130, 122, 85	15%	Indonesia revokes close to 2,000 permits for natural-resource-sector businesses, including forest-risk commodities; banks potentially impacted. Read more
Mining	Coal mining	42, 47, 40, 39, 26	22%	Report highlights gap between world's largest banks' climate commitments and their fossil fuel financing. Read more
Mining	Mining impact on Indigenous people	31, 40, 24, 21, 19	10%	Report reveals the mining companies and their investors that propose illegal mineral exploration on Indigenous territory in Brazil. Read more
Oil & Gas	Fracking	24, 17, 21, 15, 12	6%	Harvard study finds fracking linked to the early death of seniors; risk increases the closer they live to wells. Read more
Oil & Gas	Pipelines	35, 37, 25, 25, 25	15%	Australia's new gas pipelines at risk of being "stranded assets;" country not aligning actions with its Paris commitments. Read more
Oil & Gas	Oil sands	15, 13, 4, 6, 5	12%	Concerns raised about environmental monitoring of oil sands; no government research on impacts of tailings ponds. Read more
Oil & Gas	Liquefied natural gas (LNG)	24, 31, 33, 58, 43	7%	US proposes GHG emission policy for new LNG facilities and gas pipelines; to be certified, high-emitting projects must assess full environmental impact. Read more
Agriculture	Palm oil	25, 18, 22, 20, 20	15%	Report shows less deforestation by palm oil companies linked to supply chains with no deforestation, no peat, no exploitation (NDPE) polices. Read more
Agriculture	Livestock agriculture	180, 187, 189, 193, 172	9%	New US low-carbon label for beef criticized for misleading consumers; beef production has a big carbon footprint. Read more
Agriculture	Deforestation by agriculture	64, 73, 64, 80, 46	10%	Soy production is causing deforestation in Latin America; most of this soy is feeding Europe's livestock. Read more
Utilities	Coal-fired power	88, 89, 95, 95, 85	17%	Coal industry still being funded by a small number of financial institutions that "play an outsized role:" 24 investors provide 46% of loans to the industry. Read more
Utilities	Gas-fired power	97, 109, 104, 126, 140	14%	The downside of relying on Russian gas to fuel gas-fired power plants is amplified by the conflict in Ukraine. Read more
Utilities	Hydropower	20, 22, 26, 18, 16	15%	Fewer safe places to build dams means they're being sited in riskier locations and posing safety hazards. Read more
Utilities	Nuclear power	20, 28, 23, 37, 34	4%	Nuclear power to play a role in the UK as it attempts to wean off of foreign energy sources, potential for 6 or 7 new reactors by 2050. Read more

ECOFACT risk rating

After weighting the level of controversy associated with each subsector, ECOFACT assigns a risk rating of either **red** (high risk), **orange** (enhanced risk), or **yellow** (moderate risk). The rating reflects our assessment of the degree of reputational risk that financial institutions (FIs) face when investing in the sector.

About SIGWATCH

SIGWATCH scans the messaging of more than 10,000 NGOs around the world every day, identifying active and emerging campaigns and issues, and tracking the criticism (and occasional praise) of corporations and industry sectors. This qualitative and quantitative data offers unique insights into NGO concerns and gives early warning of the problems that companies and investors will have to manage in the months ahead.

Emerging risks

Risks that could be relevant when looking into a company's business model. These issues may not yet be considered highly significant, but they have the potential to be.

Insurance industry faces risks from growing mental health crisis

Despite costing trillions every year, mental healthcare is not prioritized in many places. The CRO Forum, a high-level discussion group of chief risk officers of major European insurance companies, published a **position paper** on the emerging risks of the global mental health crisis. It notes a recent shift in claims from those related to physical health to those that have to do with mental health, such as depression, anxiety, and burnout. Concerned about the many uncertainties this presents to the industry, the group outlines projected impacts on all aspects of the insurance business, as well as some opportunities that may be presented. Climate change is likely to exacerbate mental health issues. March 18, 2022

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The deadly links between pandemics and environmental degradation

Pandemics like Covid and Ebola are linked to biodiversity loss in multiple ways, according to commentators on a World Resources Institute (WRI) **podcast**. Topics discussed include the need for public health care to collaborate with biodiversity protectors to halt pathogens, as well as the malaria vaccine's relationship with global warming. Biodiversity loss is a key driver of emerging infectious disease. Deforestation is linked to a growing number of spill-over events whereby diseases cross from animals to people, as well as an increase in malaria outbreaks. Vaccine demand can also affect global biodiversity. Spill-back is another concern, where the spread of disease starts to threaten already endangered wild species. WRI commentators advise that limiting deforestation, halting the sale of wildlife products, and improving healthcare are essential, linking strategies to help manage the biodiversity-disease link and its resulting cost. February 25, 2022

