S&P Global
Market Intelligence

Corporate Debt als integraler Bestandteil von ESG

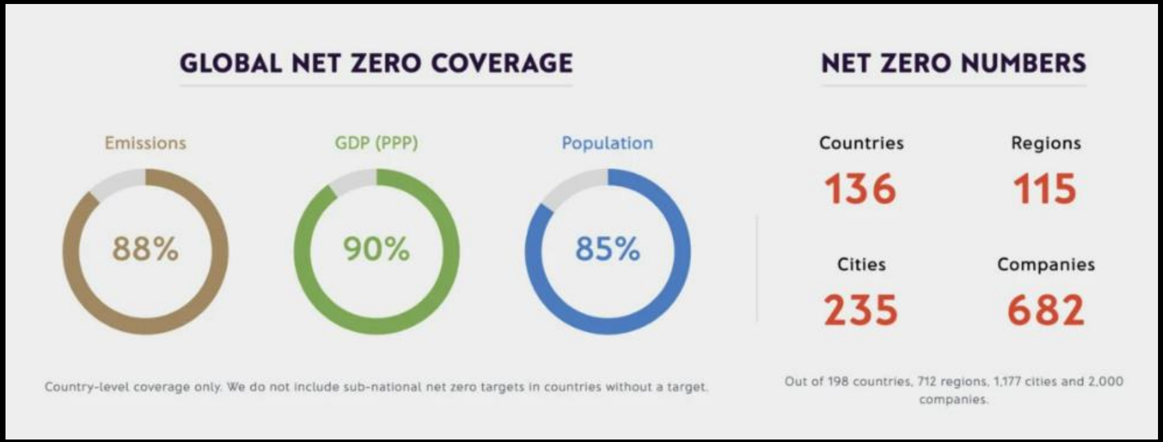
Capital Governance Conference 2022

Background

- In the **Paris Agreement**, governments agreed to keep global warming **well below 2° Celsius**, and to make efforts to keep it to 1.5ºC.
- The Intergovernmental Panel on Climate Change (**IPCC**) released a report in October 2018 on the **1.5ºC target**, concluding that global emissions need to reach net zero around 2050 to give a reasonable chance of limiting warming to 1.5ºC

Why Net-Zero?

- In many sectors of the economy, there are many technologies that can bring emissions to zero levels. In electricity, it can be done using renewable and nuclear generation. Hydrogen and electricity-based transport systems and industrial processes all support bringing sectoral emissions to absolute zero.
- However, in industries such as aviation the technological options are limited, in agriculture too, it is highly unlikely that emissions will be brought to zero.
- Therefore, some emissions from these sectors will likely remain; and in order to offset these, an equivalent amount of CO_2 will need to be taken out of the atmosphere – negative emissions.
- As a result, the target becomes 'net zero' for the economy as a whole and can be expressed in terms of greenhouse gas emissions overall, as well as of CO_2 only.



Source: Net Zero- Why is it necessary, January 2022 retrieved from Energy & Climate Intelligence Unit | Net zero: why is it necessary? (eciu.net)

