



SWISSFINTECHLADIES

THE FIRST WOMEN IN FINTECH IN SWITZERLAND

Why ESG Reporting is not ESG Risk Management

By Karen Wendt

Sustainable Finance
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Reasons

- Unchecked self-reporting according to GRI-Guidance Note (No information or process audit) forms basis of ESG-Ratings
- Low correlation between the ESG-Ratings of the two biggest ESG-Rating Providers (MIT/ETH 2022) of only 0.2
- ESMA (European Security and Markets Authority) has slammed ESG-Ratings as inconsistent
- Recently regulators began to focus on greenwashing
- Reporting comes too late and carries too little information, therefore unfit for forward-looking decision making
- The silent implication in ESG-Ratings is the assumption, that the internal risk management system collected the information reported



Greenwashing

According to SFI, Greenwashing occurs, if...

Appearance

...the positioning
contradicts applied
practices



**The
Guardian**

Credit Suisse fined £350m over
Mozambique 'tuna bonds' loan scandal

Bank also pleads guilty to wire fraud and forgives hundred of
millions of dollars of debt owed by country

Information

...deceptive or misleading
information about the
product is present



HANDELSZEITUNG

**Razzia bei der Deutschen
Bank und DWS wegen
Greenwashing-Verdacht**

Consulting

...customer preferences do
not match the product



Neue Zürcher Zeitung

Greenwashing: Den Blendern in
Sachen Nachhaltigkeit soll es an den
Kragen gehen



Greenwashing



„However, a portion of the funds were unaccounted for, with one of Mozambique’s contractors later found to have secretly arranged “significant kickbacks” worth at least \$137m, including \$50m for bankers at Credit Suisse meant to secure more favourable deals on the loans, according to regulators”



„Desiree Fixler, former sustainability officer [...] said DWS's claim that hundreds of billions of its assets under management are "ESG-integrated" is misleading”



„But the companies are not always as green as they present themselves to the outside world [...] External presentation and reality are different “

4



Risks can be categorized by Risk Types

➤ Credit Risks

- Credit Default Risk: Risk of counterparty payment default
- Credit Migration Risk: Risk of deterioration in the creditworthiness of the counterparty

➤ Market Price Risks

- Foreign Currency Risks & Commodity Risks of the banking and trading book
- Position Risks (Interest rate and equity-related risks in the trading book)

➤ Operational Risks

- Risk of losses caused by the inadequacy or failure of internal processes, people, systems, or by external factors



ESG-Risks are Operational Risks

SUSTAINABLE FUTURE

Dutch claim international first as North Sea offshore wind farms powered down to protect migratory birds

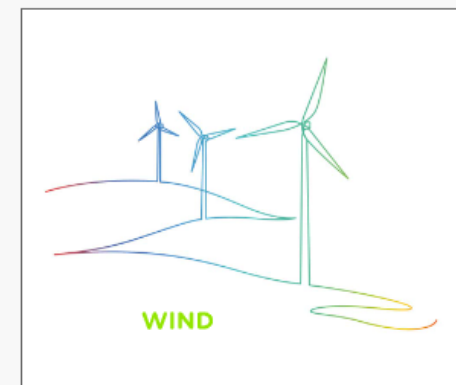
PUBLISHED WED, MAY 17 2023-9:35 AM EDT

Anmar Frangoul

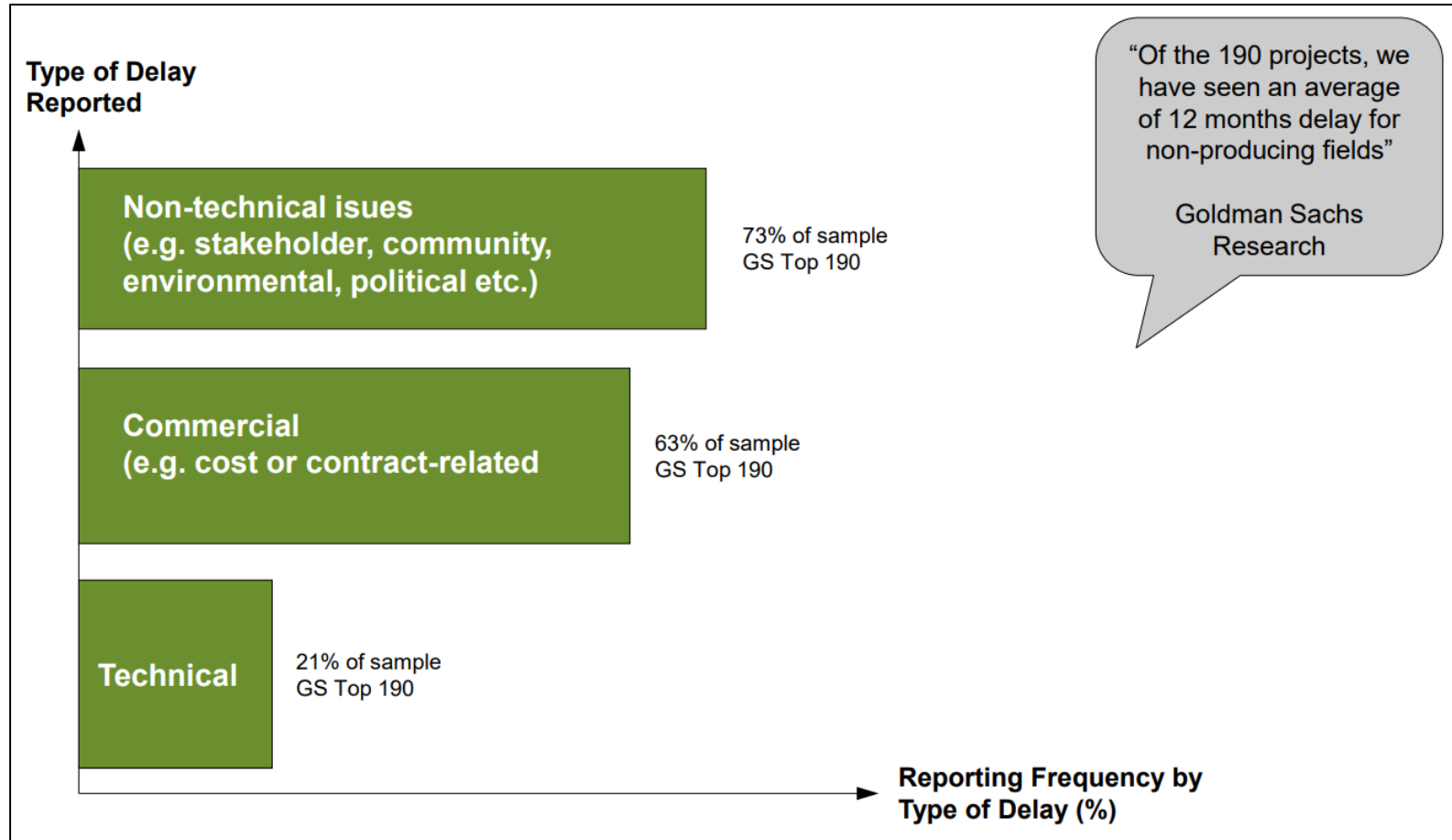
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KEY POINTS

