



SFDR Data Challenges, Opportunities and ESG Datalab

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IMPACT THAT
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Welcome

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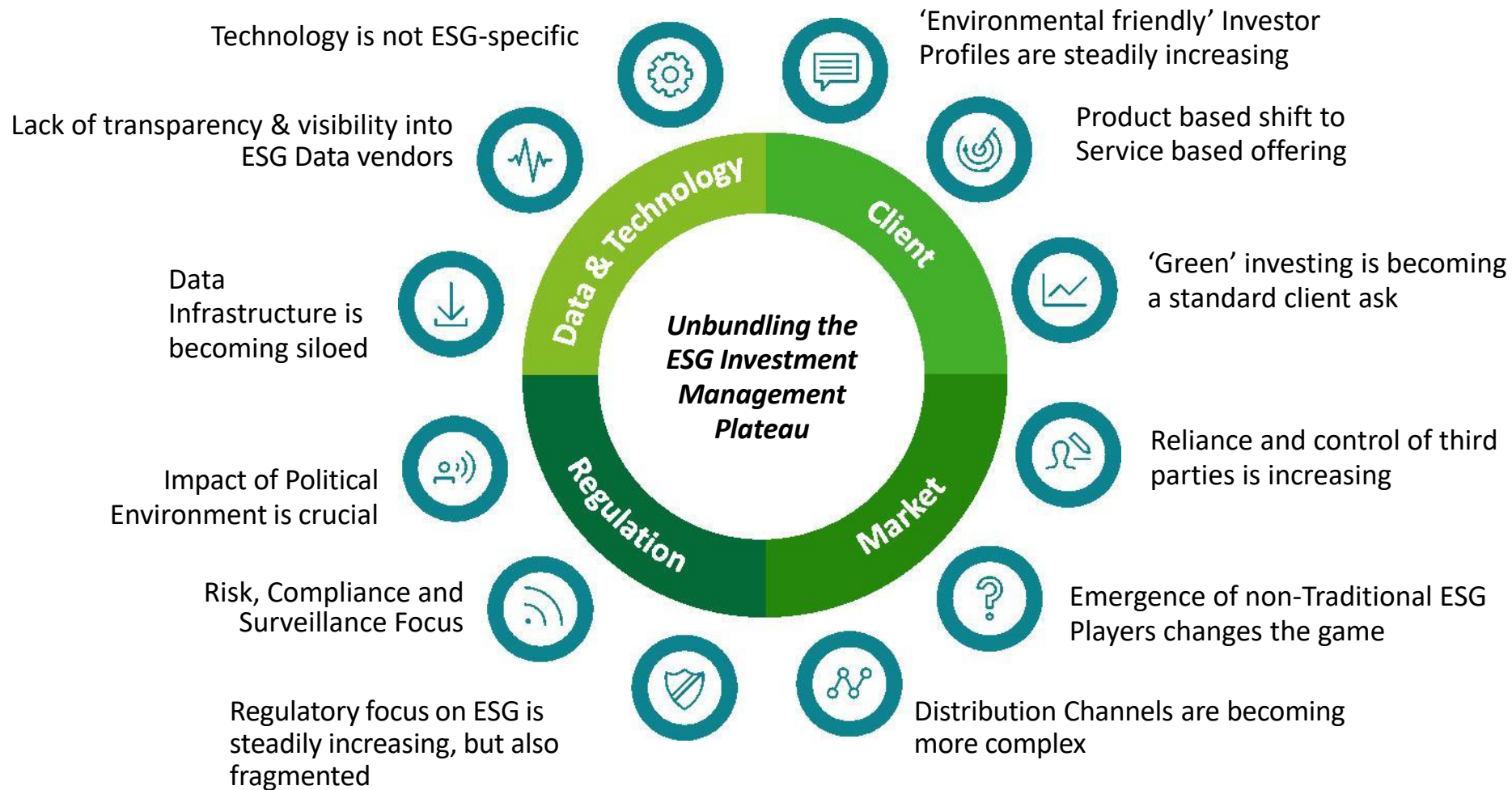
Agenda

