NEW FINANCIAL
Rethinking capital markets

BENCHMARKING ESG IN BANKING & FINANCE

ANALYSIS OF THE SIZE, GROWTH & PENETRATION OF SUSTAINABLE FINANCE ACTIVITY IN GLOBAL MARKETS

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By Panagiotis Asimakopoulos, Tim Wickenden & Chris Breen

In partnership with:

LuxembourgforFinance
Agency for the Development of the Financial Centre

> This report measures the penetration of ESG in different sectors of banking and finance around the world and highlights the challenges ahead for the industry. While there has been significant growth in ESG activity in the past five years, in most sectors it is still a small fraction of the total. Europe is a long way ahead in most sectors - but the US and Asia are catching up fast.

INTRODUCTION

The penetration of ESG in banking and finance

Over the past few years sustainable finance and ESG have climbed to the top of the agenda for policymakers and the financial services industry in Europe and around the world. The public commitment to ESG across the industry has been high, growth in ESG products and activity has been rapid, and the EU has led the world in creating a framework for sustainable finance. However, consistent and comparable data to measure the level of penetration of ESG in banking, finance and capital markets is relatively elusive. This report aims to provide the first clear and consistent benchmark of the progress so far in sustainable finance and the penetration of ESG across the industry.

For all the noise around ESG, there are relatively few areas of activity where there is clear, measurable and comparable data. In many sectors of banking and finance, ESG is a relatively nascent activity while in some others there is virtually no measurable activity and no consistent data at all. With COP26 just around the corner, this report aims to cut through the noise around ESG and provide an analysis of the penetration of ESG across the industry and in different regions. It highlights the challenges for the banking and finance industry and aims to provide a basis for measuring the growth in activity and in penetration in future at a global and regional level. To measure penetration we focused on three areas:

- **The industry's commitment to ESG:** we tracked the publicly stated commitment of organisations in different sectors of activity and different regions to different initiatives around ESG.
- **Hard value of ESG activity**: we measured the growth in ESG activity and its share of total activity in sectors where there is clear distinction between ESG and non-ESG activity such as investment funds and bond issuance.
- **The level of implementation by the industry:** we analysed what the industry actually does. First, we measured capital markets activity of companies actively trying to address ESG issues and of those that are laggards. Second, we analysed ESG scores of the industry and the level at which the industry engages with its clients on ESG such as having a strategy on engaging portfolio companies in climate targets or following specific ESG requirements.

Our analysis shows that despite high levels of commitment across the industry and significant growth in ESG activity over the past five years, in most of the sectors where ESG activity can be measured it is still a small fraction of the total. Europe is well ahead of the US and Asia on most ESG metrics, but they are catching up fast. In many important sectors we found that data is not consistent or comparable, or that data is not available at all indicating very low levels of activity. We used 2020 as our benchmark for consistency, though in many sectors - particularly bond issuance and loan markets - ESG activity has continued to grow this year. The report also identifies the main challenges around ESG in banking and finance such as the lack of information, the disconnect between commitment and implementation, the risk of ESG being 'hijacked' by the 'E in ESG', and the complexity of different initiatives and approaches by companies and governments across regions and sectors.

While we acknowledge the wider debate on ESG and the wide range of challenges, the purpose of this report is not to analyse whether ESG has intrinsic value, what this value is or should be, or to address the debate on 'greenwashing'. In addition, we do not pretend that this study addresses all issues in measuring penetration or that it provides a perfect solution to the challenges ahead. Instead, we acknowledge the limitations of our research and approach. This study is a 'beta testing' work in progress: it aims to provide a benchmark of the penetration of ESG and a basis for measuring growth in the years to come. Any feedback would be most welcome.

I would like to thank Tim Wickenden and Chris Breen for doing much of the heavy lifting in this report, William Wright for his support and feedback, Dealogic, Morningstar, TrackInsight, and MarketAxess for providing access to much of the data, and Luxembourg for Finance for partnering with New Financial on this project.

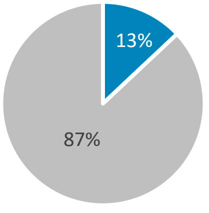
Panagiotis Asimakopoulos
Head of research, New Financial
panagiotis@newfinancial.org

EXECUTIVE SUMMARY

Here is a short summary of this report:

A growing slice of the pie

Value of ESG investment funds in the EU27 as a % of all investment funds in 2020



Source: Morningstar

1) Measuring penetration

Over the past few years sustainable finance and ESG has climbed to the top of the agenda for policymakers and the financial services industry around the world. But, for all the noise around ESG there are relatively few areas of activity where there is clear, measurable and comparable data. In many sectors of banking and finance there is relatively nascent activity, while in some others there is virtually no activity or data at all. In this report we measure the penetration of ESG in banking, finance and capital markets by looking at the industry's commitment, the level of designated ESG financial activity, and the level of implementation by the industry.

2) A strong commitment

The level of public commitment to ESG is high but not universal across the industry. In most of the sectors we analysed more than half of the world's largest firms are signatories to at least one of the many different ESG initiatives that are relevant to their business. However, the sheer number of initiatives across asset management, banking, pensions, and insurance confuse the picture and perhaps dilutes their impact. The level of commitment varies by sector and region. In addition, these initiatives are much more focused on the 'E in ESG' (environment) than the 'S' (social) and the 'G' (governance).

3) Rapid growth

In the sectors which have clearly designated ESG activity growth has been impressive over the past five years. The value of assets in sustainable investment funds today is almost four times higher than in 2016 and annual flows into these funds have increased 10 times; ESG bond issuance has increased fivefold; ESG corporate bond issuance has quadrupled; and the assets of ESG ETFs are more than fifteen times higher than in 2016. This growth has continued in 2021.

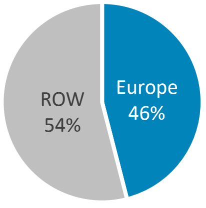
4) A relatively low penetration

While the public commitment to ESG is high across the industry and the growth in ESG activity across most sectors of the industry has been rapid, designated ESG activity still only represents a small proportion of overall activity. In most sectors of capital markets, measurable ESG activity is less than 6% of all activity globally and even in the most advanced markets in Europe it is still only in the low teens in percentage terms. In bond markets ESG accounts for 6% of total issuance, in loan markets 5%, in corporate bond markets and investment funds assets around 4%, and in ETFs assets less than 4%.