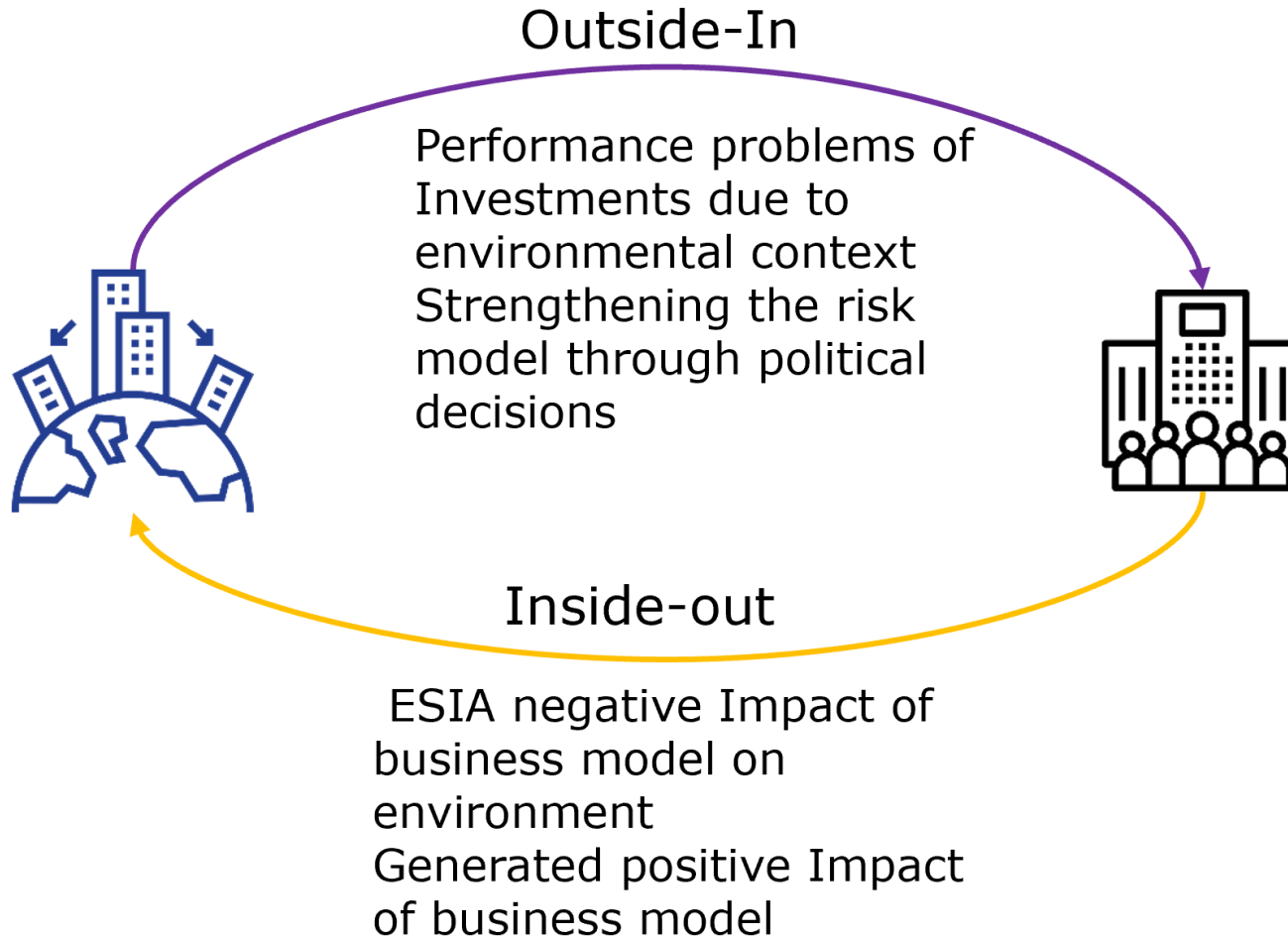
- Offshore wind farms in the North Sea were powered down to a maximum of just two rotations per minute on May 13, according to Dutch authorities.
- The initiative uses a number of tools to determine when turbine output should be reduced.
- “This is an international first, nowhere in the world are wind farms at sea shut down to protect birds during massive bird migration,” Rob Jetten, the Netherlands’ minister for climate and energy policy, says.



