FS Club

FS Club

News Events Partnerships

Risk In The Boardroom – Are You Making The Right Calls?

Webinar

Friday 28 Aug 2020

FS Club

FS Club

News Events Partnerships

A Word From Today's Chairman

Professor Michael Mainelli

Executive Chairman

Z/Yen Group

FS Club

Invest Northern Ireland
Red Hat
CDI 综合开发研究院 China Development Institute
G T Global Times Consulting
Seoul Together we stand

Platinum Sponsors

LuxembourgforFinance Agency for the Development of the Financial Centre
CASABLANCA FINANCE CITY القطب المالي للدار البيضاء
BIFC BUSAN INTERNATIONAL FINANCE CENTER
AIFC
FINANCE MONTRÉAL
ABU DHABI GLOBAL MARKET
Dubai International Financial Centre

Gold Sponsors

PEERNOVA
Aptitude SOFTWARE
BRIDGEWORKS
FEATURE SPACE OUTSMART RISK
ARBORETUM
Crown Agents Bank
CERIDIAN

Silver Sponsors

P2 CONSULTING
InfrasoftTech Fintech Digital Solutions
Bottomline
BCS CONSULTING Expect Excellence
PRAXITY Empowering Business Globally
ESTATES AND INFRASTRUCTURE EXCHANGE®
The Technium Global SERVICE WITH INTEGRITY

Bronze Sponsors

Profile Software
(expleo)
CONTACT PARTNERS
alyne

Personal Sponsors

Challenge Curve
Currencycloud
worldpay
mastercard
RADIX
ZB
LEI GLOBAL LEGAL ENTITY IDENTIFIER FOUNDATION
cuffassociates
GPS global processing services
THE TRANSPARENCY TASK FORCE
CYGNETISE
Catalina Consulting
AMSOM
GIBRALTAR STOCK EXCHANGE
Volanté

Agenda

FS Club
News Events Partnerships

15:00 – 15:05	Chairman's Introduction
15:05 – 15:30	Keynote Address
15:30 – 15:45	Questions & Answers

FS Club

FS Club

News Events Partnerships

Risk In The Boardroom – Are You Making The Right Calls?

Garry Honey

Founder

Chiron

FS Club webinar

Risk in the boardroom –
are you making the right calls?