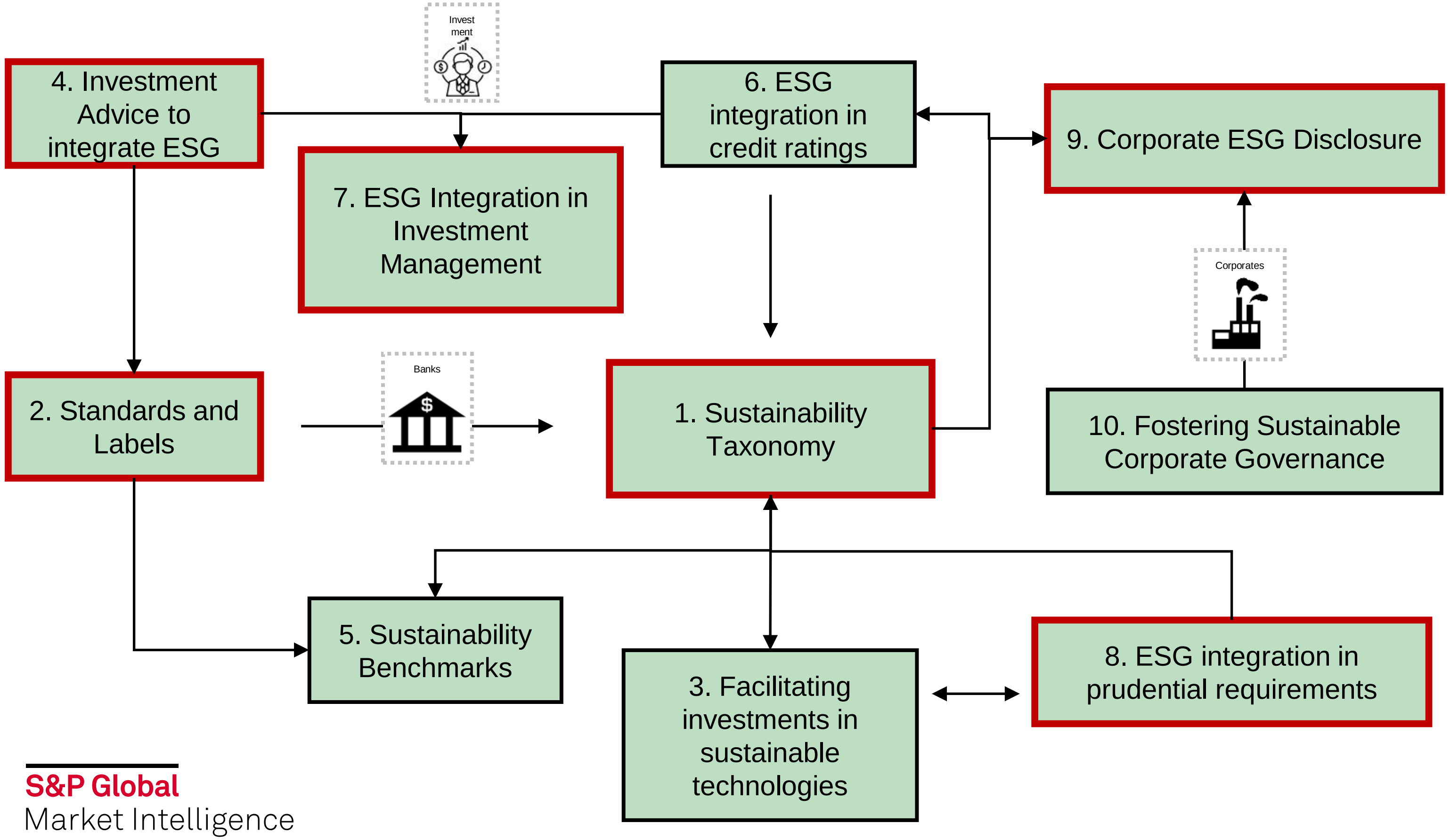
Sustainable Finance Framework – EU Action Plan

Focus: Debt Financing

1. Reorientate capital flows towards sustainable investments

2. Mainstreaming sustainability into risk management

3. Fostering transparency and long-termism



Regulation

1	-Taxonomy Regulation
2	-EU Ecolabel -Green Bond Standard
3	-Invest EU -SEIP – Sustainable Europe Investment Plan
4	-MiFID II -IDD
5	-Benchmark Regulation
6	-CRA Regulation
7	-SFDR -UCITS -AIFMD
8	-CRR II (Pillar 1, 2, 3)
9	-CSRD
10	-IFRS

Shift from Integrated Reporting to Impact Reporting

Reporting Development

- Sustainability reporting has a long tradition and is not a new trend.
- Traditionally, reporting focuses on what **impact the reporting company's business activities have on** the environment and / or society.
- **TCFD reporting**, on the other hand, focuses on identifying the **financial impact of the environment on the reporting company**.
- This means that the amount of greenhouse gas emissions emitted directly does not provide any information on how the relevant company is affected by the indirect consequences ((cf. Unerman et al., 2018, S. 514f).

Risk management is very closely related to **disclosure** and the provision and use of publicly available information. The disclosure rules for companies in the EU, the CSRD, builds on the principles of the NFRD which in turn considers the **main elements of the TCFD,** the Task Force on Climate-Related Financial Disclosure (cf. Karatzoglou, 2021, p. 584).