Twelve Months no Cash Flow

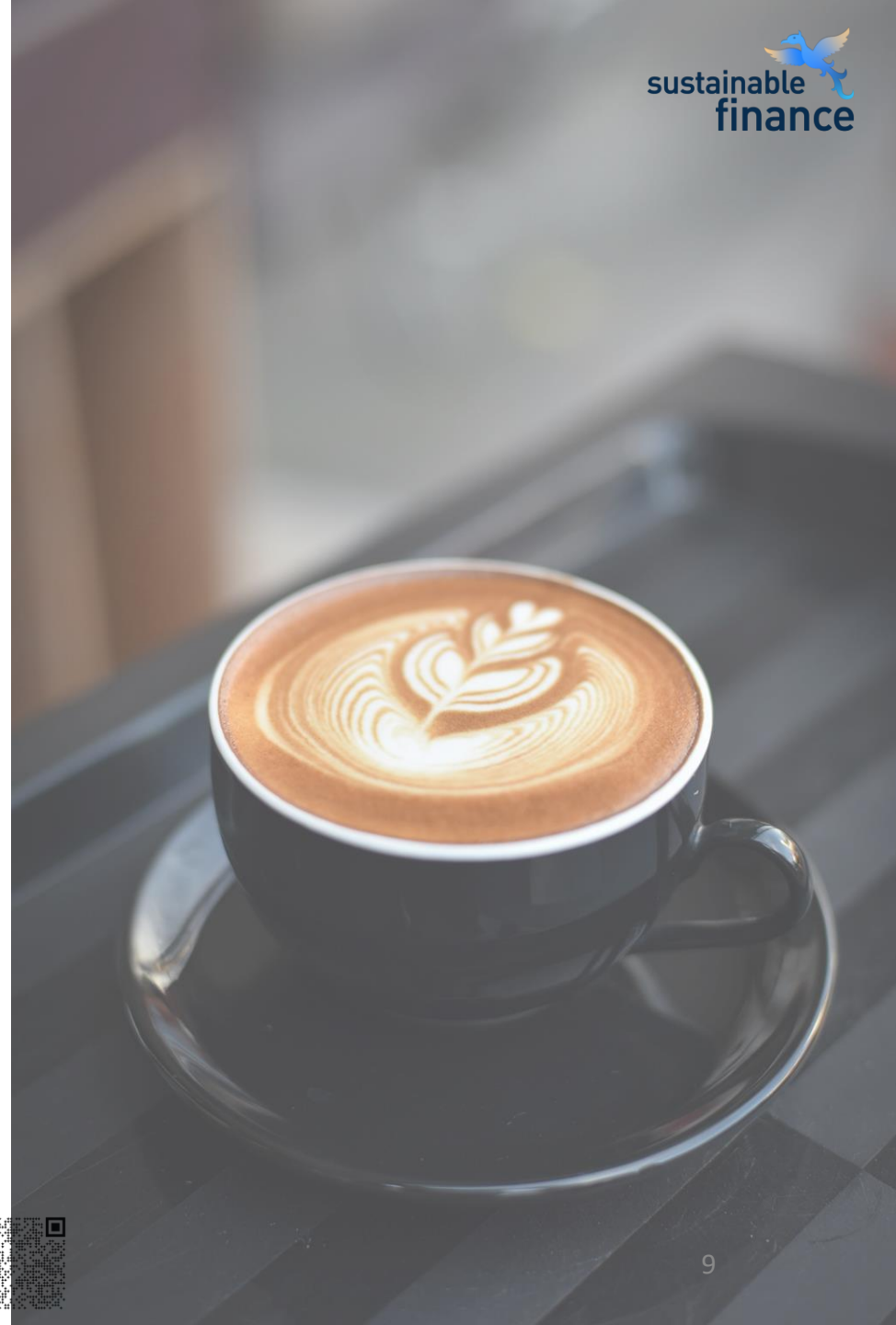


Double Materiality

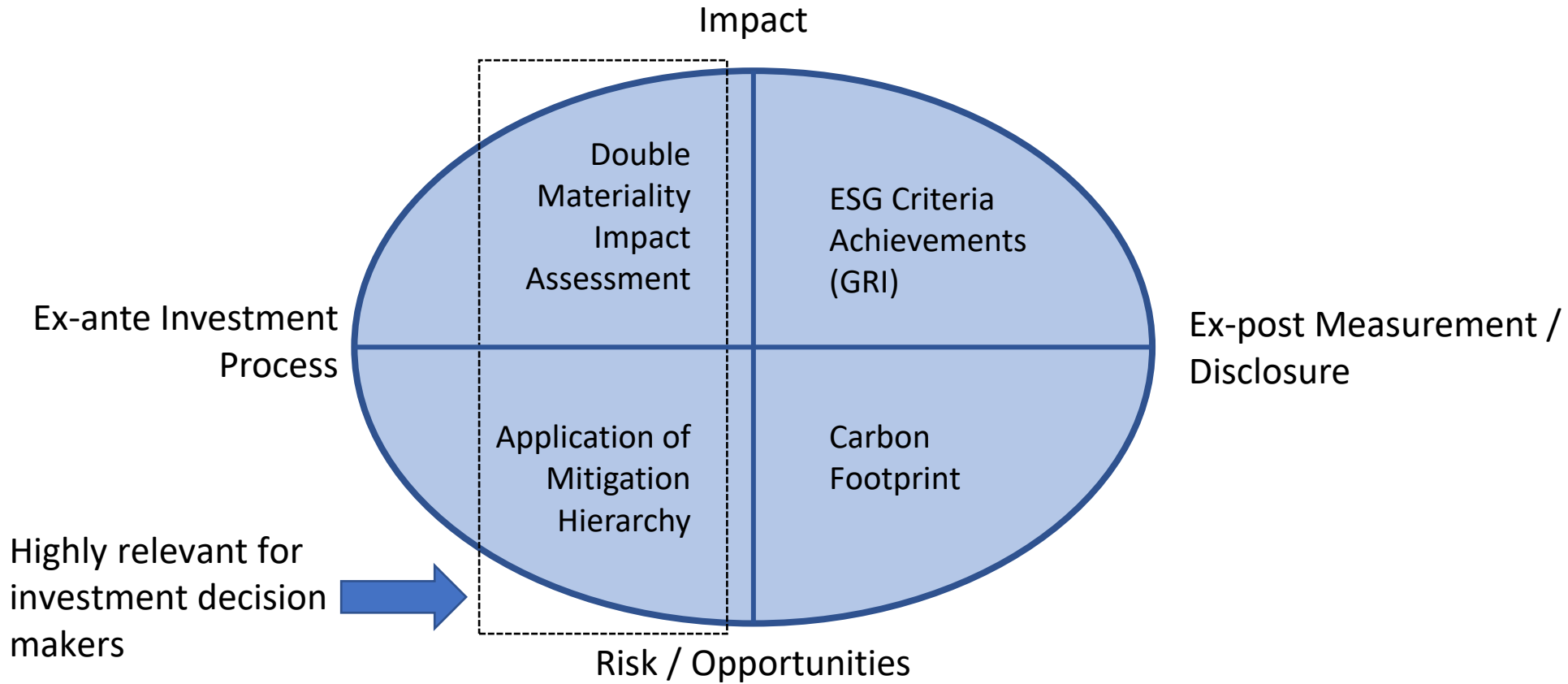




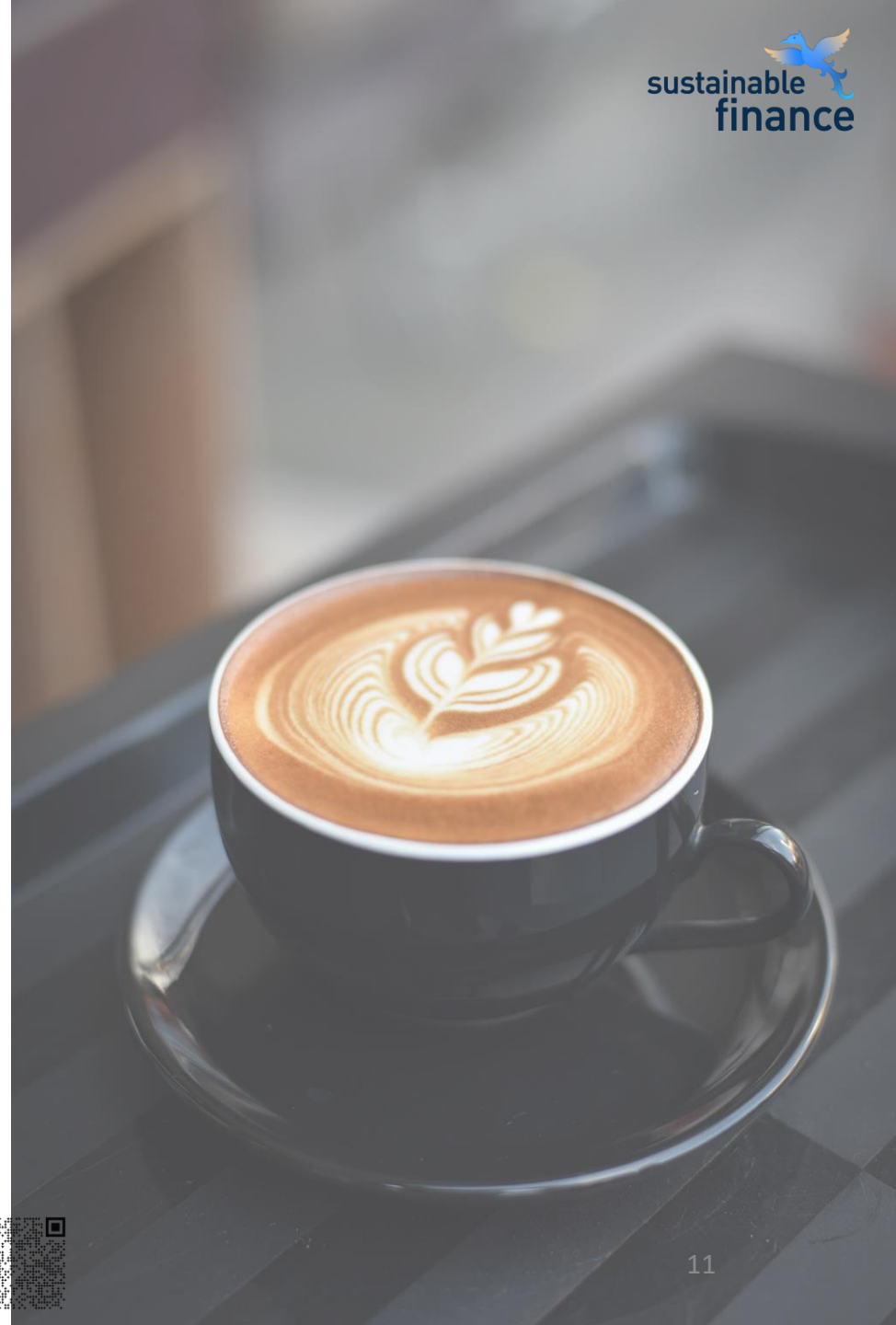
All this is not considered in ESG- Reporting



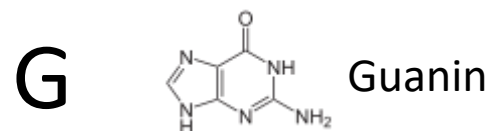
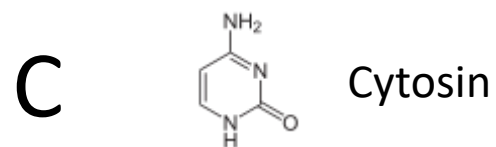
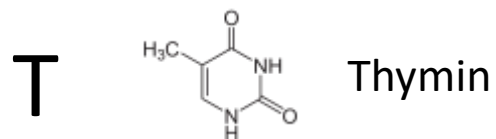
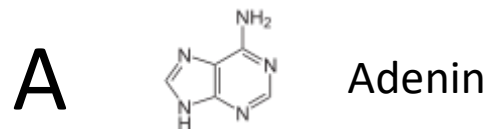
Difference between Reporting and Risk-Management