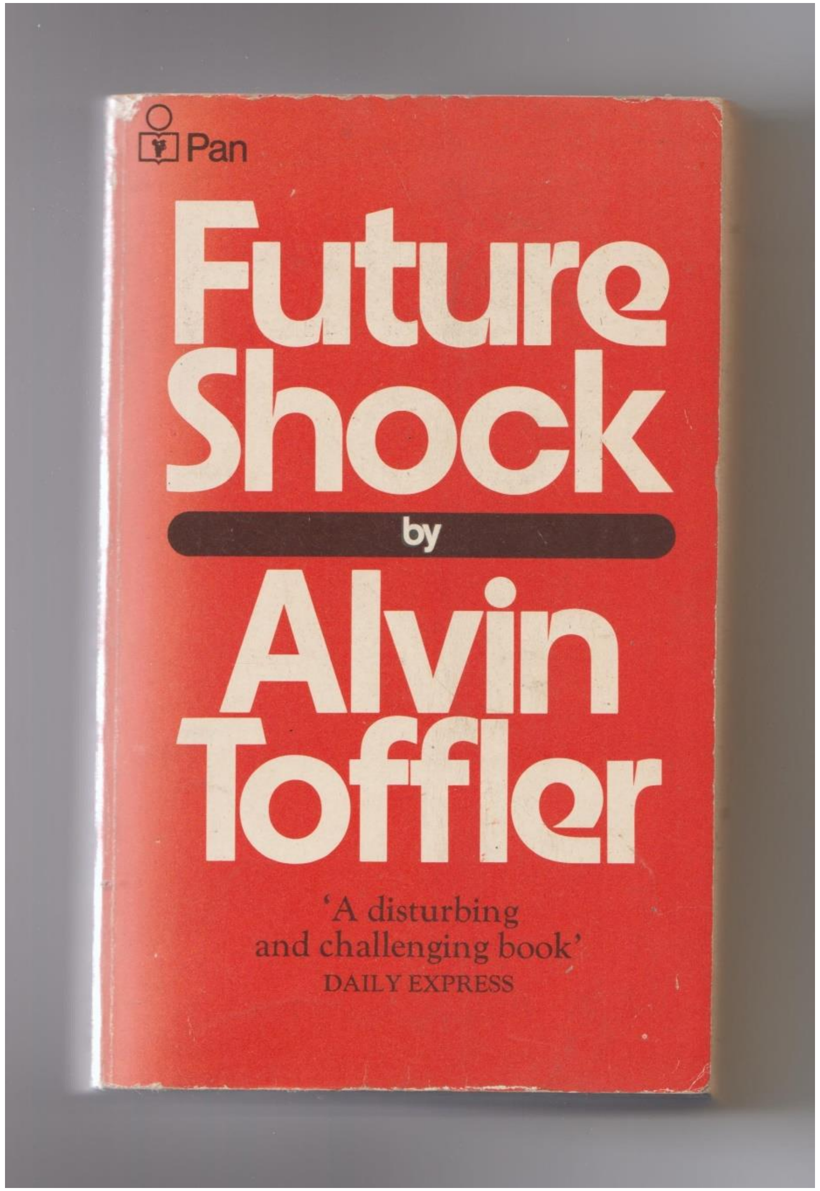
Garry Honey – Chiron risk 28 Aug 2020

Milton Friedman 1970

' The social responsibility of business is to increase its profits' – discuss

Source: https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html

50 years ago.....



Pan
Future Shock
by
Alvin Toffler
'A disturbing and challenging book'
DAILY EXPRESS

BLACKROCK

Larry Fink 2020

“The one thing that is very clear in this Covid world ... [is that] **stakeholder capitalism** is only going to become more and more important, and the companies that focus on all their stakeholders — their clients, their employees, the society where they work and operate — are going to be the companies that are going to be the winners for the future,”