5) A clear lead for Europe

Europe is a global leader and well ahead of other regions in most areas we looked at. A higher proportion of European firms are publicly committed to ESG than their peers around the world, and European firms have a disproportionate weight in the various initiatives than their market share would suggest. In all sectors with designated ESG activity the EU27 represents a higher proportion of total activity than other regions, and in almost all of them it has a larger share of global activity than the size of the overall European market would suggest. The share of ESG in European debt issuance and in corporate bonds issuance is roughly double the global share, and more than three times higher than in the US and the UK. The share of sustainable investment funds domiciled in the EU27 is nearly three times the global share, more than double that in the UK and 12 times that in the US.

A global lead
Distribution of ESG bond issuance 2016 to 2020



Source: Dealogic

6) From commitment to implementation

Our analysis highlights that beyond signing up to an initiative, launching an ESG fund or issuing an ESG bond, implementing ESG into day-to-day business is hard and the industry could do more. While financial companies overall have a similar ESG risk rating as non-financials, there is a much higher proportion of financial firms with medium to high or severe ESG risk rating, particularly among banks and insurers. Financial companies in the EU27 have much lower ESG risk rating than other regions: more than half of them have negligible or low ESG risk. This is a third higher than in the UK, more double the proportion in US, and nearly four times higher than in Asia.

7) A potential disconnect

Many firms appear not to be engaging with their clients on ESG and don't yet comply with some of the specific recommendations in the various initiatives they have signed up to. Only a third of the largest firms globally have a clear engagement strategy for climate reporting and targets with their portfolio companies or customers, and less than half of large firms in Europe do. And while there has been significant growth in the adoption of the recommendations from the Taskforce on Financial Climate-related Disclosures (TCFD) among asset managers and asset owners over the past three years, today fewer than half of the asset managers and asset owners that have signed up to the UNPRI fulfil the TCFD requirements.

8) Mind the gap

Capital markets by what we call 'good ESG' companies - firms whose primary activity is to address environmental and social issues (such as renewable energy firms) represents a tiny fraction of overall activity. And it is dwarfed by activity from 'bad ESG' companies, which we define as companies that have a severe ESG risk rating, are on the Climate Action 100+ lists, or active in the oil, gas and mining sectors. In other words, for every dollar raised in capital markets by a wind or solar power company to help address climate change, roughly $10 are raised by the companies that are causing the problem in the first place. This highlights the urgency for the industry and governments to step up on ESG in order to move to a sustainable global economy.

9) Bringing up the rear

In several important sectors of the banking and finance industry there is no clear distinction between ESG and non-ESG activity, data is not comparable or does not exist, or data is limited to anecdotal examples, perhaps indicating complete lack of activity. These sectors include equity markets, derivatives, insurance, and retail banking as well as sectors that support the industry such as accounting and law firms.

10) The challenges ahead

Perhaps the main finding of this report is that despite the noise and breathless marketing activity, ESG-related markets within banking and finance are in a nascent state and that there are many challenges to overcome. These include: the risk of greenwashing; the lack of data and information; the complex patchwork of initiatives, standards and frameworks; the different approaches to ESG ratings; the lack of education; and the hijacking of ESG by the 'E'. Addressing these challenges will enable growth in ESG activity (and for ESG activity to become 'business as usual'), help create a more sustainable global economy, and help achieve the targets set by governments on climate change.

TEN KEY TAKEAWAYS

The penetration of ESG in banking and finance

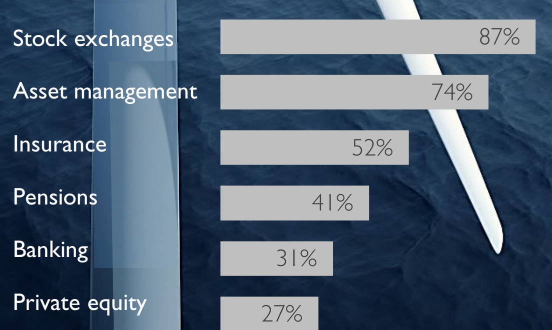
There are a lot of numbers and data in this report, and it would be pretty exhausting to read it all in one go. This section provides 10 key takeaways on the public commitment of the banking and finance industry to ESG, the penetration of ESG activity across the industry, and the implementation of ESG.

>>> THE PUBLIC COMMITMENT TO ESG

65% of large European firms across different sectors of banking and finance have signed up to at least one ESG initiative

One measure of the penetration of ESG in the banking and finance industry is to measure the public commitment to ESG initiatives by market participants around the world. The commitment is high but not universal, and overall levels of commitment are higher in Europe than the rest of the world. There is a wide range between sectors: three quarters of the largest asset managers in the world have signed up to at least one ESG initiative, but less than a third of the largest banks have done so.

Proportion of large firms globally that have signed up to one or more of the main ESG initiatives



>>> GROWTH OF ESG

400% the average growth in global ESG activity in banking and finance from 2016 to 2020

ESG activity in different sectors of the banking and finance increased fivefold in the past five years. Issuance of 'sustainable' bonds increased from $107bn to $570bn between 2016 and 2020, while the value of ESG investment funds has quadrupled from $475bn to $1.8 trillion (and counting).

>>> SERIOUS MONEY

€205 bn the value of net flows into ESG investment funds in the EU27 in 2020

In some sectors, ESG activity adds up to serious numbers. Last year alone investors put more than €200bn into ESG funds in the EU27 - more than two thirds of all ESG flows globally and more than half of the total flows into investment funds in the EU27.

>>> RELATIVELY LOW PENETRATION

14% ESG bond issuance as a share of all bond issuance in the EU27

In many sectors ESG activity still only represents a relatively small proportion of overall activity despite rapid growth. In 2020, designated ESG bonds represented 14% of all bond issuance in the EU27 (and just 6% of global bond issuance).

>>> A CLEAR LEAD FOR EUROPE

90% of ESG metrics across the industry where Europe has a clear global lead

Europe - and particularly the EU27 - has a clear lead over the rest of the world in ESG activity, performing better than the global average in almost all of more than 60 metrics that we analysed. In many cases, global activity is five years behind Europe.