- 1 Challenges and opportunities facing the investment management industry
- 2 SFDR Technical Standard Requirements
- 3 ESG Datalab

Challenges and opportunities facing the investment management industry

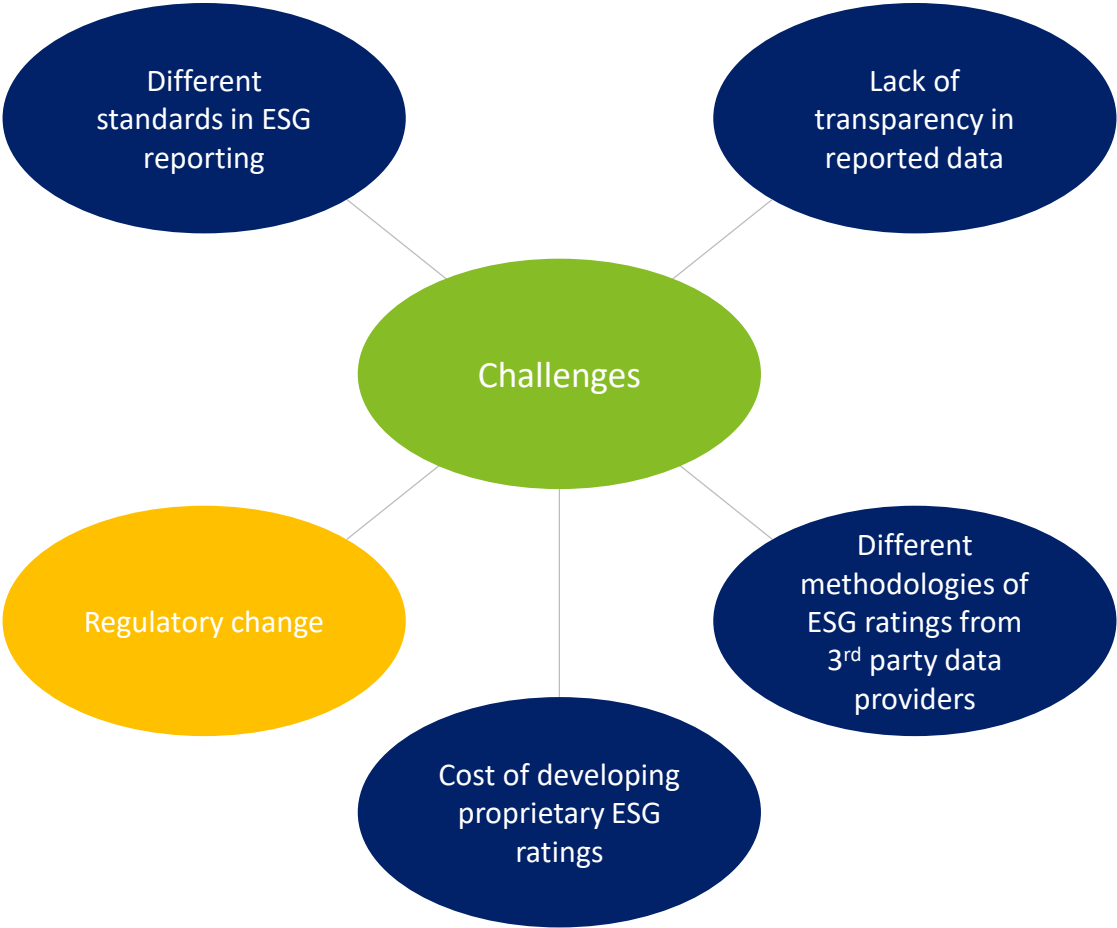
ESG Data Challenges and Opportunities

There are a number of emerging forces and challenges re-shaping the future of ESG data management