Larry Fink 17 July 2020

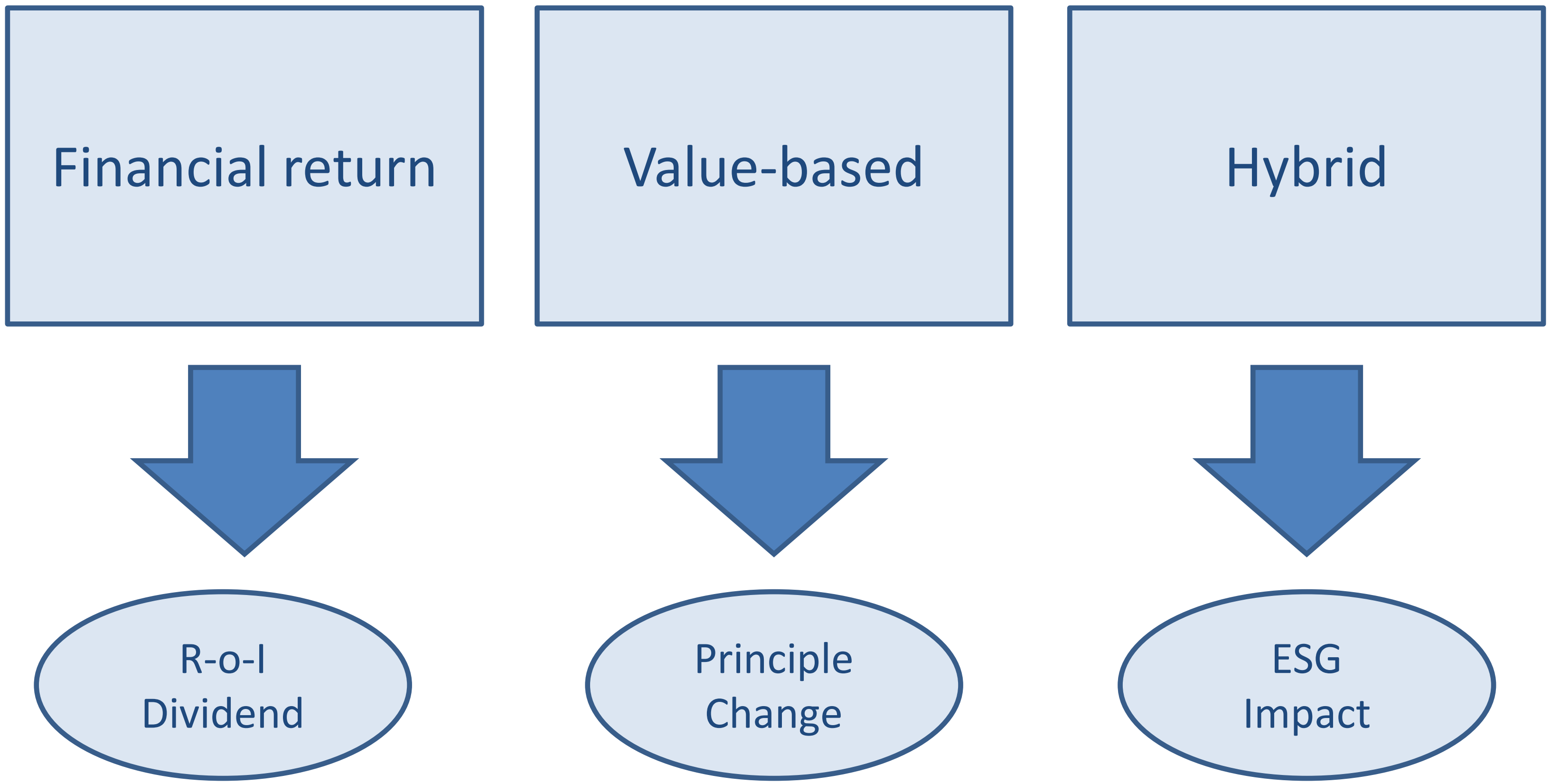
First poll

Do you believe:

1. Friedman is basically right - a board should answer only to shareholders

2. Fink is right - a board can serve society & environment as well as shareholders

Investment aims



ESG categories MSCI – May 2020

Socially Responsible Investing (SRI)	ESG Integration	Impact Investing
Aligns investments with an organization or individual's ethical values by expressing preferences for what industries and companies they invest in. These preferences may take the form of *values-driven exclusions*, whereby these investors avoid companies involved in business activities that conflict with their ethical, religious, environmental, social or other values-based convictions. *Values-driven exclusions are <u>not</u> implemented for financial reasons.*	Aims to assess *long-term* financial risks and opportunities related to ESG issues as a core component of building a resilient and sustainable portfolio for the specific purpose of enhancing long-term risk-adjusted returns.	Targets investments to generate positive social or environmental impacts in line with the investor's views or mission. These strategies *sometimes* put the positive impact at par or ahead of financial returns and so may not provide superior risk-adjusted returns.

Source: MSCI – Principles of Sustainable Investing – May 2020

Sustainable Investing Pitchbook US – July 2020

Value-based Investing	Environmental, Social, & Governance (ESG)	Impact Investing
Investors use screening & exclusion, divestment, positive reinvestment and shareholder activism. To drive positive social or environmental change	Metrics by which to measure a company's risks outside of a financial accounting framework: Non-Financial risks.	Investing in companies and funds with an eye toward both financial returns and measurable social and/or environmental impact

Source: https://pitchbook.com/blog/what-are-the-differences-between-sri-esg-and-impact-investing

Sustainable investing - Kiplinger US - Aug 2020

Socially Responsible Investing (SRI)	Environmental, Social & Corporate Governance (ESG)	Impact Investing
Entails screening investments to exclude businesses that conflict with the investor's values. SRI dates back to John Wesley, the founder of the Methodist movement, who urged his followers to avoid investing in "sin stocks" that generated profits through alcohol, tobacco, weapons or gambling. Common SRI exclusions in modern times include fossil fuel producers and firearms manufacturers. SRI is the simplest (and often the least expensive) values-based investing approach.	Focuses on companies making an active effort to either limit their negative societal impact or deliver benefits to society (or both). The Sustainability Accounting Standards Board (SASB) aims to standardize the ways companies report on ESG criteria to better inform investors, including determining which ESG issues companies should prioritize based on sector and industry. An example of an ESG investment might be buying stock in a technology company that converts one of its data centres to use renewable energy, resulting in cost benefits as well as a positive effect on the environment.	Is characterized by a direct connection between values-based priorities and the use of investors' capital. These funds not only report on financial performance, but they also try to generate and quantify a positive societal impact — for instance, number of schools built, measures of economic activity in a low-income community, or reduction of carbon footprint by X units. Impact investors are often able to deploy funds in service of causes that are not directly addressed by the public financial markets, such as community development and poverty alleviation.