What you need is a risk culture in your company DNA



Your Risk DNA – ATCG



Anticipation

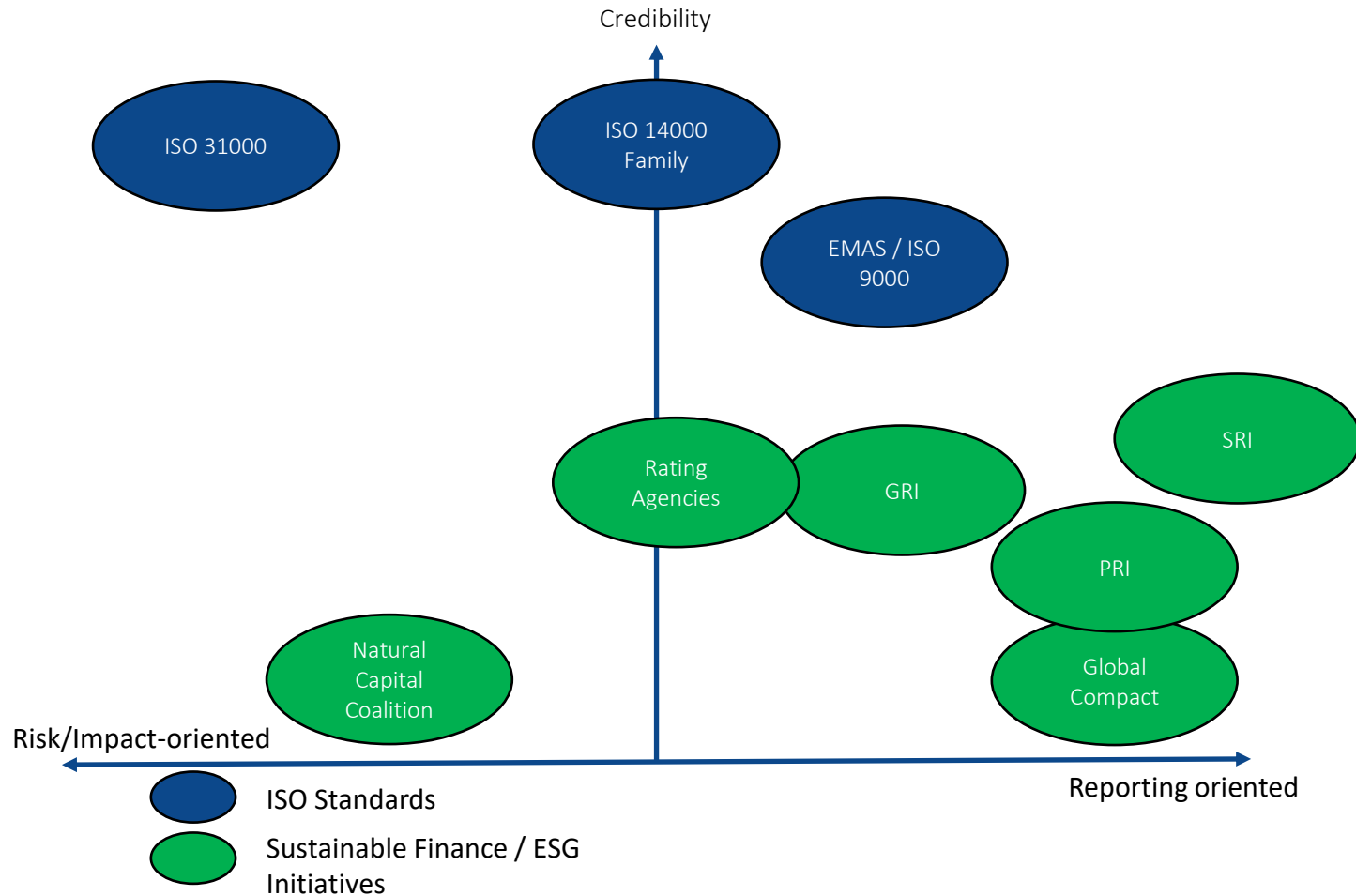
Three Lines of Defense
Theories of Change

