“THE WAYS IN WHICH SUSTAINABLE FINANCE COULD HELP TO SHAPE THE MONEY MARKET IN THE FUTURE”

PRESENTATION TO THE ECB MONEY MARKET CONTACT GROUP

ILEANA PIETRARU,
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“Climate change constitutes a major challenge, causing both threats and opportunities that will significantly affect the economy and the financial sector, depending on which carbon emission scenario eventually unfolds.

That is why central banks need to devote greater attention to understanding the impact of climate change, including its implications for inflation dynamics. At the ECB, the ongoing review of our monetary policy strategy creates an opportunity to reflect on how to address sustainability considerations within our monetary policy framework.

Today, however, I will focus my remarks on climate change-related risks for the financial sector. Broadly speaking, the main risks fall into three categories: risks stemming from disregard, from delay and from deficiency. [...]”

United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development. UNEP FI works with more than 300 members – banks, insurers, and investors – and over 100 supporting institutions – to help create a financial sector that serves people and planet while delivering positive impacts. We aim to inspire, inform and enable financial institutions to improve people’s quality of life without compromising that of future generations. By leveraging the UN’s role, UNEP FI accelerates sustainable finance.

Industry-based principles

UNEP FI supports global finance sector principles to catalyze integration of sustainability into financial market practice. The frameworks UNEP FI has established or co-created include:

- **Principles for Responsible Banking (PRB)** launched with more than 130 banks collectively holding USD 47 trillion in assets, or one third of the global banking sector, on 22 September 2019.
- **Principles for Sustainable Insurance (PSI)**, established 2012 by UNEP FI and today applied by one-quarter of the world’s insurers (25% of world premium).
- **Principles for Responsible Investment (PRI)**, established in 2006 by UNEP FI and the UN Global Compact, now applied by half the world’s institutional investors (USD 83 trillion).

These frameworks establish the norms for sustainable finance, providing the basis for standard-setting and helping to ensure private finance fulfils its potential role in contributing to achieving the [2030 Agenda for Sustainable Development](https://www.unepfi.org/about/) and [Paris Agreement on Climate Change](https://www.unepfi.org/about/) agreed by governments around the world in 2015.

Source: https://www.unepfi.org/about/
Green, Social, Sustainability Bonds are “any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible”:
- “Green Projects” - Green Bond Principles\(^1\)
- “Social Projects” - Social Bond Principles\(^2\)
- “a combination of both Green and Social Projects” – Sustainability Bond Guidelines\(^3\)

Positive Impact Bonds
- UNEP-FI principles for Positive Impact Finance\(^4\)

Sustainability-Linked Bonds (“SLBs”) are “any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ESG objectives.” Sustainability-Linked Bonds principles\(^5\)
SNAPSHOT OF GLOBAL SUSTAINABLE INVESTING ASSETS, 2016 - 2018

<table>
<thead>
<tr>
<th>Region</th>
<th>2016</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>$12,040</td>
<td>$14,075</td>
</tr>
<tr>
<td>United States</td>
<td>$8,723</td>
<td>$11,995</td>
</tr>
<tr>
<td>Japan</td>
<td>$474</td>
<td>$2,180</td>
</tr>
<tr>
<td>Canada</td>
<td>$1,086</td>
<td>$1,699</td>
</tr>
<tr>
<td>Australia/New Zealand</td>
<td>$516</td>
<td>$734</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$22,890</strong></td>
<td><strong>$30,683</strong></td>
</tr>
</tbody>
</table>

Note: Asset values are expressed in billions of US dollars. All 2016 assets are converted to US dollars at the exchange rates as of year-end 2015. All 2018 assets are converted to US dollars at the exchange rates at the time of reporting.

Source: Global Sustainable Investment Alliance’s Review 2018

SUSTAINABLE DEBT MARKET ANALYSIS

Overall

The sustainable debt market has been dominated by green, but the share of other themes has grown in recent years, both in terms of amount issued and number of issuers.

Overall, the market performed strongly in H1 2020, with over US$250bn issued versus US$341bn for the full year of 2019.

Due to COVID-19, however, the market’s composition is noticeably different this year, with a much more even split between themes than previously. Further, the fact that a large part of social and sustainability bond issuance in H1 2020 financed COVID-19 response measures means that most non-green volumes - and likely around half of the total sustainable debt market - financed pandemic-related investments in H1 2020. (See Methodology for more detail on our analysis process and definitions.)