ESG Fund Management

Challenges and risks facing Investment management in implementing ESG strategies



ESMA

Proposed regulatory framework for ESG Ratings and assessment tools

Definition

- Common legal definition
- Broad approach to future proof the regulatory framework
- Consistency with other areas of EU Capital markets and sustainable finance



Product Requirements

- Stringent to ensure ESG ratings and assessments are based up to date, reliable and transparent data sources and developed using robust methodologies



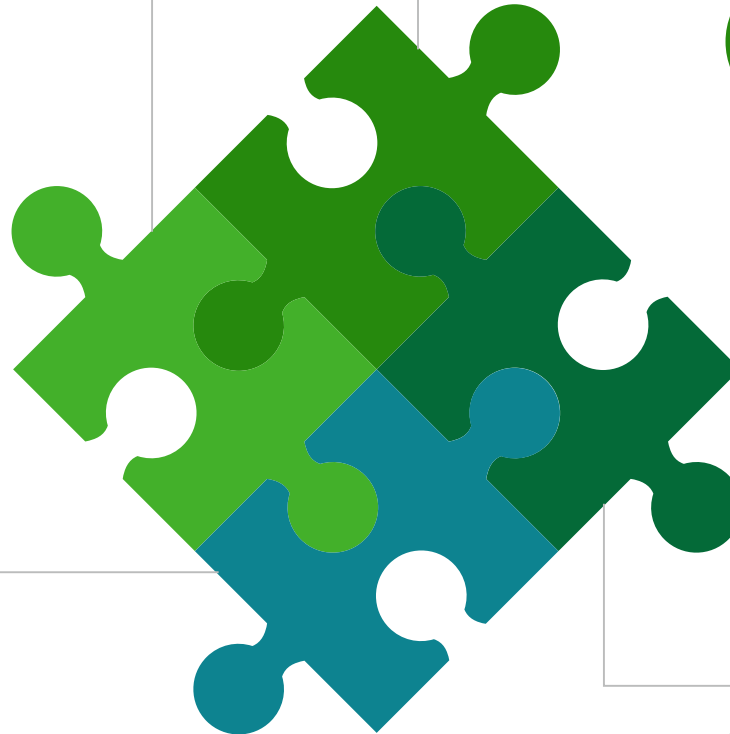
Register and Supervised

- Gate keepers of ESG ratings and assessments are subject to a common core of organisational, conflict of interest and transparency requirements



Scale

- Larger organisations subject to full suite of organisational and conflict of interest requirements
- Smaller entities should be eligible for exemptions



SFDR Technical Standard Requirements

SFDR Technical Standard Requirements

What's new and the complexity of the sustainability indicators?

Indicators

- Change from 32 to 14 mandatory indicators
- 2 additional indicators for investment in sovereigns and supranationals
- 2 additional indicators for investment in real estate