Source: https://www.kiplinger.com/investing/601240/sri-vs-esg-vs-impact-investing

Sustainability

‘Assets under management in funds that abide by environmental, social and governance (ESG) principles have surpassed **$1 trillion** for the first time on record, according to data compiled by Morningstar’. CNBC 11 Aug 2020

Sustainable – really?

'Investment funds branded as "sustainable" are under fire for their heavy exposures to US tech giants at the centre of controversies over **data privacy, labour practices and monopolistic behaviour**……

8 of the 10 best performing large-cap US funds that incorporated ESG metrics as a key part of their selection process had either Apple, Amazon or Microsoft as their biggest holding…. on average, 17 per cent of those 10 funds' portfolios are in so-called **Faang stocks** — a grouping that includes Facebook, Amazon, Apple, Netflix and Google'.

"The man on the street would definitely be surprised about those companies' inclusion in ESG funds," - ShareAction, a responsible investment charity.

Source: FT 14 Aug 2020 https://www.ft.com/content/ea295d51-d5c2-4916-8c63-017c352ea577

MSCI – Sustainable Impact metrics:

MSCI ESG research taxonomy of sustainable impact solutions

Source: https://www.msci.com/documents/1296102/14524248/MSCI_ESG-Research-Solutions_August2020.pdf/1adf54a5-bbaa-a273-fc21-1453f96f3c52

ESG disclosures - EU NFRD: June 2019 TEG

	Disclosure Factor - Environment
1	Carbon intensity
2	Fossil fuel sector exposure %
3	Green revenues %
4	Green bonds %
5	Exposure to climate related risk
6	Climate related risk – methodology
7	Consolidated Environmental rating

	Disclosure Factor - Social
1	Social violations
2	Controversial weapons %
3	Controversial weapons - definition
4	Tobacco %
5	Tobacco - definition
6	Human Rights index
7	Income inequality
8	Freedom of expression
9	Consolidated Social rating

	Disclosure Factor - Governance
1	Board independence %
2	Board diversity %
3	Corruption
4	Political stability
5	Rule of law
6	Stewardship policies
7	Consolidated Governance rating

Note: consultation period Feb-May 2020 for revisions & updates to NFRD

Trends to watch

Trend 1 – The ‘band-wagon’ of Impact Investing

Three main perils associated with 'band-wagon' behaviour:

- Neither understanding nor knowing what ‘impact investment’ means, and which impact investments actually make sense and can qualify as such;
- Manufacturing extensive and massive impact stories for expectant investors;
- Reporting impact 'creation' in a non-measurable way, with the goal of obscuring the fact that there's simply no investment additionality.

Source: Responsible Investor Aug 2020 (Pablo Verra – Deloitte Latin America)
https://www.responsible-investor.com/articles/a-16-year-impact-investor-on-why-jumping-on-the-impact-bandwagon-can-play-against-its-ultimate-benefits?utm_source=Responsible+Investor+Mem

Trend 2 – Kick back in the US - DOL/SEC response

‘The Department of Labor recently proposed a rule that requires pension-fund managers to select investments **“based solely on financial considerations,”** effectively repudiating the claim that ESG investing maximizes portfolio returns. Elsewhere, Securities and Exchange Commissioner Hester Peirce has been calling for more oversight of ESG-marketed funds’.

Source: https://news.yahoo.com/esg-investing-risk-135828702.html

‘The U.S. Department of Labor has sent enforcement letters to registered investment advisors giving them two-weeks to answer questions about their use of environmental, sustainable and governance (ESG) funds…. critics say this is in response to **pressure from the fossil fuel** and manufacturing industries, which fear their stocks may increasingly be discounted in an ESG world. More than $7.1 billion poured into ESG funds between April and June’.