Source: Climate Bonds INITIATIVE, Sustainable Debt, Global state of the market, H1 2020
https://www.climatebonds.net/resources/reports/sustainable-debt-global-state-market-h1-2020

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SUSTAINABLE FINANCE
APPLIED TO MONEY MARKET

USE CASE CP/MTN

Which mechanism?
- Use of proceeds?
- KPI-linked?
- ESG rating based?

Which challenges?
- Time horizon?
- Incentive mechanism?
SUSTAINABLE FINANCE – OPEN QUESTIONS ON POTENTIAL CONSEQUENCES FOR THE MONEY MARKET

SUSTAINABLE INVESTMENT APPROACHES OR INTERNAL ESG GUIDELINES – POTENTIAL IMPACTS?

Various questions could be raised:

» On issuers which are preferred as counterparties?

» On issuers whose securities are eligible to portfolios?
# EXISTING EUROPEAN LABELS

<table>
<thead>
<tr>
<th>Label</th>
<th>Governance</th>
<th>Attribution</th>
<th>Type of label</th>
<th>Annual cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRI Label (France)</td>
<td>Standalone stakeholder committee, supported by the Ministry of Finance</td>
<td>Accredited auditors</td>
<td>SRI/ESG investment process</td>
<td>Fee including the audit and promotion costs</td>
</tr>
<tr>
<td>FNG-Siegel (Germany, Austria &amp; Switzerland)</td>
<td>Expert committee under the stewardship of FNG(^1)</td>
<td>GNG (FNG’s labelling entity) &amp; Uni. Hamburg</td>
<td>SRI/ESG investment process with climate exclusions. Point system</td>
<td>€4200</td>
</tr>
<tr>
<td>LuxFLAG ESG (Luxembourg)</td>
<td>LuxFLAG(^2)</td>
<td>LuxFLAG</td>
<td>SRI/ESG investment process</td>
<td>€3000</td>
</tr>
<tr>
<td>Towards Sustainability (Belgium)</td>
<td>Central Labelling Agency(^3) (CLA)</td>
<td>Verifiers appointed by the CLA</td>
<td>Quality standard combining requirements on the investment process and exclusions</td>
<td>Fee per labelled product collected by CLA</td>
</tr>
<tr>
<td>Umweltzeichen (Austria)</td>
<td>Austrian Federal Ministry for the Environment</td>
<td>Ministry</td>
<td>SRI/ESG investment process with climate exclusions. Point system</td>
<td>Variable annual fee</td>
</tr>
<tr>
<td>Nordic Swan Ecolabel (Nordic countries)</td>
<td>Nordic Ecolabelling Board(^4), on a mandate from Nordic governments</td>
<td>Nordic Swan</td>
<td>SRI/ESG investment process with climate exclusions &amp; green reporting. Point system</td>
<td>€3000 + fixed charge</td>
</tr>
<tr>
<td>LuxFLAG Environment (Luxembourg)</td>
<td>LuxFLAG(^2)</td>
<td>LuxFLAG</td>
<td>Thematic investments and ESG criteria</td>
<td>3000€</td>
</tr>
<tr>
<td>LuxFLAG Climate Finance (Luxembourg)</td>
<td>LuxFLAG(^2)</td>
<td>LuxFLAG</td>
<td>Thematic investments and ESG criteria. Climate exclusions</td>
<td>3000€</td>
</tr>
<tr>
<td>Greenfin Label (France)</td>
<td>Standalone stakeholder committee, chaired by the Ministry for the Ecological and Fair Transition</td>
<td>Accredited auditors</td>
<td>Thematic investments and ESG criteria. Climate exclusions</td>
<td>Depending on auditor</td>
</tr>
</tbody>
</table>

Source: NOVETHIC, Overview of European Sustainable Finance Labels – January 2020

\(^1\)Sustainable investment forum (German-speaking countries)
\(^2\)Cross-border labelling agency with founding members from the financial sector in Luxembourg
\(^3\)The Central Labelling Agency (CLA) is the not-for-profit association that awards the Towards Sustainability Label

\(^4\)Nordic Ecolabel is a voluntary label created by the Nordic Council of Ministers in 1989 and available for about sixty categories of retail products. The « Financial Products » category was introduced in 2017.
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