The revised version of the NFRD, the **CSRD, incorporates the recommendations of the TCFD** in its guidelines (cf. Hummel and Jobst, 2021, p. 13).. It can be seen that there is a perfect match and therefore a perfect alignment in the area of risk management (see next slide)

TCFD Reporting Overview

1. Governance

The first pillar, Governance, discloses processes and measures to address climate-related risks and opportunities

(see Task Force on Climate-Related Financial Disclosures, 2021, p. 15).

2. Strategy

The second pillar deals with the identification, quantification and consideration of material climate-related financial risks in corporate strategy (cf. Task Force on Climate-Related Financial Disclosures, 2021, p. 15).

A step-by-step assessment of these risks is required, starting with an identification of the material risks and opportunities, through the classification of these, to the application of climate scenario analyses.

The climate scenarios must cover at least the 2-degree scenario that reflects the goals of the Paris Climate Agreement (see Task Force on Climate-Related Financial Disclosures, 2021, p. 19f).

3. Risk Management

The third pillar discloses how the identified and quantified climate-related risks are embedded in a company's existing risk management. The focus is on describing the identification, assessment, and mitigation of material risks. (see Task Force on Climate-Related Financial Disclosures, 2021, p. 20).

4. Metrics & Targets

The last pillar of the disclosure requirements focuses on the measures taken to reduce the identified risks. It serves investors and other stakeholders to assess how and to what extent risks are reduced. It is also intended to provide assistance in assessing potential impacts on risk-adjusted returns (see Task Force on Climate-Related Financial Disclosures, 2021, p. 21).

Carbon Neutrality

Focuses = CO2 Emissions


EUROPEAN COMMISSION

Brussels, 6.4.2022
C(2022) 1931 final

ANNEX 1

ANNEX

to the

Commission Delegated Regulation (EU) .../...

supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports

Net Zero

- Focus = all GHG Emissions (Scope 1, 2 and 3)
- Strong Focus from Investor Community

'GHG emissions' shall be calculated in accordance with the following formula:

$$\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's Scope}(x)\text{ GHG emissions}_i\right)$$

'carbon footprint' shall be calculated in accordance with the following formula:

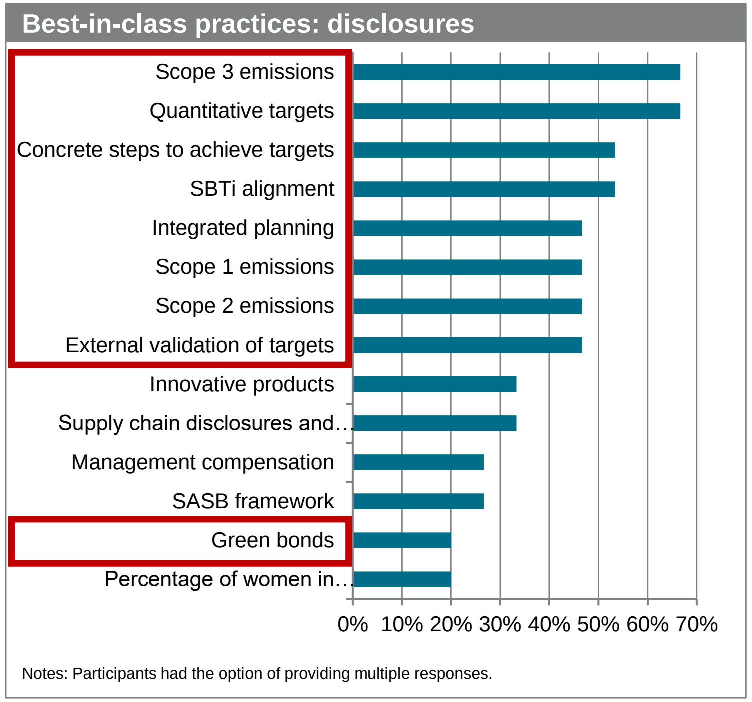
$$\frac{\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's Scope 1, 2 and 3 GHG emissions}_i\right)}{\text{current value of all investments (€M)}}$$

'GHG intensity of investee companies' shall be calculated in accordance with the following formula:

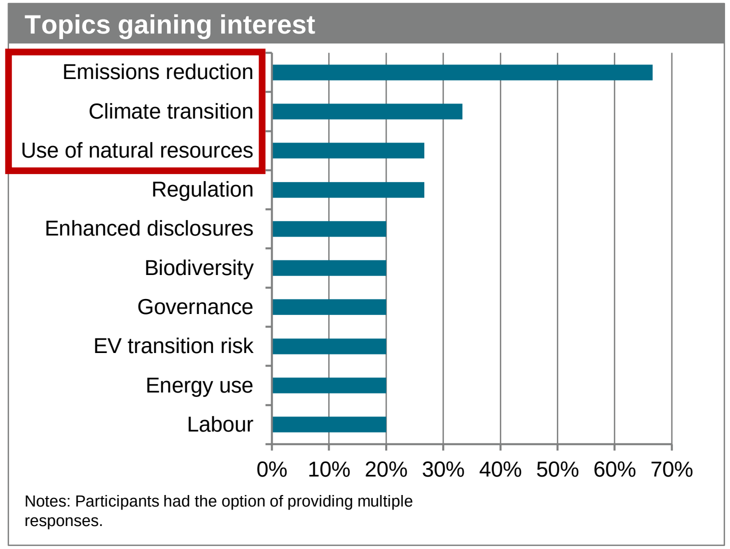
$$\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{current value of all investments (€M)}} \times \frac{\text{investee company's Scope 1, 2 and 3 GHG emissions}_i}{\text{investee company's €M revenue}_i}\right)$$

Capital Markets Effectiveness

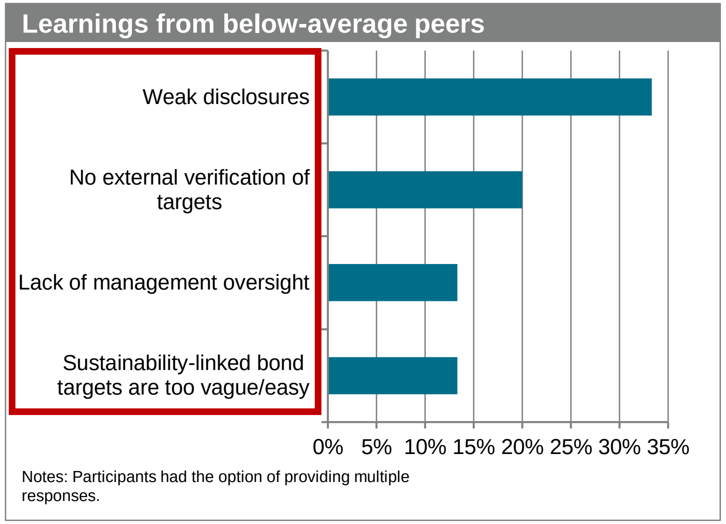
Preferences from Institutional Investors – Case Study in the Automotive Industry



Disclosure best practices



Areas within ESG investment gaining interest



Learnings from below-average firms

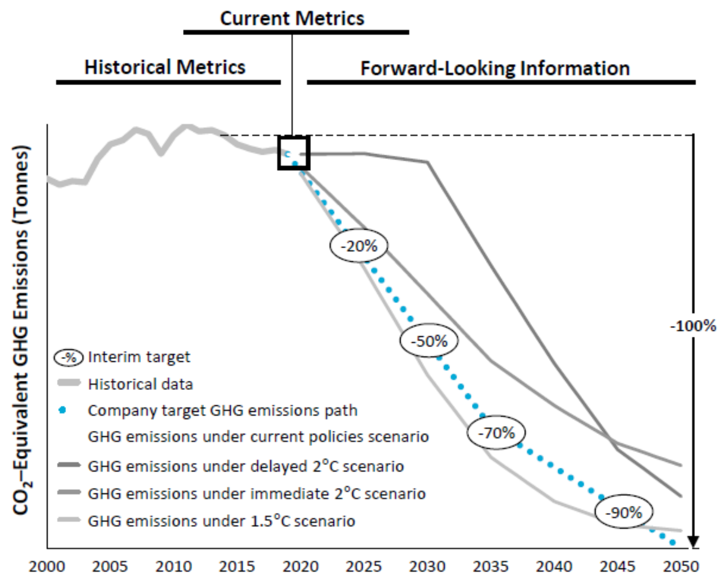
Target Setting: TCFD recommends the use of quantified climate-related targets