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Bitcoin's extreme carbon footprint rivals a small country, and it just got worse

After a crackdown in China forced many bitcoin miners to move to the United States and Kazakhstan, the share of renewables powering cryptocurrencies has decreased from 41.6 percent to 25.1 percent, according to the most recent research. "The hydropower miners had access to in China has mainly been replaced by natural gas in the US. This, and the fact that coal from Kazakhstan is much dirtier than Chinese coal, has increased the carbon intensity of mining by around 17 percent," said Alex de Vries, one of the researchers. With gas and coal plants reportedly being revived and dedicated solely to bitcoin mining, an environmental campaign called "Change the Code Not the Climate" is pushing for bitcoin transactions to switch toward less energy-intensive processes. Recommended alternatives include "proof of stake," a system that cryptocurrency Ethereum is shifting to. March 29, 2022

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Legitimate investors are unwittingly backing environmental crimes

Financial institutions often lack due diligence when investing in nature-dependent sectors, according to a new **report** by Finance for Biodiversity. Activities such as illegal fishing, illegal logging, waste trafficking, and trade in wildlife are generating up to USD 280 billion annually. While investors may not understand the full context of these profits, poorer, environmentally rich countries sustain heavy losses because of illegal, black-market trade. The study observes that environmental crime is aided by weak anti-money-laundering (AML) rules and inadequate information technologies, which hamper efforts to enforce AML rules. Researchers propose a multi-stakeholder process to help investors sever links to environmental crimes, backed by targeted, public-led litigation and tougher AML rules to force greater due diligence with regard to environmental crimes. February 3, 2022

Read more →

Plans to tackle the growing water crisis

Water is key to sustainable economic growth. Yet water stress increased by 13 percent worldwide between 2002 and 2017, according to Sustainalytics' latest **report**. Researchers estimate that at least 16 countries will be withdrawing water unsustainably from non-replenishable sources by 2030. Managing these risks requires substantial water-related investments, backed by concerted policy actions. Although essential, these sorts of investments can struggle to achieve funding at scale. ***Financing a Water-Secure Future***, a report published by the Organisation for Economic Co-operation and Development (OECD), recommends a multi-pronged approach that includes streamlining the use of existing assets and finance, strengthening the enabling environment, planning future investments, and mobilizing additional funding. To support this effort, the OECD has made a commitment to launch a global good practice observatory, as well as to develop diagnostic and analytical tools. It also aims to build ambitious partnerships with a view to aligning finance with water-safe practices. April 3, 2022

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Prescription drugs are polluting waterways; drugs found in wild fish

After monitoring 258 rivers in 104 countries on all continents, scientists **concluded** that the surface water in one-quarter of the locations studied are contaminated by legal pharmaceuticals at levels that threaten the health of humans and the environment. The area studied reflects the impact of 470 million people on river pollution. Waterways in Pakistan, Bolivia, and Ethiopia had the highest levels of the 61 tested-for active pharmaceutical ingredients used in medicine (e.g., antibiotics, carbamazepine) and as lifestyle consumables (e.g., nicotine, caffeine). Antibiotic-resistant infections are thought to have killed five million people globally in 2019. Antibiotics in the environment contribute to the development of this resistance. Pharmaceuticals in waterways and fish were also found by another group of researchers in Florida. They identified 58 different drugs in bonefish – "compelling evidence of the fish's decline." February 14, 2022

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Are climate risk assessments a new source of greenwashing?