TEN KEY TAKEAWAYS (continued)

>>> GOOD vs BAD ESG

3% of capital markets activity across debt, equity and loan markets in Europe is by 'good ESG' companies, which we define as companies whose primary activity is to address environmental or social issues (for example, renewable energy)

20% of capital markets activity in Europe is by 'bad ESG' companies, which we define as companies in the oil, gas and mining sectors; companies on the ClimateAction 100+ list; or companies with a 'severe' ESG risk rating. Less than 10% of bond issuance in Europe by 'bad ESG companies' is in the form of ESG bonds.

>>> ENGAGING ON ESG

49% Of large European firms across the industry have an engagement strategy for companies on climate reporting

Just half of the largest firms in European asset management, banking, pensions and insurance have published a clear engagement strategy on climate reporting for their portfolio companies, suggesting that the industry is struggling with implementation. Equally, less than half of asset managers comply with the recommendations of the Taskforce on Climate-related Financial Disclosures.

>>> FALLING BEHIND

<1% Observable ESG activity in retail banking and insurance in Europe as a proportion of total activity

ESG activity represents a clear, measurable, large and growing part of business in sectors such as investment funds and bond issuance. But in others, activity is almost imperceptible. In sectors such as retail banking (green mortgages, green consumer lending) and retail insurance (green home or car insurance) we were unable to identify any consistent or substantive activity.

>>> CLEANING UP THE MESS

43% Of all ESG corporate bond issuance in Europe is by 'bad ESG' companies

While sustainable bond issuance has grown rapidly, over 40% of ESG corporate bond issuance in Europe comes from the sort of companies that contribute most to environmental and social challenges. On the one hand, it is encouraging that these companies are raising money specifically to help address climate change and social issues. But on the other, sustainable bonds by these companies represents just 10% of their total bond issuance.

>>> LEADING THE CHARGE

43% Of all ESG bond issuance in Europe comes from the financial sector

So far, the financial sectors has been leading the charge with sustainable bond issuance. Financial services firms accounted for just over 40% of all European issuance of ESG bonds in the five years from 2016 to 2020. Issuance by European companies accounted for a third of ESG activity, although this activity is growing fast.

CONTENTS

Walking the walk in ESG

Greta Thunberg recently called out world leaders for years of "blah blah blah", accusing them of decades of well sounding words but lacking in real and decisive action when it comes to tackling climate change.

As this report shows she is certainly correct in criticising the slow pace of progress. The data from the latest Intergovernmental Panel on Climate Change report also makes it abundantly clear that if we wish to achieve the targets set by the Paris Agreement "immediate, rapid and large-scale reductions" must take place. In other words, the transition needs to pick up the pace and we must act now!

However, while there certainly has been an abundance of "blah blah blah", it is not correct to say that it has been all words and no action.

There is a growing level of commitment to ESG initiatives across the financial services industry and this has clearly led to action: from 2016 to 2020, the average growth in global ESG activity was 400%, sustainable bond issuance increased from \$107 billion to \$570 billion, and assets held in investment funds considered ESG have increased fourfold from \$475 billion to \$1.8 trillion.

While the concrete actions taken by financial institutions may not yet match their commitments, regions across the globe are seeing a steady uptick in sustainable finance offerings, with the EU being a clear pioneer and leader in this space.

The objective of this report is to provide a candid assessment of the state of the penetration of sustainable finance strategies across the various sectors of the financial industry. The picture we paint is understandably not rosy. For all the "blah blah blah" around sustainable finance, there are a few areas where there is clear, measurable, and comparable data and activity. Rome was, however, not built in a day and the same must be said for transitioning finance to a more sustainable form. It takes time and cannot move faster than the industries it serves.

It must also be noted that the aim of the report is not to pit sectors against each other, but to improve the overall understanding of the progress we are making as an industry in relation to sustainable finance and achieving our goal of carbon neutrality.

It is with this goal in mind that we partnered with William and the New Financial team to put together this report and I would like to thank them for their thorough work in crunching the numbers, bringing together the data and weaving it into a coherent report. It will certainly serve as a reference for the issues relating to the penetration of sustainable finance going forward.

Nicolas Mackel
Chief Executive Officer
Luxembourg for Finance

A strong pledge

A starting point for measuring the penetration of ESG in the banking and finance industry is to measure the public commitment to ESG by market participants around the world in different sectors. We measured this by analysing how many large firms in different sectors have signed up to the wide range of different ESG initiatives that are relevant to their sectors.

There are four main conclusions that are summarised in Fig.1. First, while the level of public commitment to ESG is high in most sectors it is not universal, and perhaps lower than you might expect given the noise around ESG across the industry. Second, there is a wide range of public commitment between sectors: from 86% of the largest European asset managers to just 42% of the largest European banks.

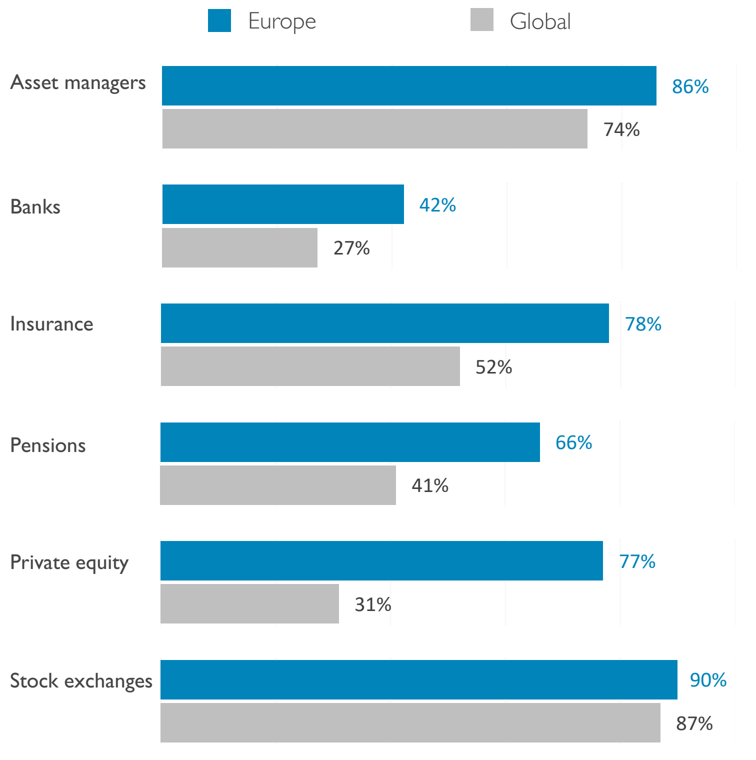
Third, that in virtually every sector, a higher proportion of large European firms were publicly committed to ESG than their peers around the world. And fourth, this translates into European firms having a disproportionate weight in the various ESG initiatives compared with Europe's overall share of global activity in each sector.