Cynefin

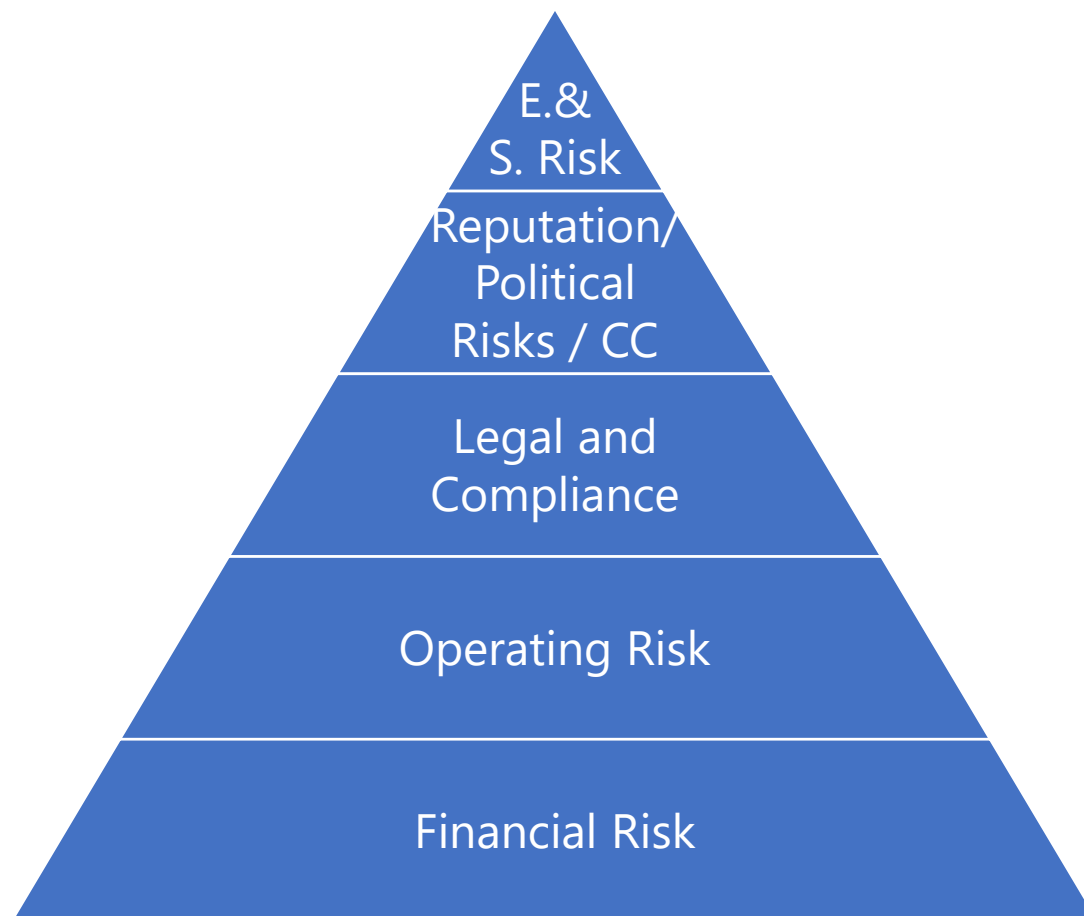
Governance



ESG Reporting versus Risk Management



Risk redefined using RMS



- Environmental and Social Risk Management Systems according to ISO Norms (1403, 15000ff, 50000ff, 26000)
- [ISO/TC 207](#) Environmental Management
[ISO/TC 322](#) Sustainable Finance
ISO 31000
- Compliance Department: Legal Opinions, anti-money laundry, corruption audits including ISO Norms
- ISO Standards (22301, 9000)
- Internal financial analysis and usage of Rating Agencies

