



# ESG Data: Managing Risk & Regulation

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# ESG Data: Managing Risk & Regulation

ESG Landscape is Rapidly Evolving



**Data  
Management**



**Climate  
Management**



**Investment Risk,  
Compliance & Regulatory**

# Industry Standard Reporting Burden

According to ESG Book - As of 2024, 1,255 ESG regulations have been introduced worldwide since 2011!



## TCFD

Global framework developed by the Financial Stability Board with recommendations on types of information that companies should disclose to investors on risks and opportunities around climate change.



## IFRS / ISSB

Initiative by the IFRS to standardize global reporting of both climate and general business / human capital sustainability, built off TCFD framework and likely adopted by several national governments once finalized.



## ESMA – SFDR

Requirement for UCITS and AIFMDs marketed within the EU to produce a reporting template across a variety of metrics including Principle Adverse Impacts, Precontractual Annexes and Periodic Disclosures.



## ESMA – European ESG Template

FinDatEx-developed template that standardises required data fields, as well as MIFID II and IDD. Includes information on sustainability preferences, EU taxonomy information, screening criteria and Article 8 and 9 information.



## UK FCA / DWP

Disclosure requirements based on TCFD for certain asset managers and asset owners based on size and type of fund. Includes CET – carbon emissions template created to help institutions meet their obligations if desired.



## UK SDR

Broad regime for consumer-facing sustainable investment fund labeling to help consumers navigate the investment product landscape and reduce greenwashing.



## BVI Version – EET

Delivery of SFDR European ESG Template in WM-Daten format for delivery to the German market.



## Luxembourg Subscription Tax

Tax D'Abonnement rules that reduce subscription tax for Lux-domiciled funds where they invest more than 5% in Sustainable Assets.



## SEC – ESG Disclosures

Rules to provide detailed reporting on climate-related risks, financial impact, and net-zero transition plans. A fund labeling regime is also in the works.



## MAS – Carbon Reporting

Monetary Authority of Singapore requires banks, insurers and asset managers to disclose climate-related risks annually, with TCFD reporting encouraged.



## SFC - TCFD Disclosures

Securities and Futures Commission requirements to develop baseline and enhanced requirements for large fund managers to disclose carbon footprint and other environmental metrics if they are deemed material.



## APRA – SPS530 ESG updates

Asset owners to report full spectrum of investment risks, including ESG risks as a part of prudential investment practices. CPG229 includes additional guidance for better climate decision making and best practices.



## FMA & ASIC – Climate Disclosures

Proposed TCFD-aligned climate-related disclosures for banks, insurers, asset managers and listed issuers, with the government likely to adopt ISSB. Greenwashing is also a key enforcement priority for ASIC.



## New Zealand

Largest banks, asset managers and insurers doing business in NZ (includes several Australian companies) must report TCFD-aligned metrics.



## Switzerland

TCFD-style report to be required beginning in 2025 for FY24 reporting for public companies, banks and insurance companies with 500 or more employees and at least CHF 20mm in assets or > CHF 40mm in turnover.



## China

Recently announced plans to open ISSB office in Beijing, with expectation to adopt some form of ISSB standards in the coming years.



## Japan

Mandatory climate reporting for “Prime Market” companies in place, likely to adopt some form of ISSB.



## Canada

Recently passed climate disclosure requirements for largest banks and insurers. Will also plan to adopt ISSB standards more broadly once finalized, in conjunction with commitments made by the G7.



## Korea

Basic emissions disclosure requirements are currently voluntary but to be phased in from FY25. Korea Sustainability Standards Board (KSSB) launched in anticipation of ISSB finalization and likely to adopt thereafter.

# Sustainability Regulation (EU)

## **Sustainable Finance Disclosure Regulation (SFDR)**

- Promote Transparency & Accountability
- Defined Reporting & Disclosure Requirements
- Principal Adverse Impacts (PAI's)

## **Legislative measures requiring integration of sustainability factors and sustainability risks**

- Applicable to registered fund managers
- Should be aligned with the Sustainable Finance Disclosures Regulation (SFDR)
- Maintain resources & expertise for the effective integration of sustainability risks
- Consider sustainability risks as part of the ongoing monitoring of investment
- Senior management of the management company is responsible to take sustainability risks into account