To measure public commitment we identified more than 100 different ESG initiatives and allocated them to different sectors of the industry. We then overlaid the signatories to these initiatives with the rankings of the largest companies in each sector such as *The Banker*'s Top 1000 Banks and Willis Towers Watson's ranking of the largest 500 asset managers in the world, to measure the proportion of the largest firms in different sectors and regions that are signatories to each initiative.

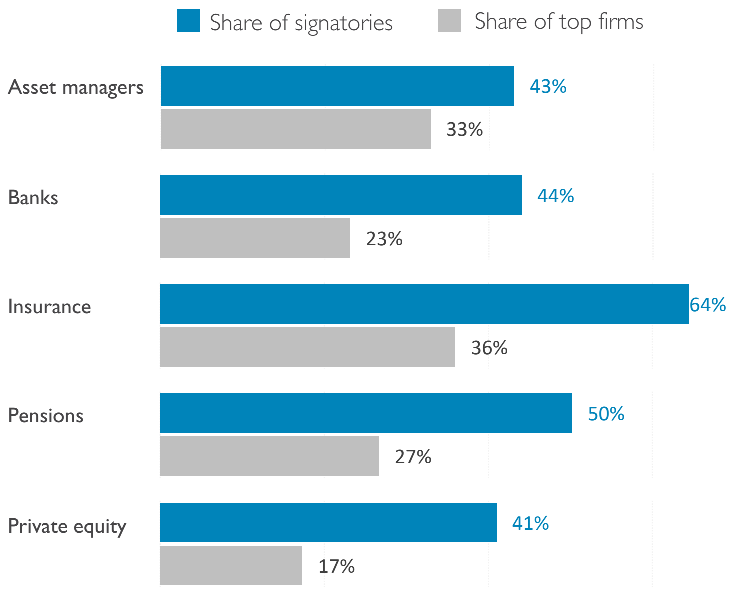
We analysed two things. First, the proportion of signatories within each region: how many of the largest European banks are signatories to one or more than one initiatives? And second, the distribution of signatories by region across the different initiatives in each sector: what is the share of European signatories out of total signatories? We explore this public commitment more on pages 18 to 21.

Fig.1 At a glance: the public commitment to ESG

i) The proportion of large European firms in each sector that have signed up to one or more ESG initiatives compared to global participation



ii) European signatories as a percentage of all signatories to different ESG initiatives compared to the European share of the top firms in each sector



Source: New financial analysis

A long way to go

The second step for measuring the penetration of ESG in the banking and finance industry is to look at the areas of banking and finance that have clearly designated sustainable or ESG activity - what we call metrics of 'hard value' - and measure ESG activity as a proportion of the total business in each sector.

The main sectors with clearly designated ESG products are bond issuance; loan markets; asset management; and investment funds and ETFs. The main findings are summarised in Fig.2.

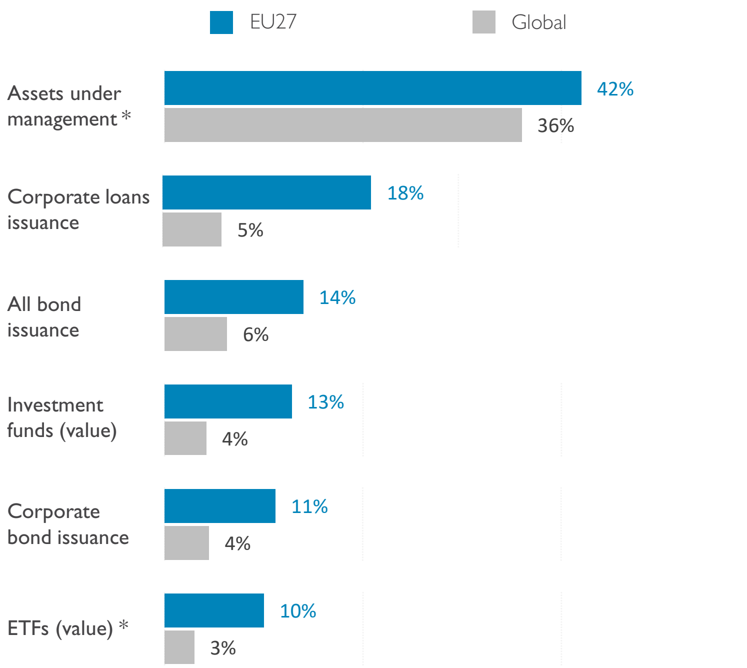
It is perhaps surprising that in most cases, ESG activity represents a relatively small proportion of overall activity, despite rapid growth over the past five years. For example, the value of ESG investment funds in the EU27 is just 13% of the universe of investment funds in the EU27. Sustainable bond issuance accounted for just 7% of all bond issuance in Europe in the five years to 2020 (although last year it represented 14%). In asset management, the most loosely defined metric based on the percentage of assets under management that firms reported were being managed on an ESG framework, less than half of activity (42%) would be classified as 'ESG'.

As with public commitment, Europe (and particularly the EU27) is ahead of the rest of the world. In every metric that we analysed, ESG activity represented a higher proportion of total activity in Europe than the global average, and a significantly higher proportion than the much larger US market. This translates into Europe punching above its weight in global ESG activity, with a far larger share than the overall size of its markets would imply (see Fig.2ii). For example, the EU accounts for nearly three quarters of global ESG investment funds, but just a quarter of the wider investment fund industry.