We all know that climate change will have a huge impact. It's just that nobody is certain what that impact will be. The uncertainty only increases the further ahead you look. This uncertainty is disregarded in climate risk assessments that take a traditional approach to assessing risk, say Energetics, Swiss Re, and the ARC Centre of Excellence for Climate Extremes in their February 2022 **paper**. A "failure to distinguish between risk and uncertainty leads to modeling and analyses that result in market disclosures that are potentially misinformed at best, or misleading at worst." A range of futures should be modeled and evaluated to give decision-makers more confidence because – according to a group of **researchers** – climate disasters are disasters due to poor decision-making and planning. "Disasters occur when hazards meet vulnerability." February 10, 2022

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Banks' climate risks could be missed by analysts: they must broaden their knowledge base

Understanding what lies behind the information that drives measures of ESG risk, such as the green asset ratio, will better serve financial analysts than the measures themselves, says Scope Group. However, to be able to do this, financial analysts who cover banks will have to inform themselves and grasp the science, ethics, and dynamics of key sectors. Scope Group believes that important questions are not being asked. Evidence of this is when a green bond issuance is used as proof of an ESG credential rather than how that bond's proceeds are distributed – which is more relevant. The credit and ESG rating provider also believes that it would be advantageous for bank analysts to better acquaint themselves with frameworks that are emerging as global standards, such as the one issued by the Task Force on Climate-related Financial Disclosures. February 24, 2022

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Peer approach

A selection of new sector and issue policies that have recently been adopted or that are receiving attention. This section includes announcements of peer alliances and collaboration.

→ Robeco says that assessing biodiversity impacts is in its clients' long-term interests

"The financial sector and the asset management industry [...] have a crucial role to play in helping to prevent further biodiversity loss," says Dutch asset manager Robeco. It announced that it was adjusting its investment assessment scope to encompass not only sector-level impacts but also company-level impacts on biodiversity. It will work to integrate nature-related risks, opportunities, and impacts across its "engagement, climate and sustainable investing research teams." Acknowledging the challenges this presents, the asset manager has partnered with World Wide Fund for Nature Netherlands to create a custom biodiversity investment framework for the asset manager to use. The allies have also committed themselves to raising awareness within the investment industry. In a first step, Robeco published a **white paper** outlining its journey so far and what it plans to achieve. January 31, 2022

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→ Key US and Canadian banks form consortium to fight climate risk

Nineteen leading banks, including the Bank of America, Royal Bank of Canada, and Wells Fargo have formed the Risk Management Association (RMA) Climate Risk Consortium. Members will collaborate on standards designed to allow banks to integrate climate risk management throughout their operations, helping economies transition to a low-carbon future. The consortium will help to assess climate risk across member banks and industries by assessing their current efforts and developing taxonomy, frameworks, and standards on climate risk. Additionally, the consortium will engage with regulators and policymakers to help inform ongoing policy considerations specific to a changing climate. "For over a century, RMA has focused on bringing the industry together to overcome complex problems and difficult times," said RMA President and CEO Nancy Foster. January 12, 2022

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→ Aviva targets bosses who fail on climate or human rights

UK Aviva Investors, which manages GBP 262 billion in assets, has notified the heads of 1,500 companies in 30 countries that it will remove them from its portfolio if they fail to expedite climate transition efforts. As a major shareholder in many leading companies, Aviva Investors has previously voted against directors who fail to align with its priorities. The company's stewardship themes for 2022 prioritize climate targets, biodiversity strategies, and human rights issues. In his annual letter, Chief Executive Mark Vervey made it clear that Aviva Investors expects to see all companies developing credible climate transition plans, which must be officially verified as science-based targets and comply with new climate accounting standards. Furthermore, directors are urged to state their commitment to human rights publicly, with appropriate due diligence, and ensure that executive pay plans — particularly bonuses — are also linked to Aviva Investors' stewardship priorities. January 24, 2022

Read more (1) → Read more (2) →

→ Nordea links 2025 sustainability and gender targets to remuneration of its leaders

When presenting its 2022–2025 strategic targets, Nordea indicated that it was linking the remuneration of the group's leadership team and other senior leaders with sustainability-related goals. "Green financing, sustainability implementation, and gender balance" goals reflect the company's commitment to making sustainability the core of its business strategy. Regarding gender balance, it aims to achieve a combined minimum of 40-percent representation of each gender at the top three leadership levels. Nordea, the Nordic countries' largest financial services group, also plans to reduce emissions by 40 to 50 percent in its investment and lending portfolios by 2030. February 17, 2022

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→ Call for a human rights-based approach to biodiversity management

In a bid to embed a human rights-based approach in global biodiversity initiatives, the Human Rights in Biodiversity Working Group (HRBWG) has published its third and most comprehensive **policy briefing** on the post-2020 global biodiversity framework. HRBWG recommends a more holistic approach than currently suggested in the **draft framework**. In particular, it sees a need to strengthen human rights approaches regarding goals, targets, monitoring frameworks, and enabling conditions. HRBWG believes that the way of life of Indigenous peoples (inclusive of all genders and future generations) and local communities is part of the solution to our global crises. It must therefore be identified and supported throughout the framework. This includes taking area-based measures that involve full and effective participation to recognize rights over lands, territories, and resources. These rights also encompass traditional, sustainable land use and knowledge. March 13, 2022