# Risk Management Process

Identify



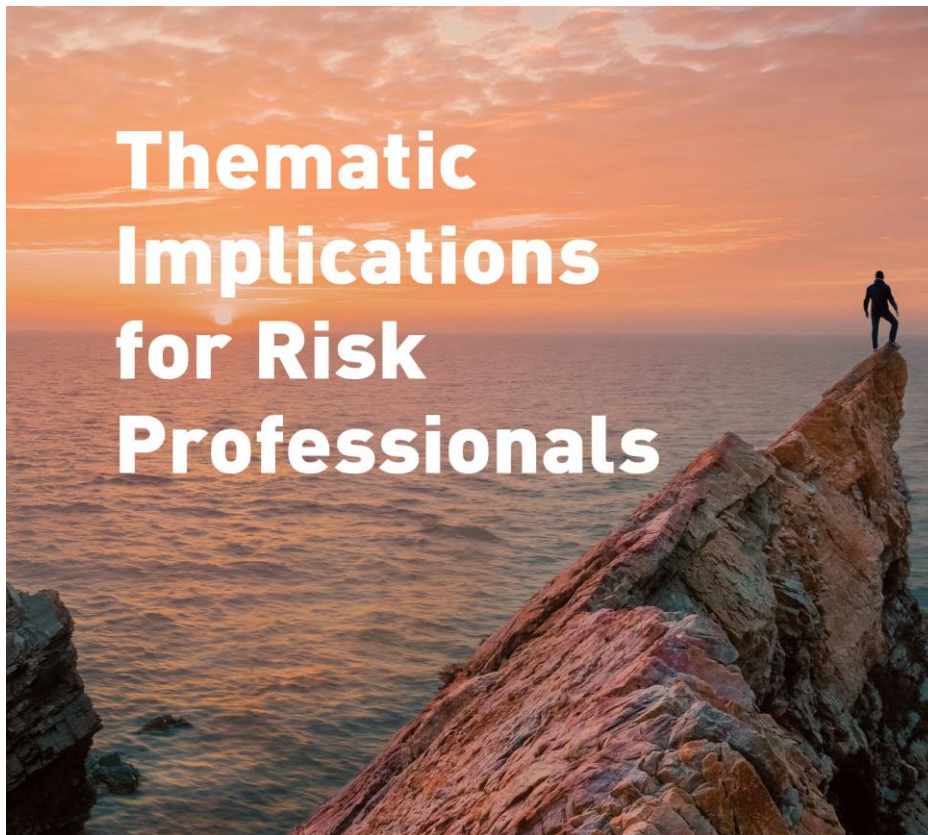
Measure



Monitor



Report



- Sustainability risk become a core element of fund risk management.
- From due diligence in fund selection to the ongoing monitoring, sustainability will factor in alongside other risks: market, liquidity, operational and counterparty risks. Integration to occur at both Entity and Product level.
- Principal Adverse Impact (PAI's) are a new consideration for risk management. Prioritization of PAI will vary depending on investment strategy and the sustainable objectives of the funds.

# Sustainability Factors

## TRADITIONAL RISKS

**Market Risk**

**Liquidity Risks**

**Credit Risk**

**Operational Risks**



## SUSTAINABILITY FACTORS

**Water Stress**

**Supply Chain**

**Emissions**

**Corruption**

**Landfills**

**Labour Rights**

**Board Diversity**

**Business Ethics**

**Health & Safety**

**Data Privacy**

### Characteristics of Traditional Financial Risks

- ❖ Measurable
- ❖ Quantifiable impact
- ❖ Well researched

### Characteristics of ESG Risk

- ❖ Many are intangible risks
- ❖ Hard to measure
- ❖ Evolving
- ❖ Difficult to estimate timing of risks

# Uncertain Climate Impacts: Framework to Align Reporting

## Task Force on Climate-related Financial Disclosures (TCFD)

### Recommended Disclosures

- **Governance:** Disclose governance around climate-related risks and opportunities.
- **Strategy:** Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.
- **Risk Management:** Disclose how the organization identifies, assesses, and manages climate-related risks.
- **Metrics & Targets:** Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities, including within investment portfolios.

# What Metrics & Targets Are Required?

## Disclosures in the “Metrics & Targets” section

### **Risk-based metrics may include:**

- Physical risks (i.e., extreme weather, rising temperatures)
- Transition risks (i.e., increased energy prices, technology transition risks, changes in customer behavior)

### **Opportunity-based metrics may include:**

- Measures of improved resource efficiency (i.e. use of recycling, move to efficient buildings, water usage)
- Use of new energy and technologies (i.e. use of lower-emission sources of energy, participation in carbon markets)
- Development of new business activities (i.e. R&D or capital spending on development of new low-emissions products & services)

### **GHG Emissions**

- Scope 1, 2, and 3 GHG emissions
- Total carbon emissions and footprint
- Weighted average carbon intensity (WACI)
- Historical annual calculations after first year
- Assets under "orderly", "disorderly", and "hot house" scenarios
- Climate value-at-risk and temperature rise alignment
- Amount or % of assets or business activities vulnerable to physical and transition risks
- Amount or % of assets or other business activities aligned with climate opportunities