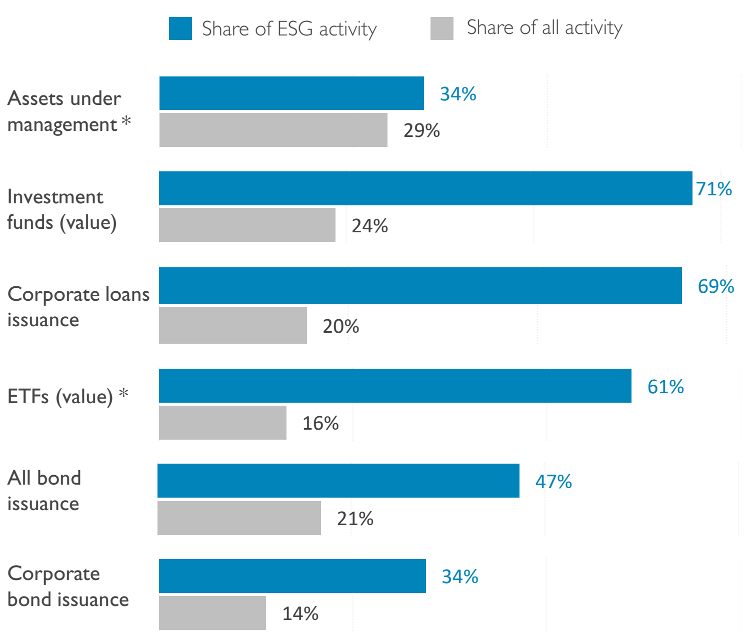
In other sectors such as equities, derivatives, insurance, and retail banking, data was not consistent or comparable, did not exist or was only limited to anecdotal examples, perhaps indicating lack of activity. We explore the hard value of ESG activity in more detail on pages 22 to 27.

Fig.2 At a glance: designated ESG activity

i) Designated ESG activity as a proportion of total activity in different sectors in the EU27 and at a global level in 2020



ii) The EU27's share of global designated ESG activity compared with its share of all activity in different sectors



** Note: The analysis for ETFs and asset management was conducted using data for wider Europe (EU + UK, Switzerland, Norway). Source: New Financial analysis*
Sources: New Financial analysis of data from Dealogic, Morningstar, TrackInsight & Global Sustainable Investment Alliance

Mind the gap

The third step for measuring the penetration of ESG in the banking and finance industry is to analyse activity related to ESG in the day-to-day world of banking, finance and capital markets - what the industry actually does, and whether the industry is 'walking the walk'.

The first part of our analysis measured capital markets activity for two groups: 'good ESG' companies, whose primary activity involves trying to address ESG issues such as renewable energy; and 'bad ESG' companies in the oil, gas and mining sectors, on the Climate Action 100+ list of high risk companies, or with a 'severe' ESG risk rating.

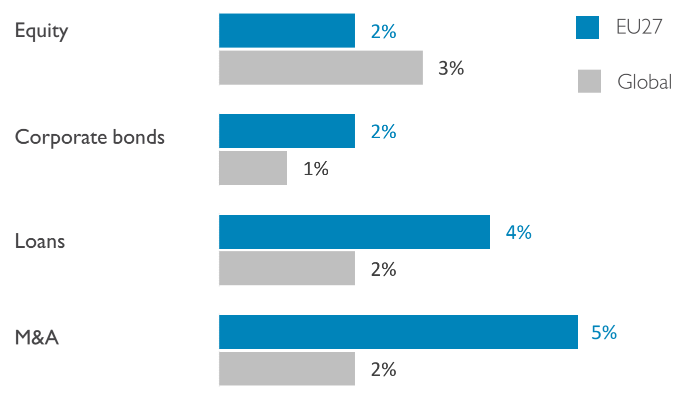
'Good ESG' companies accounted for a surprisingly low proportion of activity in capital markets: just 2% of equity and corporate issuance in the EU27 comes from companies actively trying to address climate change. 'Bad ESG' companies accounted for much more activity: 11% of equity issuance and a third of corporate bond issuance. Around 10% of that activity was in designated ESG bonds but the wide gap between the two groups suggests there is a lot of work to be done.

The second part of our analysis looked at how firms are matching their public commitment to ESG with concrete action. This included looking at ESG ratings of financial companies across regions and sectors; and looking at the level of industry engagement with its clients on ESG such as whether it has a strategy on engaging portfolio companies in climate targets; and whether the industry meets the obligations of different ESG initiatives. It turns out that sustainable finance in the broadest sense is a lot harder than launching a new ESG fund. We explore this implementation in more detail on pages 29 to 34.

Fig.3 The penetration of ESG

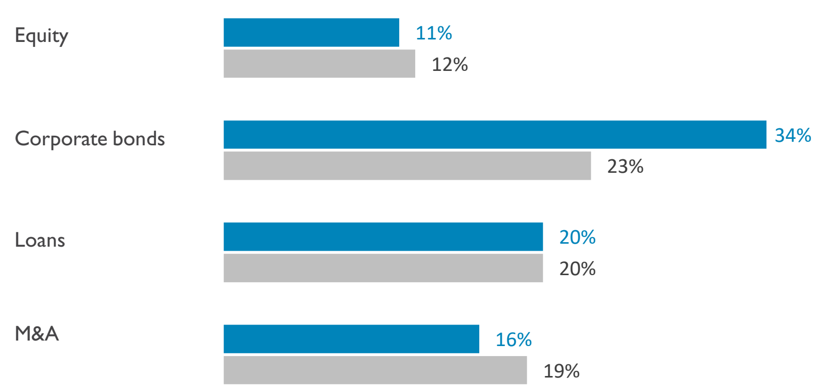
i) Capital markets activity by 'good ESG' companies as a proportion of total capital markets activity in the EU27 and at a global level, five year average 2016 to 2020

Note: we define 'good ESG' companies as firms whose primary activity to address or mitigate environmental or social issues (such as renewable energy)

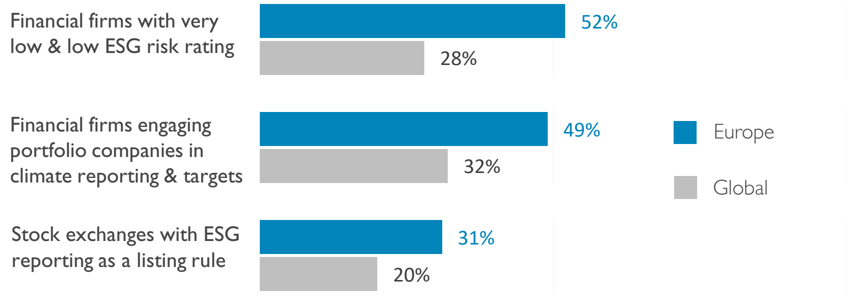


ii) Capital markets activity by 'bad ESG' companies as a proportion of total capital markets activity in the EU27 and at a global level, five year average 2016 to 2020