Source: - https://www.fa-mag.com/news/dol-questions-rias-about-their-use-of-esg-products-57348.html

Trend 3 – Disclosure liability - Will the lawyers win in the end?

The International Accounting Standards Board's principles include specific guidance on intangible liabilities: IAS37. Many IAS rules have been updated by the new IFRS code, in 2019; others, like IAS37, still stand.

IAS37 sets the standard on provisions, contingent liabilities and contingent assets, meaning it deals with assets whose existence is not yet confirmed, and with liabilities of an uncertain timing or amount, or where obligation will be confirmed by uncertain future events out of the direct control of the reporting organisation….

"We see climate risk like the tobacco industry in that, at some point, class action lawsuits and punitive damages will become probable."

Source: https://www.smefinanceforum.org/post/esg-column-no-accounting-for-climate-risk

Second poll

Which trend is the most likely –

1. Impact investing - creating credible non-financial value equivalence
2. Lobby pressure - to rubbish ESG in defence of Friedman economics
3. Legal pragmatism – Risk aversion for future potential ‘toxic’ sectors

Case studies

BlackRock

Rio Tinto

Blackrock

BLACKROCK

- The world's largest money management firm, with over $6 trillion in assets.
- "The evidence on climate risk is compelling investors to reassess core assumptions about modern finance," Larry Fink, CEO BlackRock (Jan 2020)
- Climate change will provoke a "fundamental reshaping of finance," so announces new policy to make "sustainability" a central factor in evaluating investments
- 'Investment risks presented by climate change are set to accelerate a significant reallocation of capital, which will in turn have a profound impact on the pricing of risk and assets around the world.' – Annual letter to CEOs.
- Note: BlackRock is the world's largest investor in fossil fuels, with over $19 billion in Exxon stock alone, as well as large interests in Chevron, ConocoPhillips, and BP.

1. Investment risk

Risk is a complicated word, meaning something very different in colloquial use than it does in finance. In everyday usage, it's a synonym for "danger"—the possibility that something bad will happen to us if we take a particular action. …For the vast majority, though, the risk of climate change is something we simply want to avoid. There's no upside at all to floods or crop failures.

But this isn't what risk means in a financial sense. The *Oxford English Dictionary* defines risk as: "the possibility of financial loss or failure as a quantifiable factor in evaluating the potential profit in a commercial enterprise or investment." **For financiers, risk is not something to be avoided but something to be managed: You want to measure and assess it, not eliminate it.** It's central to BlackRock's mission to help investors "manage risk and achieve investment goals."

Source: https://newrepublic-com.cdn.ampproject.org/c/s/newrepublic.com/amp/article/156536/wall-street-really-means-talks-climate-risk

2. Sustainability risk

BlackRock

'Sustainable development, as the phrase is typically used, means development that meets the needs of the present without compromising those of the future—a laudable goal but too general to reliably take to the bank….. It's an alluring word, but a vague one. BlackRock's letter to investors and CEOs announcing its new climate focus never explains what it means…..

Managing the investment risk of climate change, in short, does not mean fighting climate change. It means making sure that your investment portfolio earns the highest returns *despite* climate change or even *from* climate change. That's why, from an investment point of view, there's no necessary contradiction in divesting from coal mines while investing in coal-fired power plants.'

Source: https://newrepublic-com.cdn.ampproject.org/c/s/newrepublic.com/amp/article/156536/wall-street-really-means-talks-climate-risk

Lessons about risk -1

1. Blackrock:

- Risk means what the speaker wants it to mean – don’t assume it’s what you think. Ambiguity or obfuscation can come back to haunt you.

- ‘Risk of what?’ and ‘Risk to whom?’ are always good questions to ask. Clarify what damage the risk might cause and who might suffer damage from it.

Mining practice – RTZ Australia (August 2020)

Rio Tinto

Rio blew up Aboriginal caves 'to get more iron ore'

Bernard Lagan Sydney

The world's third biggest mining company has revealed that two ancient caves in Western Australia, first occupied 43,000 years ago by Aboriginal people, were blown up in May to gain access an extra eight million tonnes of iron ore.