# Data Management

## Industry Challenges

- Vendor data – Requires due diligence & training to find reliable vendor(s) and compile all data points
- Data coverage – Using a single data vendor usually leads to insufficient coverage (e.g., 70% of a portfolio)
- Lack of standardized approach – (asset class, aggregation methods, normalization of metrics)
- Fund look-through – Every asset within a portfolio needs a score mapped to it
- Reporting requirements/timing – Hard to follow evolving deadlines and template needs
- Portfolio monitoring – Improve portfolio sustainability and lower ESG-related investment risk
- Greenwashing avoidance – Non-compliance presents substantial reputational risk

# Governance & Quality Is Important



## Standard Quality Checks:

- Flag changes to vendor data source (data format, structure, units or field naming convention)
- Data read procedures and data coverage breaches (i.e., alert if threshold % of no coverage is breached)
- Audit ESG data across vendors to ensure comparability
- Exception reporting
- Automated reconcile

## Supporting Customization

- Apply rules, calculations, custom tags, proprietary score

## Consumer Reporting

- Trend analysis
- Interactive usability
- Regulatory Reporting packaging (EET, SFDR, TCFD, etc..)

# Data Monitoring / Quality Checks

## Example

07/31/2023  (P) 2202, 2244, 2277, 22T2, 2...  (R) ESG NPV  Run as client

**Market Data Coverage + BD** (Fund - Security Market Description)

Fund	Security Market ...	NPV	NPV (Proportion)	Trucost Carbon-Scope 1	Trucost Carbon-Scope 1 BD (12/30/2022)	Trucost Carbon-Scope 1 Large Change
Total		4,351,841,679.84	100.00	1,431,709.53	1,651,936.33	Small
22T6	ATKORE INC	10,052,537.85	0.23	19,700.00	1,936.95	Large
22T6	NABORS INDUST...	1,487,886.03	0.03	1,012,222.99	1,011,688.59	Small
22T6	GOODYEAR TIRE ...	6,258,738.00	0.14	1,335,470.75	1,335,458.43	Small
22T6	ALEXANDER & BA...	641,875.20	0.01	40,599.49	40,599.45	Small
22T6	INTERNATIONAL ...	1,907,704.31	0.04	680,688.44	680,688.44	Small
22T6	EMCOR GROUP INC	11,263,580.16	0.26	154,006.22	154,006.22	Small
22T6	LUMEN TECHNOL...	271,394.43	0.01	222,798.11	222,798.11	Small
22T6	CHAMPIONX CORP	573,872.00	0.01	39,061.32	39,061.32	Small
22T6	VERITIV CORP	8,518,642.83	0.20	63,667.00	63,667.00	Small
22T6	AMN HEALTHCAR...	1,461,097.40	0.03	25,975.95	25,975.95	Small
22T6	INTREPID POTAS...	5,358,595.00	0.12	27,454.30	27,454.30	Small
22T6	LIVANOVA PLC	3,951,629.15	0.09	20,869.94	20,869.94	Small