Additional Indicators

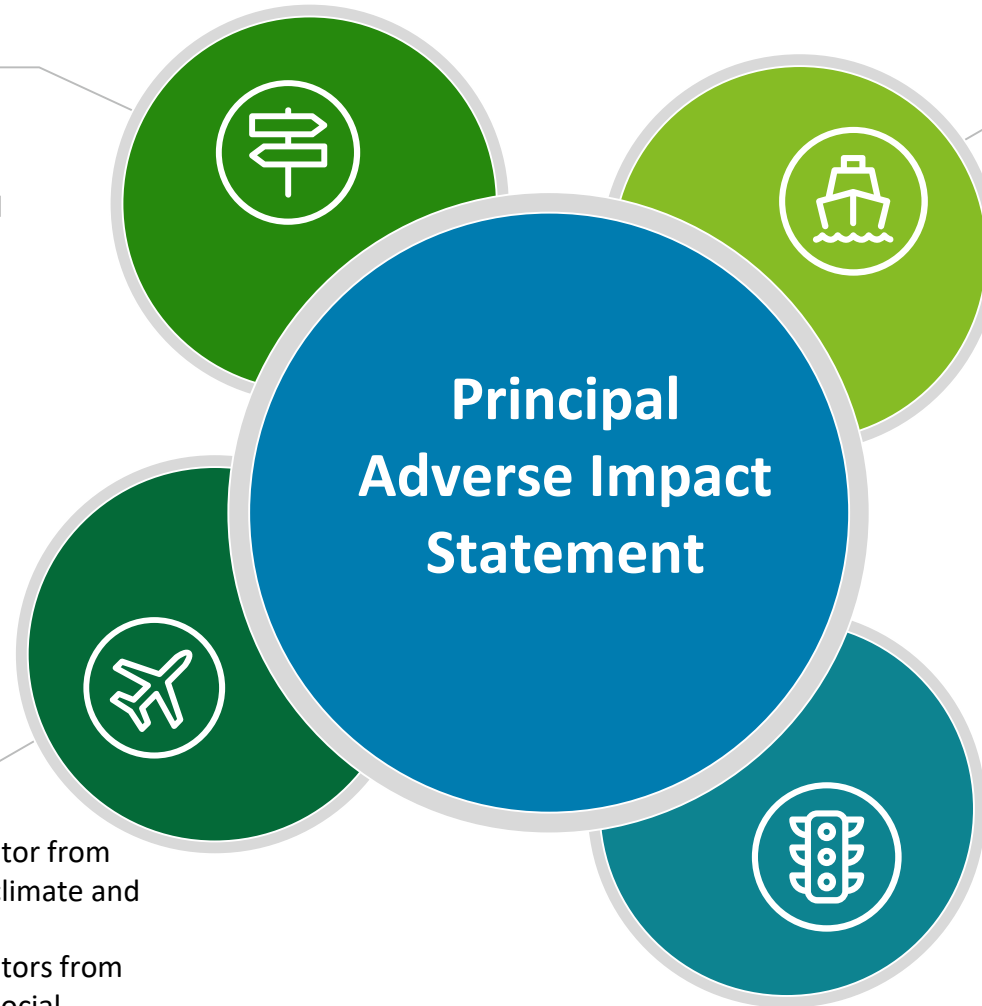
- At least one additional indicator from Table 2 which is focused on climate and other environmental
- At least one additional indicators from Table 3 which is focused on social, employee, human rights, anti-corruption or anti-bribery

Complexity

- **GHG Intensity** – Includes Scope 1, 2 and 3 emissions. Most companies not reporting on Scope 3 emissions
- **Unadjusted Gender pay gap** – Information is not published on the gender pay gap for most organisations unless it is equal.
- **Exposure to companies active in the fossil fuel sector** – Combining all revenues from activities in the supply chain. Different method used by organisations.

Reporting

- Calculated at least 4 times a year i.e. Mar, June, Sep and Dec to get a representative level of principal adverse impacts for the period
- Disclosed on an annual basis in periodic reports



Sustainability Risk

How boards should respond to emerging supervisory expectations

Areas boards should consider

- **Key climate risks**
 - Physical risk – one off events like natural disasters could impact the valuation risk in a portfolio e.g. companies near flood plains
 - Transition risk – this is the risk of transitioning to a low carbon economy which brings new risks like technology risk, reputational risk and market risk
 - Liability risk – Investors and stakeholder could challenge asset managers on inadequate disclosures or instances of greenwashing exposing the firm to liability risk
- **Governance and Culture** – Does the organisation have a tone from the top in relation to sustainability and climate risk
- **Strategy and business model** – how does climate risk impact existing strategies
- **Conduct disclosure and risk of Greenwashing** – Are the disclosures appropriate to inform investors
- **Asset transition risk** – consideration for certain industries and companies that could be stranded in the near future
- **Stewardship** – Considering FRC UK Stewardship code and principles

Integrating sustainability and climate risk

- **Climate Scenario Analysis** – Are companies performing scenario testing to understand the potential future impact
- **Risk framework** – Sustainability and climate risks are appropriately documented and procedures put in place to monitor the impact