Note: we define 'bad ESG' companies as firms in the oil, gas & mining sector; on the ClimateAction100+ list; or with a 'severe' ESG rating



iii) Selection of other metrics showing the level of ESG penetration in banking and finance



PART 2 - THE CHALLENGES AROUND ESG

The challenges around ESG in banking and finance

This section identifies and discusses the main challenges around ESG in banking and finance such as the lack of consistent and comparable data and the lack of activity in important sectors, the disconnect between commitment and implementation, the hijacking of ESG by the 'E in ESG', and the complex patchwork of different initiatives and approaches by companies and governments in different sectors around the world.

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The challenges of ESG

Perhaps the main finding of this report is that ESG-related activity across different sectors of the banking and finance industry is in a relatively nascent state. Despite the high levels of public commitment by the financial sector across the world, actual ESG-related activity represents only a small fraction of total activity in most sectors and in others it is essentially non-existent.

This section presents and discusses the main challenges around ESG and the banking and finance industry. Addressing these challenges will enable growth in ESG activity leading to a more sustainable global economy and future for citizens across the world and will help achieve the targets set by governments on climate change.

1) A lack of comparable information

Information about ESG risk and opportunities needs to improve, but new reporting and disclosure obligations must be practicable and implemented properly. To generate more useful ESG information, many jurisdictions are introducing (or actively considering) reporting and disclosure obligations. Some jurisdictions are implementing these at the corporate level (eg. climate-risk reporting obligations for listed companies), but others, such as the EU, will require disclosures by investors and for financial products. It is inevitable that the ESG disclosure regulatory framework will expand; the industry sorely needs to increase ESG information available. However, firms need clear and consistent standards and reporting frameworks to guide them in making meaningful disclosures: inconsistent, uncoordinated and overlapping obligations across different jurisdictions would create excessive compliance and reporting costs that are likely to impede ESG activity.

2) A wide range of initiatives, standards and reporting frameworks

There is a complex patchwork of different initiatives, standards and reporting frameworks around the world and across sectors, and so far efforts to coordinate them have been too slow. ESG information reported by firms applying different standards and reporting frameworks has limited value. This undermines the ability of the industry to rely on ESG information and measure ESG-related value with confidence. Unfortunately, creating universal standards and reporting frameworks for the type of non-financial data that underpins the ESG framework is inherently complicated and controversial. On the bright side, there are some signs of progress: existing standard setters and reporting framework organisations have made various commitments to coordinate their work (although this stops short of consolidation); the IFRS Foundation, an accounting standards organisation, will determine and publish a global ESG reporting standard in late 2022 through its newly created International Sustainability Standards Board (ISSB); and the Taskforce for Climate-related Financial Disclosures (TCFD) is increasingly a universally accepted reporting framework in relation to climate-related risk.

3) A lack of data

One of the biggest challenges is around the existence and availability of data on ESG-related activity. Data availability varies across sectors of banking and finance and it also varies within different sectors. In some sectors a clear distinction between ESG activity and non-ESG activity exist. Financial products have been labelled as ESG by third party organisations and this has made measuring activity easier. For example in debt markets some bonds issued by companies, governments or supranational institutions are labelled as ‘green’, ‘sustainable’ or ‘social’ and in investment funds ESG-labelled funds are distinguished from all other funds based on whether they use certain ESG investment strategies.

In other sectors such as asset management, even if the data exists it is often not comparable due to differences in methodologies and in labelling across jurisdictions. This has implications on the usefulness and accuracy of the data. Perhaps the bigger challenge is that in important sectors of the banking and finance industry such as equity markets, derivatives and retail banking, there is no clear distinction between ESG and non-ESG related activity; data does not exist, is not comparable, or is limited only to anecdotal examples, perhaps indicating relative lack of activity.

4) Separated by a common language

A common global language on ESG activity would help markets develop with confidence, but while proposed legislative definitions for sustainability - 'taxonomies' - may provide greater certainty and prevent greenwashing, divergent approaches could be a barrier to global ESG activity. After much debate, the EU's Taxonomy determined criteria to define those sustainable activities linked to climate mitigation and adaptation in June (applying from January 2022), and will do the same for other environmental areas (and possibly social areas) in the future. However, while other jurisdictions adopt similar taxonomies, these can vary, usually according to regional economic and legal considerations. A common point of divergence is in the classification of various 'brown' economic activities: activities that may be necessary during a transition to a sustainable economy, but not themselves sustainable. The purpose of a legislated definition is to provide sure footing for a common language, but inconsistency and regulatory competition creates confusion, and may instead lead to a 'silo' approach of ESG activity within each jurisdiction's regulatory framework.

5) Different approaches to ESG scores

Providing the market with ESG rating scores is big business, but ratings across providers are not consistent and there is a lack of transparency regarding their methodology. A number of ESG rating providers produce data that underpins much of the ESG activity in market today, but the methodology applied by different providers varies considerably (e.g. which E, S or G factors they include and how they weight them). Critics argue that the inconsistency across providers causes confusion for users and undermines the universality of the scores. On the other hand, ESG assessments are complex and users may understandably have different priorities that are catered for by different methodologies used by providers. ESG rating providers and their scores are currently unregulated, which for ESMA has raised concerns about their transparency and accountability. Some form of supervision may be important as the ESG industry grows. Higher ESG rating scores will increasingly lead to financial value for firms, and should be determined in an accountable and objective manner.