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→ Reinsurer advances plans to transition away from highest emitting oil and gas

Swiss Re's new climate **policy** indicates that, starting in July 2023, it will cease to cover "oil and gas companies that are responsible for the world's 10 percent most carbon-intensive oil and gas production." In 2021, it targeted the top 5 percent of these companies. After 2022, Swiss Re will also no longer (re)insure or directly invest in new oil and gas field projects. However, exceptions will be made if such projects are championed by companies aligned with net-zero-by-2050 targets. This will be defined on the basis of the **Science Based Targets initiative** framework or another comparable third-party assessment. March 17, 2022

Read more (1) → Read more (2) →

→ Sector and issue policies adopted by insurers

This table presents the number of the **nine global systemically important insurers** that have a public policy or guideline for investing in or underwriting for the sectors listed in the left column.

Sector policy	Q1 2022	
	I	U
Agriculture	**2**	**1**
Agricultural commodities	2	1
Animal welfare	1	1
Palm oil	2	1
Forestry	2	1
Tobacco	5	3
Fisheries	1	1
Defense (controversial weapons)	**6**	**2**
Cluster munitions	6	2
Biological weapons	6	2
Nuclear weapons	3	1
Chemical weapons	6	2
Metals and mining	**1**	**1**
Coal mining	7	4
Mountaintop removal	1	1
Medical		
Clinical trials	1	1

Sector policy	Q1 2022	
	I	U
Utilities		
Nuclear power	1	1
Coal-fired power	8	3
Hydropower	0	1
Human rights	**5**	**4**
Large-scale resettlement	1	1
Indigenous rights	2	1
Child labor	4	3
Forced labor	4	3
Sex industry	1	1
Energy		
Oil and gas	1	1
Arctic drilling	2	1
Oil sands	4	2

I = sector-related investment activities have a public policy or guideline

U = sector-related underwriting activities have a public policy or guideline

Policy sector in focus: Indigenous peoples

A discussion that highlights why some financial institutions have developed policies to guide their activities associated with a specific sector or concern.

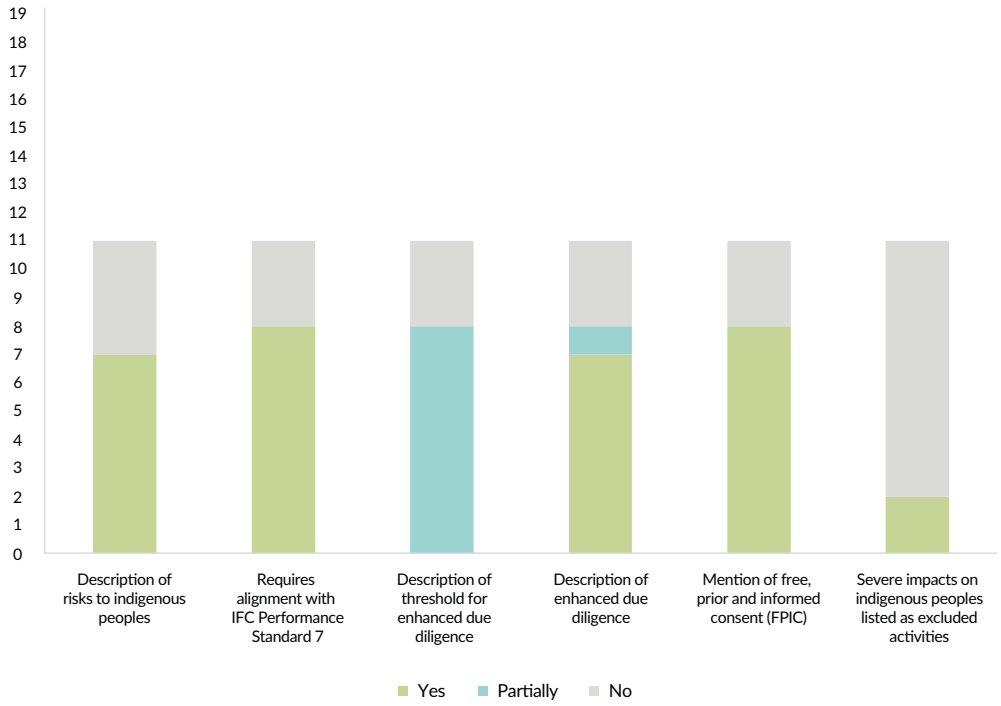
The push for renewable energy is increasing potential for conflict with Indigenous communities