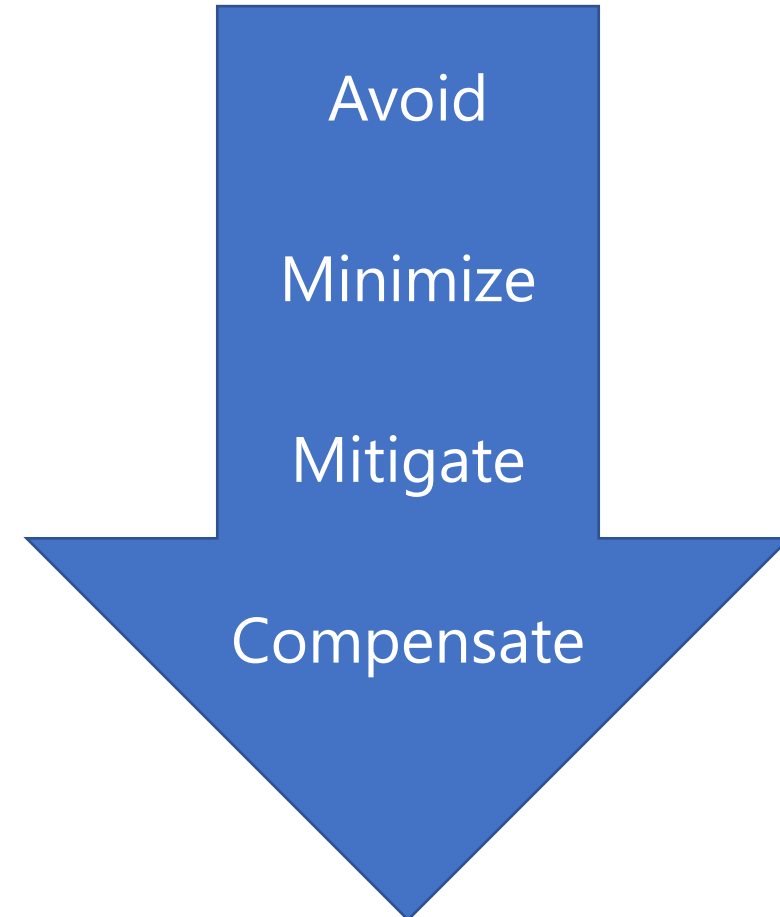


Corporate Social Responsibility: A new norm for Business

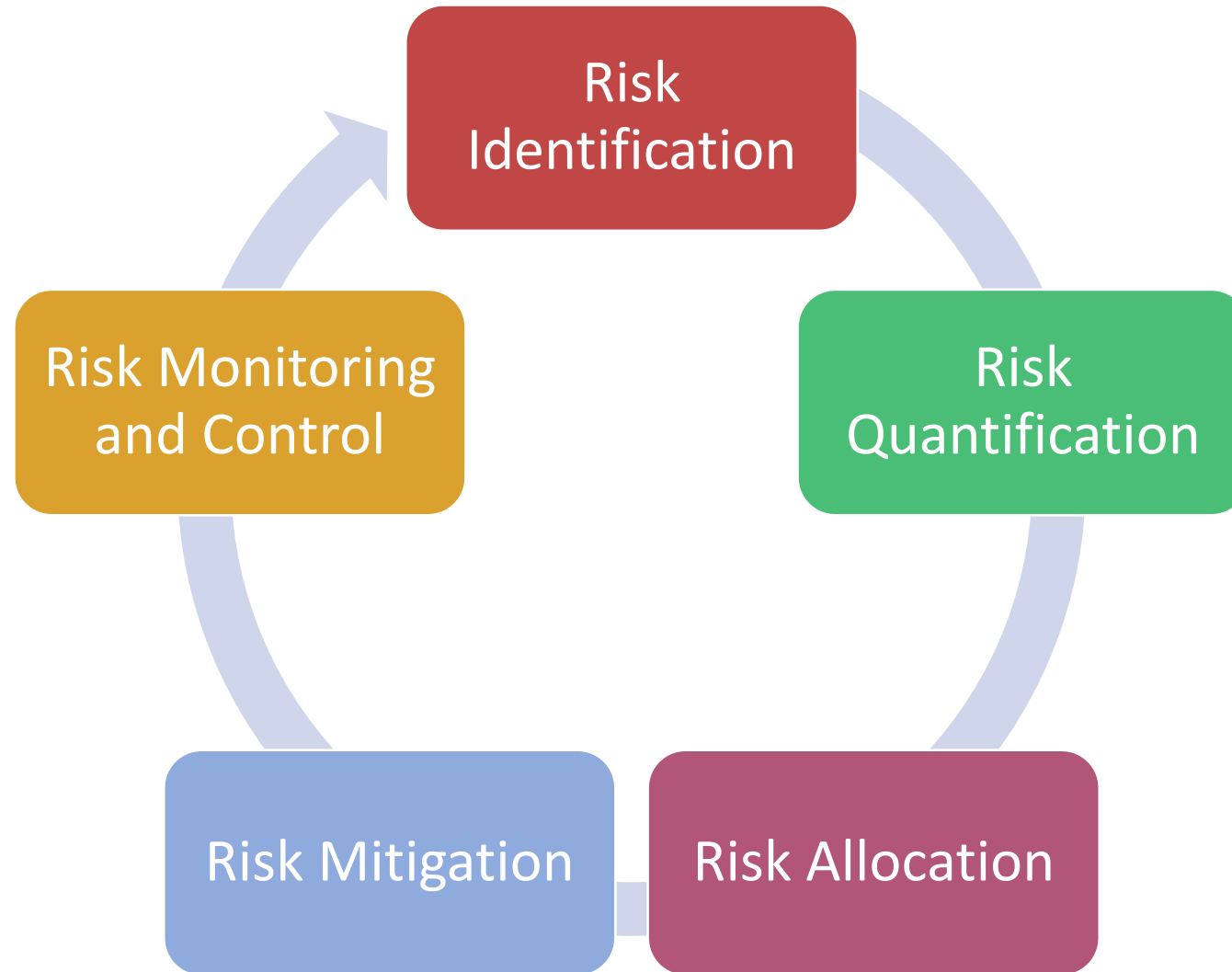
ISO 26000



Environmental and Social Management Systems and ESG Due Diligence



Risk Identification Process

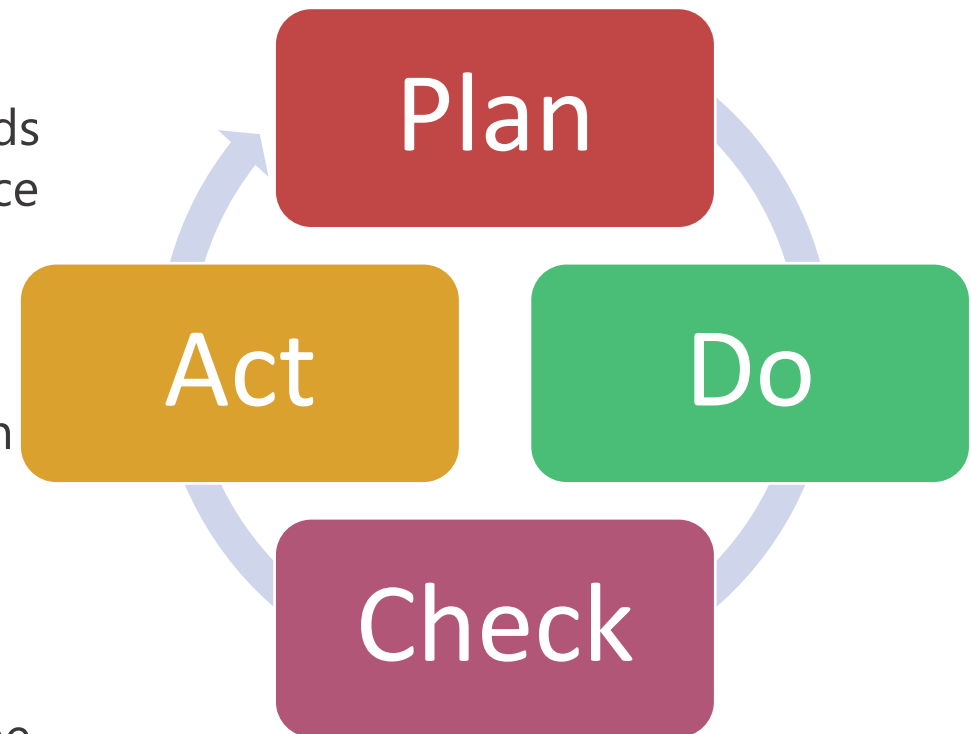


Evaluation and Quality Management (Plan Do Check Act)

PDCA is used for starting new improvement processes, redefining and improving elements of the company, implementing change. This is why investors use ISO standards as a proxy for sound Risk Management in their Due Dilligence

- P – Plan:** Describing the process to organize a change, choosing indicators and outlining the actions
- D – Do:** Testing the process, implementation and application
- C – Check:** Reviewing the test, analyzing the results and the learnings
- A –Act:** Taking actions based on the learnings

The cycle can be repeated several times, every step should be carefully documented. PDCA uses Kaizen logics.