6) The danger of 'greenwashing'

Many of the challenges faced by ESG have facilitated 'greenwashing' - false or misleading claims about the sustainability virtues of a company or a financial product. Measuring the extent of greenwashing in the industry is hard - and beyond the scope of this report - but as environmental and social issues have risen up the political agenda there are obvious marketing benefits associated with a 'green' or 'sustainable' label. There is limited regulatory scrutiny of greenwashing, and it is difficult for the industry to self-regulate: greenwashing is likely to have thrived because of the deficiencies in ESG standards, disclosure and information mentioned above. Addressing greenwashing is, and will be, an important reputational challenge for the banking and finance industry in the years to come, and some supervisors have already warned of a potential social, political and regulatory backlash against the industry in future. While improvements in regulation, standards and information will provide more and better tools to address greenwashing, the industry should also embrace a change in culture and education to make a more substantive change.

7) From commitment to implementation

Signing up to the latest ESG initiative, rewriting some marketing material, and launching some new ESG products is one thing, but embedding ESG into the day-to-day business is a different and more challenging proposition. For example, a growing number of firms have committed to reaching 'net zero' by 2050, but far fewer have published detailed plans as to what they are going to do in the next five years as part of a longer term plan as to how to achieve it. The challenge for the industry will be to take meaningful action to back-up commitments, and avoid ESG becoming an administrative 'box-ticking' exercise. To do this, ESG must not only be implemented at the 'Davos level' but all the way through an organisation and its day-to-day business. A big part of this challenge will be the development and adoption of innovative new tools and working methods.

8) A lack of education and expertise

With growth comes increased demand for professionals with ESG expertise, but ESG is complicated and unfamiliar to most people working in the industry. Until relatively recently, it was not widely taught at business school or as part of professional exams. However, for ESG to grow effectively (and ultimately become 'business as usual') the knowledge-base of finance professionals will need to improve. The danger otherwise is that demand for ESG specialists outstrips supply, while well-meaning but ill-informed executives introduce new ESG initiatives that could be counter-productive. Improving education will require consideration of how to educate both the existing workforce (through certification qualifications and continuous professional development) as well as potential future practitioners doing their degrees or professional qualifications. Part of this may involve challenging the role of 'shareholder primacy' in financial education and theory and exploring whether and how it should be adapted in light of wider ESG issues.

9) A demanding exercise:

As the ESG market develops smaller companies should not be denied access because they do not have the same resources to apply to ESG reporting, disclosure and marketing, compared to their larger counterparts. Large firms are likely to be better resourced to produce the data and metrics that conform to the needs of ratings providers, regulators and investor demands. This creates an imbalance in the financial benefits that come from ESG activity (when companies are included on ESG indices their stock often experience an increase in demand because of the nature of ESG-related passive investment strategies). ESG activity in the industry should be accessible based on the nature of economic activity, rather than the compliance and reporting resources of a company. The challenge will be to ensure ESG activity grows in a way that is accessible to the right companies, regardless of their scale.

10) The 'S' in ESG:

The momentum behind ESG in the banking and finance industry is being driven primarily by the climate emergency and environmental issues. On the one hand this injection of urgency is welcome, but on the other there is a risk that the wider ESG is effectively hijacked by the 'E in ESG' at the expense of the 'S' (social) and 'G' (governance). For example, many firms happily subscribe to the UN's 17 Sustainable Development Goals, but most firms are much less engaged on goals such as health, education, gender equality and reduced inequality than they are on the goals specifically related to the environment.

The prioritisation of climate change issues is reflected at the regulatory level, with new disclosure obligations often targeting climate-related risk, rather than ESG more broadly. This is true for the industry as well, with the vast majority of initiatives and codes being environmental and climate focused. The challenge will be to use the momentum generated by climate concerns as a springboard to address more social and governance issues under the ESG framework. The Covid crisis shone a light on a range of 'S' issues, such as how companies treat their customers, suppliers and staff, and wider issues like Black Lives Matter, diversity in the broadest sense, and forced labour are only likely to grow in importance. Better metrics, more commitment, and more action on these issues will be required to drive growth in activity and concrete change.

Sectors with limited ESG activity or limited data

One of the main challenges in analysing the penetration of ESG in different sectors is the availability and consistency of data, which is often a good proxy for a relative lack of activity. While in some sectors of banking and finance such as investment funds or bond issuance ESG activity is clearly labelled, in many sectors there is no clear distinction between ESG and non-ESG activity, and data is not comparable, does not exist, or is only limited to anecdotal examples. Here are some examples of sectors where these limitations exist:

Retail banking

Despite widespread concern among the public about environmental and social issues, and recent research suggesting that consumers may switch banks over ESG concerns, we found that comprehensive data on ESG-linked retail products by banks is almost non-existent in the public domain. An indication of ESG activity is given through anecdotal references to product innovations such as green home-improvement loans and green mortgages which offer lower interest rates for green buildings, and green deposit accounts which invest any surplus for ESG purposes, but we found no clear data on the proportion of overall activity represented by 'green' or ESG products. Given the exposure of the banking sector to retail customers it is important to improve activity and data in this area.

Insurance

While there is data on the ESG-related asset management activities of insurance firms, there is very limited information available to measure the ESG-related insurance products they provide to either retail or corporate consumers. Recent anecdotal evidence suggests that insurance products are being developed that offer lower premiums for certain 'green' behaviour (such as driving electric cars or having solar panels on a house), and a number of insurance firms have said they will reduce or cease providing services to companies that don't have a credible net zero plan. However, the ESG activity of insurance firms in this area appears to be significantly less compared to the asset management end of their business.

Equity markets

While in bond markets a bond issued by a company, government or supranational institution might be labelled clearly as 'green', 'social' or 'sustainable' such a distinction doesn't exist in equity markets. Although this report has shown that ESG-related activity exists in equity markets in the form of issuance by 'good ESG' companies and 'bad ESG' companies, there is no such thing as a clearly labelled 'ESG' stock or a 'green' IPO. ESG ratings and sustainable segments on stock exchanges help, but overall it is difficult to measure accurately ESG-related activity in this important segment of banking and finance.

Derivatives

Data on ESG-related activity in derivatives markets is either non-existent or very limited. There has been progress on labelling in derivatives listed and traded on exchanges but the problem is more pronounced in over the counter derivatives. The International Swaps and Derivatives Association (ISDA) records several new sustainability-linked derivatives products (which usually include an ESG pricing component in the contract) as well as various other ESG-related derivative instruments. This includes various ESG-related listed derivative products created by exchanges, which are standardised, as well as more bespoke over-the-counter derivatives in certain areas (such as trade in US renewable energy certificates, following guidance released by ISDA). The derivatives market plays an important role in supporting finance, particularly around managing various forms of risk, and so future research will look to identify metrics in this growing area.