The guidance provides examples of quantified targets that align with cross-industry climate-related metric categories

Cross-Industry Metric Category	Climate-Related Target Examples
GHG Emissions	• Reduce net Scope 1, Scope 2, and Scope 3 GHG emissions to zero by 2050, with an interim target to cut emissions by 70% relative to a 2015 baseline by 2035
Transition Risks	• Reduce percentage of asset value exposed to transition risks by 30% by 2030, relative to a 2019 baseline
Physical Risks	• Reduce percentage of asset value exposed to acute and chronic physical climate-related risks by 50% by 2050 • Ensure at least 60% of flood-exposed assets have risk mitigation in place in line with the 2060 projected 100-year floodplain
Climate-Related Opportunities	• Increase net installed renewable capacity so that it comprises 85% of total capacity by 2035
Capital Deployment	• Invest at least 25% of annual capital expenditure into electric vehicle manufacturing • Lend at least 10% of portfolio to projects focused primarily on physical climate-related risk mitigation
Internal Carbon Pricing	• Increase internal carbon price to $150 by 2030 to reflect potential changes in policy
Remuneration	• Increase amount of executive management remuneration impacted by climate considerations to 10% by 2025

Disclosure example: GHG emissions reduction targets

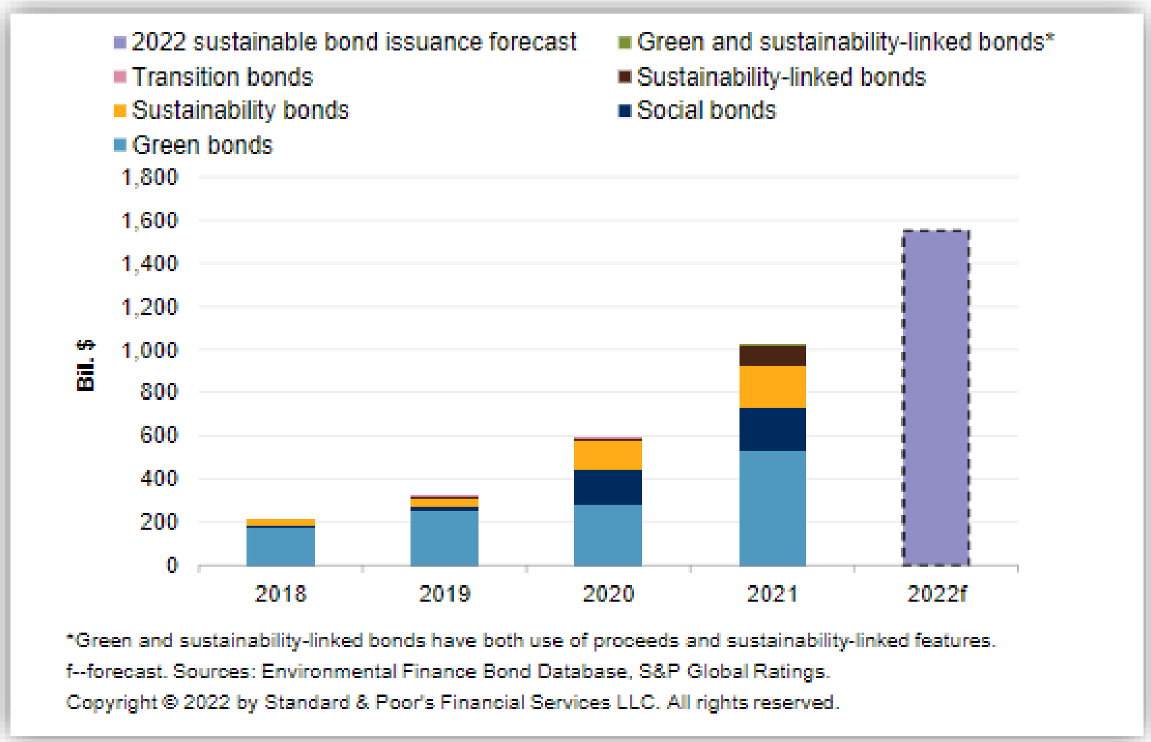
Our firm commits to reducing net Scope 1 and 2 GHG emissions—as defined by the GHG Protocol—to zero by 2050, with an interim target to cut Scope 1 and 2 GHG emissions by 2030 by 50%, relative to a 2015 baseline.