Governments around the world have made various energy-related **commitments** that tackle climate change. However, to meet the world's growing energy needs while maintaining a course of emission reduction, renewable energy sources and storage must rapidly develop to a meaningful scale. As noted by the International Energy Agency in a **special report**, renewable energy technologies rely on high volumes of rare earth metals, as well as other metals including lithium, cobalt, copper, cadmium, and nickel. New mines, solar arrays, wind turbines, and many batteries will be needed to satisfy the swelling **demand** for alternative energy.

When renewable-energy land use conflicts with **Indigenous territories** or affects **traditional practices**, there are often **concerns** about if and how such economic activities can be conducted responsibly. The UN Economic and Social Council Secretariat has released a **note** on Indigenous peoples' free, prior, and informed consent in relation to the global energy mix. It **highlights** that the low-carbon transition has so far failed to alter the historic exploitive model of community engagement, causing many Indigenous community members to oppose these projects.

Why we think it matters: The transition to a low-carbon economy will require extraordinary levels of targeted financing. Financial institutions will play a significant role in how this transition unfolds. Due diligence requirements for companies, including financial institutions, are moving toward the consideration of potential adverse impacts along the entire value chain. Identifying, avoiding, mitigating, and compensating for the impact of such financing on Indigenous communities and traditional territories is likely to evolve from a best practice into a mandatory obligation. Ultimately, the measure of these efforts, mandatory or not, will be the improved welfare of Indigenous communities.

Some financial institutions' environmental and social risk policies mention Indigenous peoples



*Our **Monitoring Peer Policies** service analyzes the environmental and social risk (ESR) policies of 19 financial institutions (FIs). Of these FIs, 11 have an ESR policy that includes Indigenous peoples considerations/sections within its framework.*

Some financial institutions use standards, such as the **UN Declaration on the Rights of Indigenous Peoples (UNDRIP)**, to guide their human rights-related business engagements.

New resources

This section highlights tools, databases, and other information that can help you to identify, manage, disclose, and mitigate ESG risks.

→ Surveillance technology and human rights risks: a due diligence map for investors

Cyber-surveillance technologies have a profound impact on society. When used responsibly, they can serve as valid law enforcement and national security tools. However, they can also be used to violate human rights and individual privacy, reinforce discrimination, media censorship, detention and forced labor, as well as to enable attacks against rights defenders. A new **guide** for investors published by the Surveillance Technologies Accountability Project provides shareholders with a deeper understanding of the potential issues and a framework for making rights-respecting investment decisions. Specifically, it includes: (a) an examination of how surveillance technologies create human rights risks; (b) an explanation of material risks for investors; (c) questions to help identify severity of risk; and (d) a framework for investment decision-making, illustrated with accessible descriptions of potential company conduct, risks, and decisions. March 9, 2022

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→ CISL issues new resources for investors and identifies water-related financial risk as a concern

The Cambridge Institute for Sustainability Leadership (CISL) has published several nature-related resources this past quarter: (1) an open-access diagnostic **tool** intended for executives and management aims to help organizations identify, understand, and adopt nature-based solutions to business and environmental challenges; (2) ***Integrating Nature: The case for action on nature-related and financial risks*** also targets senior management with the business case for considering nature-related risks when making decisions; (3) a **case study** on the results of mapping nature-related risks across the MSCI All World Index reveals water security to be the predominant dependence of businesses around the globe. This mapping could be used to inform investigations into the causes of material exposures by sector or geography. And (4) another **case study** examines water stress and the credit rating of heavy industry companies in East Asia. April 7, 2022

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→ Practical advice on applying the EU Taxonomy to bank lending

A joint **report** published by the UN Environment Programme Finance Initiative and European Banking Federation makes suggestions on how banks can meet the taxonomy's disclosure requirements (both mandatory and voluntary). The report is structured in three sections: (A) practical ways to disclose under the EU Taxonomy Disclosure Delegated Act, (B) how the taxonomy might help banks gather information on clients not yet obligated to disclose under article 8, and (C) how banks might engage with clients whose economic actives are taxonomy-eligible but do not yet have associated technical screening criteria. The 100-page document offers practical tips and a comprehensive analysis of banks' reporting requirements with a view to assisting them in applying the taxonomy. Drafting this report involved discussions with 24 banks, 12 banking associations, and six observing organizations. February 2022