Rio Tinto, which last year exported 327.4 million tonnes from Australia, apologised to an Australian parliamentary inquiry yesterday for its destruction of the archaeologically precious Juukan caves.

The caves in the iron ore-rich Pilbara region, about 800 miles north of Perth, were ranked as being of "the highest archaeological significance" by an archeological survey given to the mining group six years ago. According to carbon dating, the caves were occupied by Aboriginal people 43,000 years ago. Senior executives from the group confirmed at yesterday's inquiry, held virtually in Canberra, that Rio Tinto had four potential mining sites in the Pilbara, but had chosen the one in the path of the caves for the extra iron ore it could extract.

Jean-Sébastien Jacques, Rio Tinto's chief executive, said that the destruction of the shelters "should not have happened" and that the group was taking action to improve its handling of culturally important sites. "We are really sorry for what happened," he said.

Mr Jacques said of the local Puutu Kunti Kurrama and Pinikura Aboriginal people, the "traditional" owners of the caves: "Their pain became very personal for me."

He outlined how the miner had considered four options to expand its Brockman 4 iron ore mine in 2012-13, three of which would have avoided the Juukan shelters. The company chose the fourth option, Mr Jacques said, to access a greater quantity of iron ore. "The difference was eight million tonnes of higher-grade iron ore," he said.

Rio, founded in 1873, is an Anglo-Australian multinational, listed in London and Sydney, producing iron ore, copper, diamonds, gold and uranium. It employs about 47,000 people.

On May 6, the PKKP Aboriginal elders requested a site visit to the caves, which was refused by Rio Tinto. It had already loaded the site with explosives. The caves were destroyed on May 24.

The inquiry has evidence that Rio Tinto was aware for years of the site's significance and had ignored several opportunities to change its plans. The group told the inquiry that it could not safely remove the remaining charges.

Before the hearing, Sam Walsh, Rio Tinto's former chief executive, told *The Australian Financial Review* that he had given orders not to mine the region in 2013 and that those instructions had been omitted from Rio's written version of events to the inquiry.

Source: Times August 2020

Sustainable mining – Australian cartoonist (June 2020)

Source: FT June 2020

RTZ – Pilbara timeline

Rio Tinto

- June 2020 – Investors unhappy with destruction of heritage site (FT/Guardian etc).
- Australian Senate enquiry: RTZ board was unaware of the archaeological report it had commissioned.
- 24 May 2020 – Sacred caves destroyed by 66 tonnes of explosive
- 6 May 2020 – Aborigines denied access due to ‘safety issues’
- 2018 – Archaeological report: 46,000 year old site: ‘highest archaeological significance in Australia’
- 2013 – Western Australia state approved mining the caves
- Note: Pilbara produces 327 million tonnes - the caves add only 8 million

Source: https://www.theguardian.com/australia-news/2020/jun/13/heritage-of-all-australians-rio-tinto-and-bhp-in-damage-control-after-call-for-mining-halt

Lessons about risk -2

2. Rio Tinto:

- Make sure all board members know what is going on. If you commission a report make sure everyone reads it and understands the findings.

- If you ignore the findings, be prepared to live with the consequences. This helps define ‘acceptable risk’ for collective responsibility.

QUESTIONS & DISCUSSION, ANSWERS?

FS Club

Platinum Sponsors

Gold Sponsors

Silver Sponsors

Bronze Sponsors

Personal Sponsors

FS Club

THANK YOU FOR WATCHING

Forthcoming Webinars

- **02 September 2020 (10:30)** — The City Of London & Smaller International Financial Centres – Cooperation, Competition, or Collaboration?
- **03 September 2020 (16:00)** — Could Equity Be Used To Replace A Portion Of An Employee's Salary?
- **07 September 2020 (17:00)** — Employee Ownership and the Future of Capitalism
- **09 September 2020 (15:00)** — Financial Centres Of The World 2020: Focus On Turks & Caicos

Visit https://fsclub.zyen.com/events/webinars/