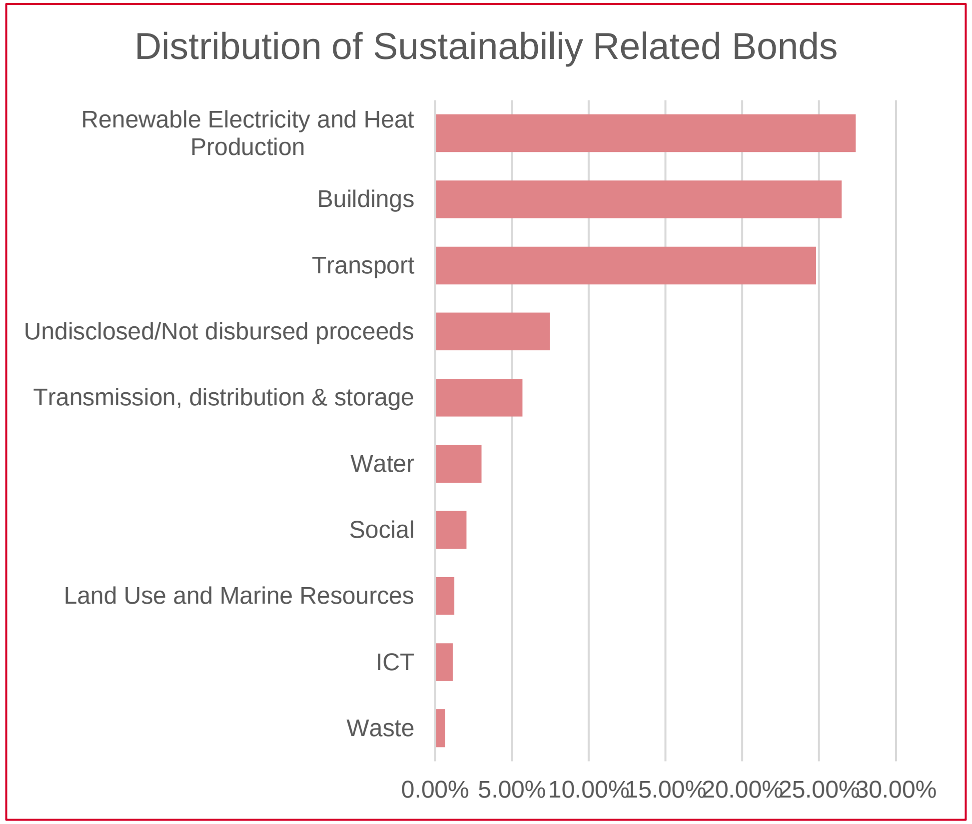
Source: TCFD, Annex: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, 2021 and Guidance on Metrics, Targets, and Transition Plans, 2021