Read more – [climate risk and asset management](#)

ESG Datalab

ESG Datalab

Please click the link below to access the video

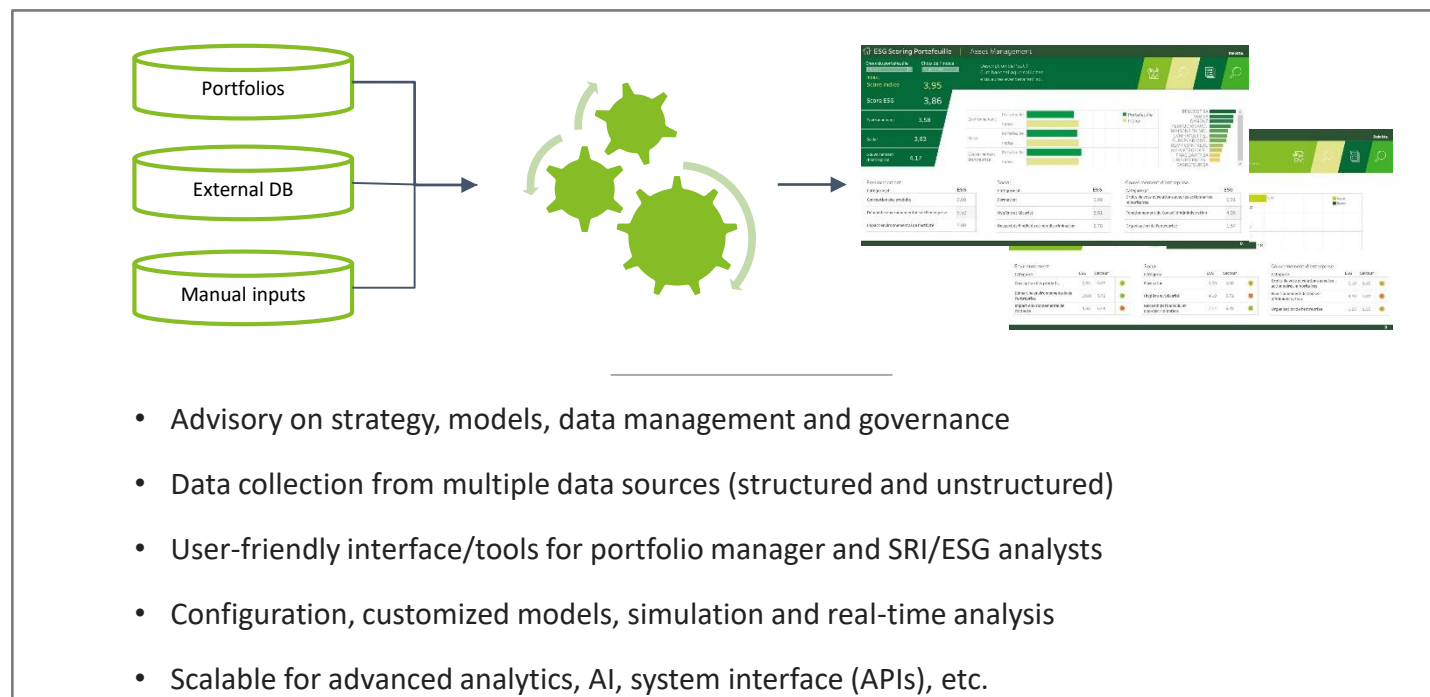
<https://www2.deloitte.com/ie/en/pages/sustainability/solutions/esg-data-lab.html>

ESG Data Lab

Value proposition

Diverging environmental, social and governance (“ESG”) data, multiplication of data suppliers, black-box indicators, time-consuming and manual data treatments, etc.: integrating ESG into asset management strategy and practices is a major challenge for investment professionals.

In order to scale ESG integration, *ESG Data Lab* is the technology and advisory solution for a comprehensive, robust, transparent and adaptable implementation of ESG information into investment decisions for asset managers, insurers and pension funds.