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# Risk Factors

## Ratings, Analytics and Factors

**Sustainalytics ESG Analysis** (Fund Description - Country - Sector - Security Name)

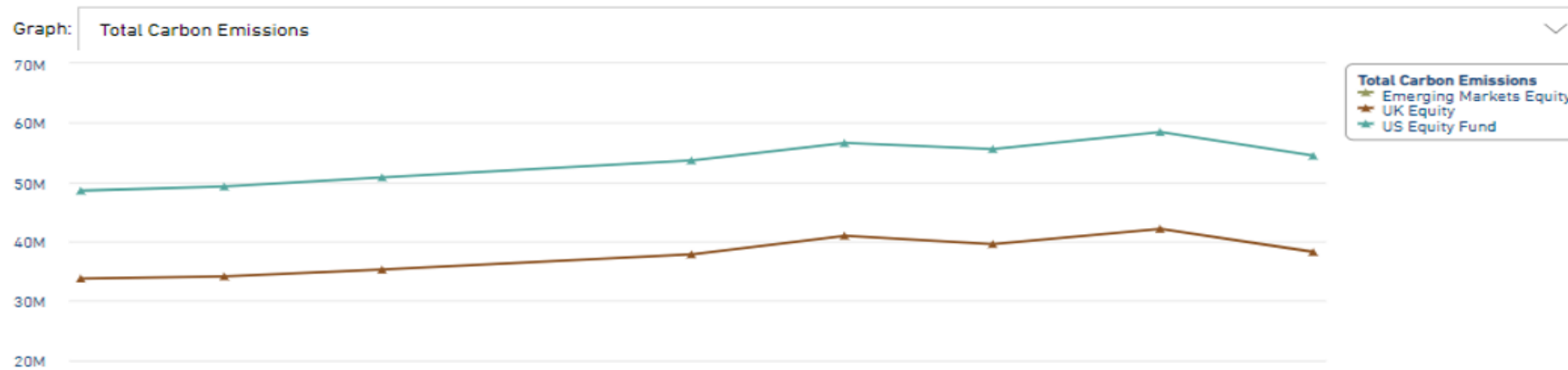
Groupings	Weight	ESG Risk Score	Environment-Risk Score	Social-Risk Score	Governance-Risk Score	Status	Overall Beta
Total		26.57	6.25	10.66	9.17	Amber	
> Corp HY	100.00	28.95	7.82	11.92	8.20	Amber	
√ Emerging Markets Equity	100.00	26.13	6.01	10.38	9.53	Amber	
> PAKISTAN	0.02	46.20	2.72	14.48	20.41	Amber	
> ARGENTINA	0.01	45.13	23.78	11.46	9.89	Red	1.11
> PERU	0.20	39.06	11.97	15.71	11.39	Amber	1.04
> KUWAIT	0.52	34.96	2.50	15.31	17.64	Amber	0.96
> SAUDI ARABIA	2.86	34.19	10.09	11.95	12.43	Amber	1.00
> QATAR	0.69	32.07	7.23	11.16	14.03	Amber	0.97
> RUSSIAN FEDERATION	2.84	31.51	12.08	9.57	9.91	Amber	1.00
> CZECH REPUBLIC	0.11	30.83	9.98	11.45	9.40	Amber	1.01
> BRAZIL	4.64	30.79	9.73	11.66	9.34	Amber	1.05
> INDONESIA	1.19	29.74	6.91	11.30	10.87	Amber	0.97
> TURKEY	0.28	28.85	9.13	10.81	9.45	Amber	1.00
> MALAYSIA	1.40	28.69	7.90	11.43	9.48	Amber	1.01
> HONG KONG	2.31	28.52	8.45	11.68	8.80	Amber	0.95
> POLAND	0.68	28.44	8.93	10.16	9.72	Amber	0.95
> CHILE	0.50	28.20	9.11	9.81	9.28	Amber	0.95
> COLOMBIA	0.15	27.79	7.98	11.02	8.79	Amber	0.95
> CYPRUS	0.14	27.59	7.94	7.78	4.58	Amber	0.94
> HUNGARY	0.21	27.35	3.36	12.79	11.19	Amber	0.96
> INDIA	9.36	27.12	7.08	10.46	9.29	Amber	1.01

**Understand E, S & G Risk Factor Exposures**

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# Climate Target – Setting and Tracking

Setting targets and measuring progress against those targets is an important tenant of TCFD reporting



Carbon Intensity (tonnes CO2e) (Fund - Industry Group - Industry SubGroup - Security Name)

Groupings	Carbon Intensity-Scope 1	Carbon Intensity-Scope 2	Carbon-Scope 1	Carbon-Scope 2	Carbon-Scope 3
<b>Total</b>	243.96	72.23	5,263,334.37	1,827,052.21	4,783,396.90
> Corp HY	312.14	59.31	4,381,840.20	777,470.79	2,443,277.04
> Emerging Markets Equity	235.55	79.00	5,627,997.27	2,158,241.22	5,206,529.04
∨ Global Equity Fund	121.99	37.56	3,987,828.94	1,456,537.89	7,471,605.25
> COAL	2,947.79	96.41	90,824,526.59	870,823.98	5,910,656.94
∨ ELECTRIC	2,130.99	96.88	35,135,264.60	1,874,551.15	3,802,033.59
> INDEPEND POWER PRODUCER	4,627.32	23.03	49,374,379.89	155,407.00	4,788,473.00
> ELECTRIC-GENERATION	2,582.73	66.69	49,330,951.50		
> ELECTRIC-INTEGRATED	2,326.42	97.42	38,483,307.31		
> ELECTRIC-DISTRIBUTION	455.21	76.07	4,128,879.47		
∨ ELECTRIC-TRANSMISSION	43.48	371.37	161,448.94		
— Power Grid Corp Of India Ltd	146.17	0.71	733,196.75		
— Interconexion Electrica SA ES	128.55	2.40	315,727.37		
— Terna SpA	26.06	609.11	68,414.20		
— Red Electrica Corporacion SA	10.28	122.59	23,791.27	283,704.00	102,006.18

- Identify key areas of risk
- Drill down into climate data by fund, sector, geography, and individual holding

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# Key Takeaways:

## **Risk Management:**

Growing interconnectedness between traditional risk factors and ESG factors

## **Compliance and Monitoring:**

Essential for regulatory adherence and greenwashing avoidance

## **Data Management:**

Now crucial to make informed decision across a multi-vendor landscape

## **Carbon Management:**

Increased demand by investors to assess the climate-related risks with their portfolio

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