Sustainable Bond Issuance Set to Surpass $1.5 Trillion in 2022

Annual Issuance In Sustainable Bonds by Instrument Type



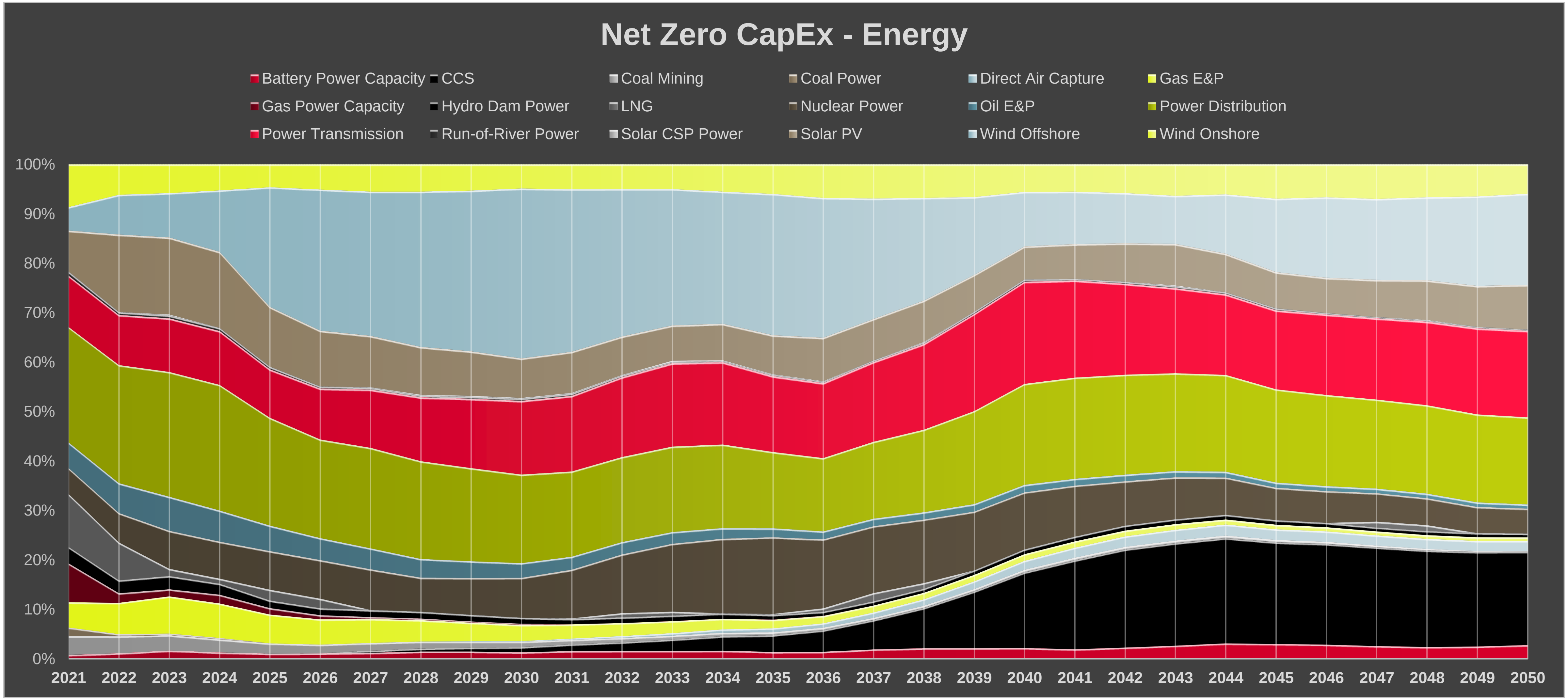
Source: «Global Sustainable Bond Issuance To Surpass $1.5 Trillion In 2022,» S&P Global Ratings, 7 Feb. 2022.



Source: S&P Green Bond Data

CapEx Spend needed in the Energy Sector for Net Zero

Scope: Europe



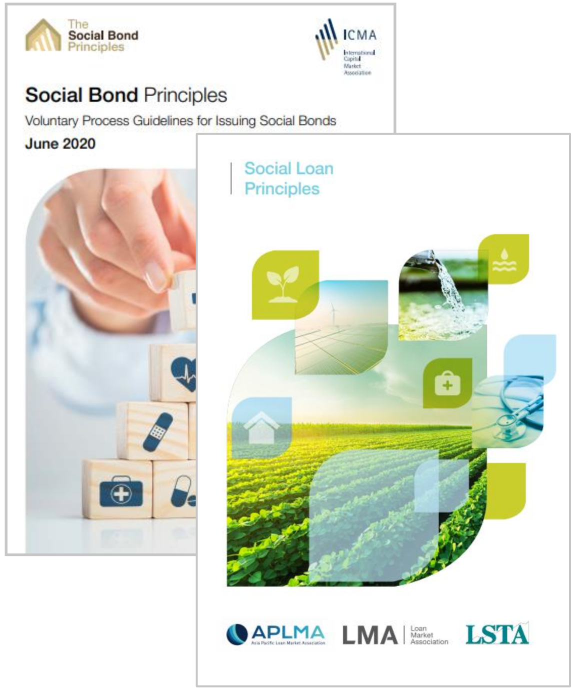
Principle Overview – Use of Proceeds Financing and Take-Aways

Green

Green Bond Principles or
Green Loan Principles

Social

Social Bond Principles or
Social Loan Principles



Sustainability

Sustainability Bond
Guidelines