ESG Data Lab

Use case

Set-up: client ESG proprietary model, five data sources (2 ESG ratings, carbon data provider, portfolios and legal entity tree table)

Security analysis

Analysis of company environmental and social performance – based on proprietary ESG criteria model – against industry benchmark



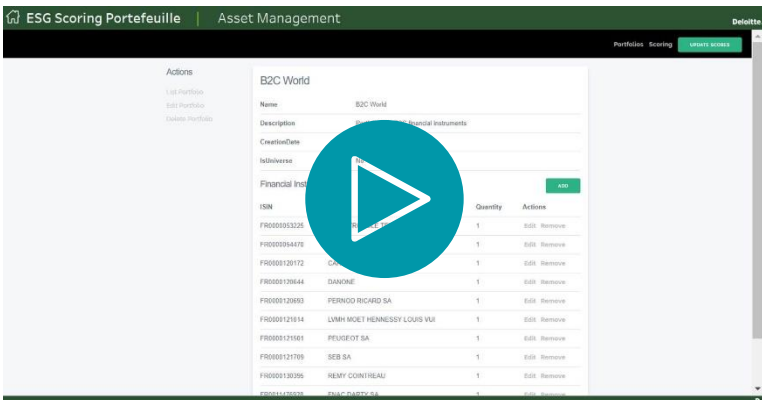
Portfolio analysis

Analysis of portfolio performance against index, identification of securities and ESG topics weak points and strengths



Real-time simulation

Simulation of portfolios in order to monitor ESG performance against defined threshold, index performance and/or indicators targets



Additional features implemented include also :

- qualitative analysis
- multi-model (corporates, FIs, sovereign, thematic funds, etc.)
- screening against client specific sectoral policies (such as coal exclusion)
- controversies analysis
- carbon footprint targets, 2°C alignment monitoring or climate risks heatmaps
- data quality and consensus analysis

Round Table Discussion



WorldClimate

Our Commitments

 Net Zero by 2030

 Operating Green

 Empowering Individuals

 Engaging ecosystems

Deloitte Ireland Impact 2020

Our Society and Planet Impact – Read more in our impact report



Reduce energy emissions
(Scope 1&2) by
10% per FTE
-35% reduction against
FY13 baseline



Reduce water by
10% per FTE
-9% reduction against
FY13 baseline



Reduce emissions
from waste by
10% per FTE

-75% reduction against
FY13 baseline

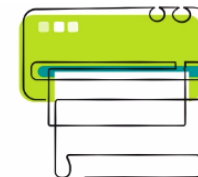


Reduce emissions
from travel by
10% per FTE

-9% reduction against
FY13 baseline



Reduce emissions from
paper consumption by
10% per FTE
-57% reduction
against FY13 baseline



How can Deloitte Help?

We have designed a framework to support sustainability risk integration and the provision of assurance over your ESG disclosures that can support boards of directors, audit committees and management in their journey towards compliance with SFDR disclosure requirements or other ESG frameworks.

Benchmarking and gap analysis

What is it:

Independent benchmarking of your current disclosures against recommendations and/or identifying gaps in your disclosures, processes or controls and reporting privately to management and those charged with governance.

What is it used for:

Benchmarking and gap analysis provides the basis of a roadmap to ESG disclosures.

Designing and Implementing ESG Frameworks

What is it:

Designing and implementing a policy and risk management framework that captures processes, controls and reporting privately to management and those charged with governance on the ESG integration.

What is it used for:

Policy and framework can be used to monitor ESG for all investment products.

Assurance over selected ESG metrics

What is it:

Private or public independent ISAE 3000 assurance over your ESG disclosures and metrics.

What is it used for:

Assurance over ESG disclosures and metrics can be a useful starting point on a path to SFDR disclosure compliance or provide investors with confidence you have integrated sustainability risk in investment decisions.



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