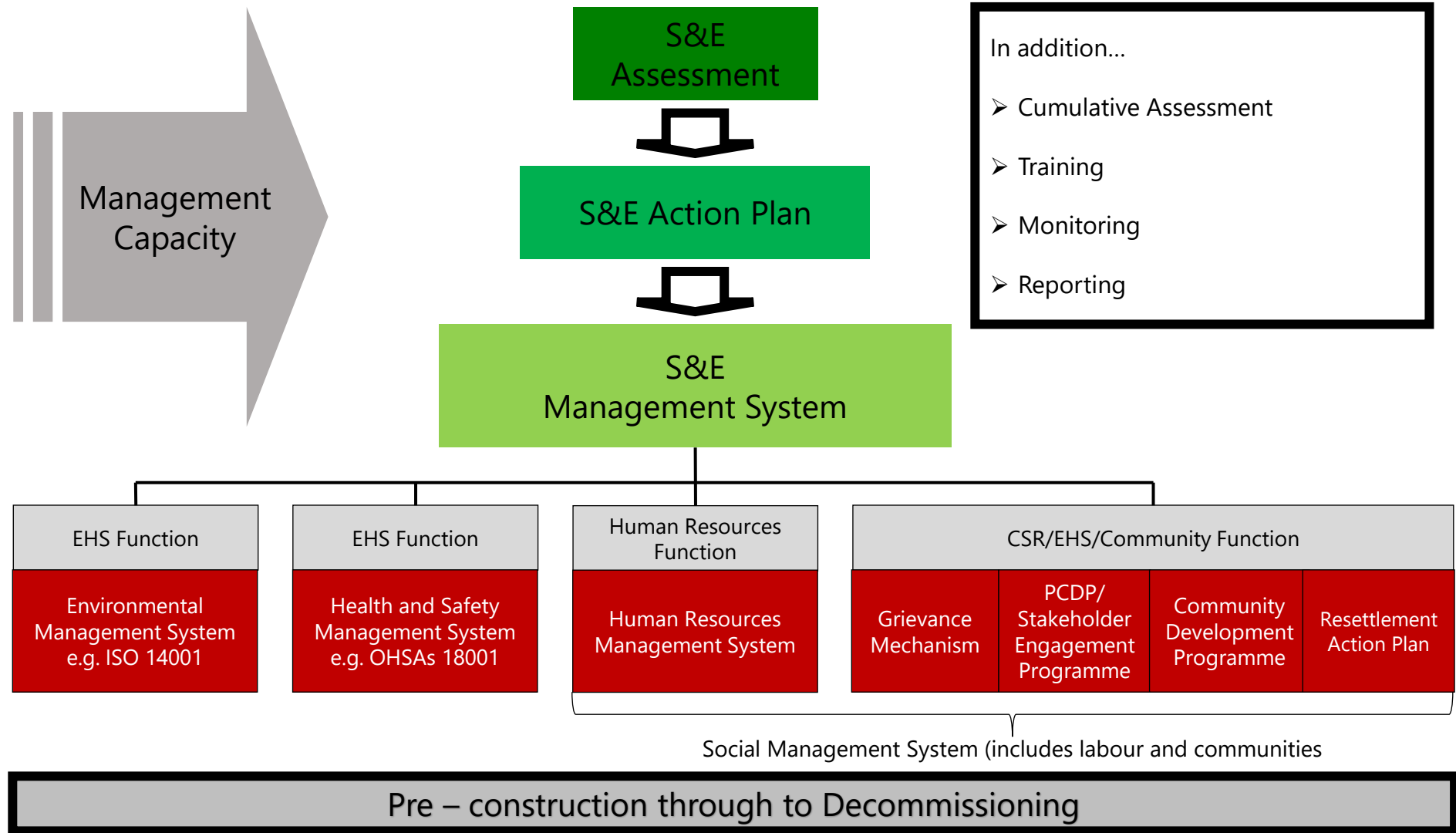


ESG Risks – negative impacts on company performance

ESG Issues / Risks	Companies
Mismanagement concerning massive environmental pollution and employee safety	BP
Mismanagement concerning company culture and the respect of legislation and business ethics	BARCLAYS
Mismanagement concerning customer safety	GENERAL MOTORS



RMS to control negative impact



EU Taxonomy – Apply Tools

Environmental Objective

or

Social Objective



Does No Significant Harm (DNSH) to other Environmental and Social Objectives



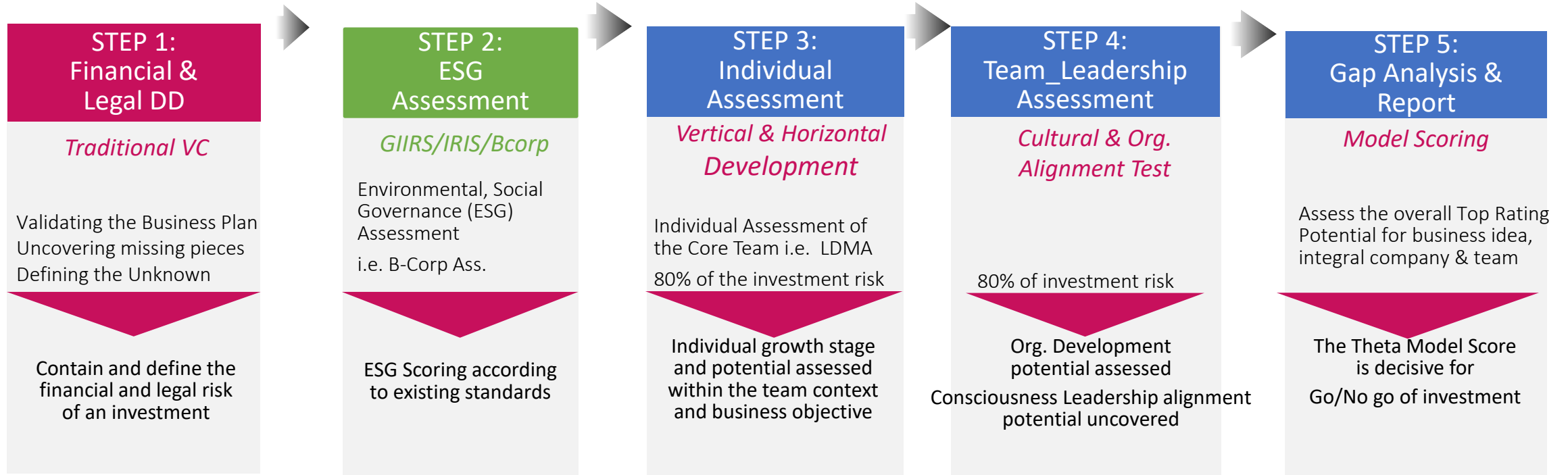
The investee company adheres to good governance practices*



*e.g. OECD norms-based screening, International Labour Organisation (ILO), UN Human Rights, etc.



Alternative Investments have an extensive ESG Due Diligence Process



Define Actions

- Brief senior management and obtain its support
- Establish an institution-wide working group
- Conduct a regulatory impact assessment
- Revise existing offerings, processes and publications (disclosures and prospectus)
- Create feedback loops
- Be vigilant
- Establish an Environmental and Social Management System, integrate ISO world
- Establish a “Three Lines of Defense” Approach





Discussion



Thank You!

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Angel Investing Club



Swiss Fintech Ladies



Podcast



Extra-Financial Risk and Impact Reporting - GRI

Global Reporting Initiative (GRI) or Global Risk Institute in Financial Services (GRI)

The GRI standards create a common language for organizations to report their sustainability impacts in a consistent and credible way.

GRI standards have been created according to the international labor practices and the ISO (International Organization for Standardization) regulations.

The Canadian GRI, the Global Risk Institute in Financial Services, is a network of banks, insurance companies and funds. This GRI builds integrated risk management capacities for private and public sector risk professionals.