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→ Business & Human Rights Navigator gives companies an overview of potential risks in supply chains

A new online portal has been made freely available to help companies gain an understanding of the human rights-related risks that could be affecting their supply chains. The **Business & Human Rights Navigator** was assembled by the UN Global Compact, the German government's Helpdesk on Business and Human Rights, and Verisk Maplecroft. Ten common human rights issues are presented (e.g., child labor, migrant workers, living wage), and for each issue the navigator provides information on the main concerns, risk factors, and related legal instruments, among other topics. It also offers general suggestions for due diligence measures. March 29, 2022

Why we think it matters: Several regulators have corporate due diligence requirements in their sights (including impacts on human rights). *Policy Outlook* subscribers can read more **here**. Companies face increasingly demanding expectations. ECOFACT can help you to identify and understand the human rights risks to which your operations are exposed and also assist you in designing and implementing processes to address these risks adequately. **Contact us**.

Read more (1) → Read more (2) →

→ Transition plan credibility: Considerations for financial institutions

The last two years have seen a massive increase in climate and net-zero announcements by public and private financial institutions. Nevertheless, an average of 97 percent of a finance institution's emissions relate to their portfolios rather than their own business activities. This means that tangible climate transition is made possible only by the actions of counterparties (e.g., an energy supplier in which a bank has invested). Recognizing this, the Climate Policy Initiative has released a briefing paper to help finance institutions judge counter-party transition plans: ***What Makes a Transition Plan Credible? Considerations for financial institutions***. Designed as a complement to existing frameworks, the brief proposes key elements for consideration, outlines steps to undertake before and after credibility assessment, and discusses how best to enable the development of purposeful policy and legislation. It also initiates a discussion about the impact of net-zero expectations on financial institutions in developing countries. March 14, 2022

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→ How financial institutions can apply geospatial information to obtain usable environmental data

Access to reliable and transparent ESG data is often cited as a barrier to informed investment. Together with the World Bank and Global Canopy, WWF explored and tested several potential geospatial data approaches to see if they offer any insight into the environmental impact of specific assets (mining operations) and companies (soya production) as well as the sovereign debt investment of states/nations. Even though resources were limited and only open data was used, the **report** concludes that financial institutions should indeed be able to determine environmental impact at different scales because the geospatial data available is sufficiently robust. Indeed, the authors point out that the available technical toolkit is underutilized. The limitations of this approach are also discussed. The report ends with an analysis of essential components of geospatial ESG tools. January 17, 2022

Read more →

→ F4B publishes transition framework for financial institutions and updates its measurement guide

The Finance for Biodiversity Initiative (F4B) has developed the world's first **transition framework** to help financial institutions integrate climate and nature considerations into their risk/opportunity assessment and reporting. It notes that few financial institutions have tackled this task. The "practical guidance" builds on established climate frameworks, like the Task Force on Climate-related Financial Disclosure's recommendations, and it uses these to loop in nature. The publication proposes a five-step process designed to structure how an institution approaches the net-zero, nature-positive world: (1) identify, (2) assess, (3) integrate, (4) estimate, and (5) aggregate. The framework will be expanded over time. In other news, the F4B ***Guide on biodiversity measurement approaches*** received its third update in January 2022. The guide offers information on a variety of biodiversity measurement tools that may be useful to financial institutions. March 2, 2022

Read more (1) → Read more (2) →

→ Diving Deep: New toolkit for sustainable ocean economies

The blue economy is predicted to double in value by 2030. However, ocean health is under threat. A practical blue economy **toolkit** published by the UN Environment Programme highlights how to mitigate risks and exploit opportunities when providing capital for the blue economy. Two key ocean sectors have been chosen for their established connection with the finance industry. Guidance is given on how to approach (1) coastal infrastructure and resilience, and (2) waste prevention and management. The toolkit provides a detailed breakdown of best practice and outlines which activities to challenge and which to avoid financing completely. It aims to help parties break the pollution cycle (including plastics) and instead focus on the impact of coastal infrastructure projects such as seawalls, while exploring nature-based solutions such as mangroves and reefs. March 10, 2022

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