**BNP PARIBAS**
**WEALTH MANAGEMENT**

The bank
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world

# Responsible investment in 5 questions

Q1

## WHAT IS SUSTAINABLE DEVELOPMENT?

Sustainable development is “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”, as expressed for the first time by Gro Harlem Brundtland, Prime Minister of Norway, in the Brundtland Report in 1987. There followed a period of growing awareness on the part of an increasing number of actors in civil society as well as international and private-sector organisations, culminating in 2015 in the adoption of the Paris Agreement on climate change and the 17 UN Sustainable Development Goals.

To put these commitments into action, various regulations have since been adopted across the American, Asian and European continents. In Europe, an ambitious programme of new policies and regulations was announced in 2019 with the launch of the EU Green Deal.

**2019**
Launch of Green Deal for Europe

**2015**
Paris Agreement on climate change

Definition of 17 Sustainable Development Goals

**1987**
“Sustainable development” defined for first time

Q2

## WHAT IS RESPONSIBLE INVESTMENT?

Investing can be done on a multitude of instruments: Shares or bonds on the primary market, shares or bonds on the secondary market, funds, structured products, unlisted products, etc. Not all will have the same impact on the development of the chosen company’s activities. However, responsible investment must be applicable to any type of instrument.

The traditional approach of so-called ‘responsible’ investors is to exclude certain controversial sectors or practices from their portfolios.

Since the end of the 20th century, responsible investment has expanded and other approaches have emerged, using extra-financial environmental, social and governance (ESG) criteria. Responsible investment thus makes it possible to favour companies that create long-term value, limit the negative effects of their activities on the environment and/or society, or provide solutions to climate and/or social challenges, while contributing to the implementation of good corporate governance practices.

**2 Main approaches**

1. Limiting negative impacts (e.g. reducing total greenhouse gas emissions, increasing the percentage of women at board level)
2. Providing solutions (e.g. water treatment, access to education)

Q3

## WHAT ARE THE ESG CRITERIA?

Used by the financial community, this international acronym stands for the environmental, social and governance criteria that constitute the three pillars of non-financial analysis.

These criteria make it possible to assess how companies exercise their responsibility towards the environment and their stakeholders (employees, partners, subcontractors and customers).

With the adoption of European regulations, some of these criteria have been extended to ensure greater standardisation when it comes to identifying adverse impacts and “sustainable” activities.

**About the**
EU Taxonomy

**E**

### ENVIRONMENTAL CRITERIA

These refer to the environmental impacts generated by the company, both directly and indirectly: $CO_2$ emissions, energy consumption, effects on biodiversity, measures relating to waste and waste management, consideration of the circular economy, as well as risk prevention.

**S**

### SOCIAL CRITERIA

These examine the company’s treatment of its employees (preventing accidents at work, training, workers’ rights, gender equality, labour relations, etc.) as well as its behaviour towards partners and end-customers (e.g. sustainable management of subcontractor chain).

**G**

### GOVERNANCE CRITERIA

The focus here is on issues such as the independence of the board of directors and its diversity, management structure, criteria for executive pay, etc.

Q4

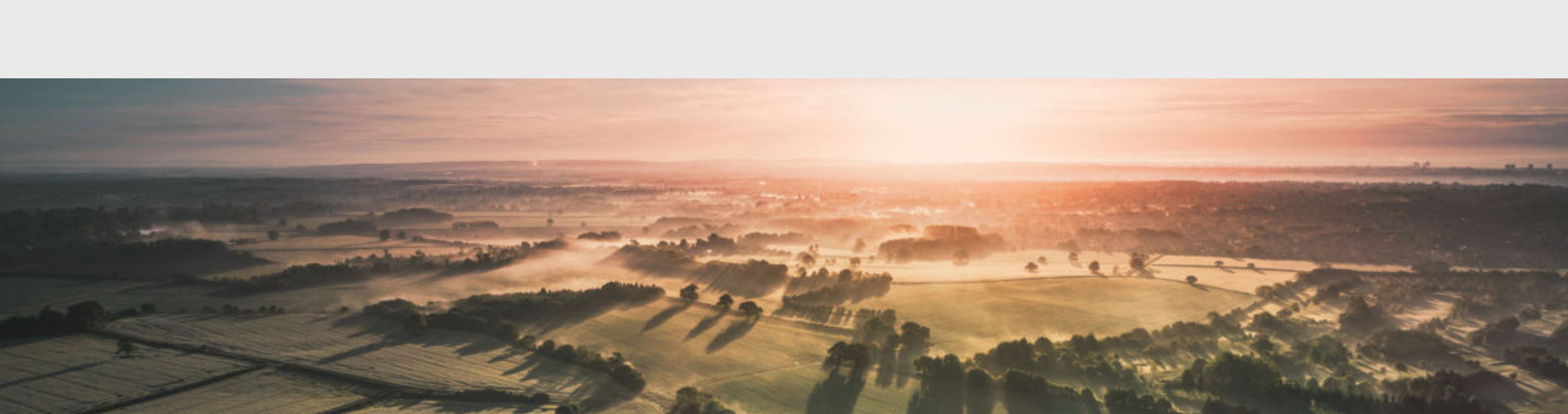
## HOW DO WE MEASURE THE EFFECTS OF RESPONSIBLE INVESTING ON THE ECONOMY, CLIMATE AND SOCIETY?

Measurement of ESG integration in terms of responsible investing requires reporting standards that are just as rigorous as those used in the reporting of financial results. That is one of today’s big challenges.

To measure and disclose the degree of ESG integration, financial market participants communicate their practices and results via special reports covering various indicators.

A big variety of indicators and calculation methods still exists to this day. To harmonise practices and enable investors to conduct a more objective comparison of financial products that incorporate sustainability criteria, the EU’s Sustainable Finance Disclosures Regulation (SFDR) therefore brought in beefed-up transparency rules for financial market participants in March 2021.

**About the**
Sustainable Finance Disclosures Regulation (SFDR)



Q5

## FOSSIL FUELS AND SUSTAINABLE FINANCE: ARE THEY COMPATIBLE?

Fossil fuels contribute to global warming. It is vital that we sharply reduce their use and replace them with low-carbon energy sources.

However, our economies and societies have been built on fossil fuels and, as things stand, cannot completely survive without them. Fact is, we are still largely dependent on fossil fuels for essential needs such as transporting people and goods – as is all the more apparent against the backdrop of the energy crisis we are currently experiencing.

The development and financing of low-carbon energy projects on a massive scale are vital if we are to significantly wean ourselves off fossils fuel and therefore accelerate our exit from them. Accordingly, a number of banks are providing support to fossil-fuel companies that are committed to genuinely transitioning their business model in line with the trajectory set out under the Paris Agreement; at the same time, these banks are severing their business ties with firms that are not signed up to a transition plan.

The EU Taxonomy – which stems from the European regulatory framework – is a kind of dictionary of sustainable activities. It enables the later to be identified as part of the activities of companies that are pure players, or that are in the course of transitioning. Such activities currently represent a small percentage of the sales of traditional companies; however, the aim of the EU Green Deal and other similar initiatives in other parts of the world is to rapidly favour the development of such business models.

## OUR EXPERTS CAN HELP YOU ACHIEVE YOUR GOALS

Our responsible investing experts are on hand to support you in the face of ever-changing regulatory and market environments.