The ecosystem

An ecosystem of services supports the banking and finance industry, but there is little comprehensive data on the ESG-related activities of these important sub-industries: credit-rating agencies, accounting firms, index providers and law firms. At the United Nations General Assembly in September, Mark Carney launched the Net Zero Financial Services Providers Alliance (NZFSPA), suggesting a degree of commitment to solving climate-related issues. Given the role these organisations may have in ensuring the effective penetration of ESG in banking and finance, future metrics and data should be considered that might measure this activity.

PART 3 - COMMITMENT

The industry's public commitment to ESG

The starting point for measuring the penetration of ESG in the banking and finance industry is to measure the public commitment to ESG by market participants around the world in different sectors. This section analyses the public commitment to ESG in selected sectors of the industry by looking at the number of initiatives and signatories in each sector, the distribution of signatories by region across the different initiatives in each sector, and the proportion of signatories within each region.

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A wide range

To measure the public commitment to ESG by market participants a first step is to look at the many different ESG initiatives around the world related to banking and finance, identify which of them are relevant to each sector, and count the number of signatories among the largest firms in each sector to each initiative. Signing up to a particular initiative is almost cost-free, so is the least you might expect of a large firm. Not signing up to at least one initiative might be seen as evidence that a firm may not be committed to ESG.

Fig. 4 shows the top initiatives related to different sectors and the number of signatories to each initiative across the different sectors we looked at. To start with there is a wide range of initiatives across sectors and the number of signatories varies. And despite all the noise around ESG, commitment to these initiatives is high but not universal. In addition, most of these initiatives are focused more on the 'E of ESG', with far fewer distinct initiatives around the 'S' (social) and the 'G' (governance).

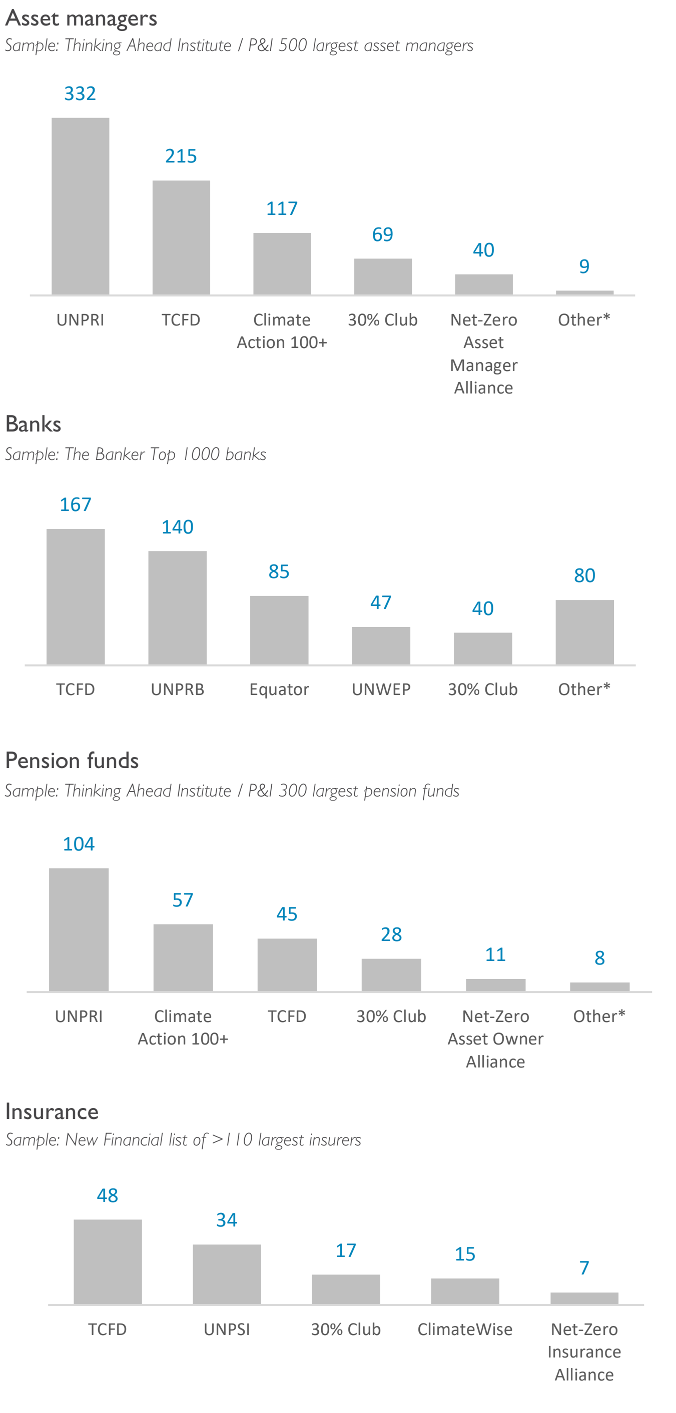
We included seven main initiatives relevant to asset managers. By far the most popular initiative is UN Principles for Responsible Investment (UNPRI) to which nearly two thirds of the largest 500 asset managers in the world have subscribed to. Over 200 asset managers have subscribed to the Task Force on Climate-related Financial Disclosures (TCFD) while less than a quarter (23%) of the word's largest asset managers signed up to Climate Action 100+.

For banks we found 11 main initiatives with the most support recorded for TCFD where around 17% of the world's top 1000 banks are supporters. The second most popular is the UN Principles for Responsible Banking with 140 signatories followed by The Equator Principles.

For pension funds we identified seven initiatives. Around a third of the largest 300 pension funds in the world are supporters of the UNPRI. For insurance we counted five relevant initiatives. Insurers have the lowest take-up across the sectors we analysed but the sample available was much smaller than in other sectors.

Fig.4 ESG initiatives and number of signatories

The number of the world's largest companies that are signatories to each initiative



Source: New Financial analysis of signatory lists & lists of largest firms in the world
Notes: data as of July 2021: Other includes: various initiatives such as Investment Leaders Group and Paris Aligned Investment Initiative, Net-Zero Banking Alliance, CCCA, Financial services task force, Banking Environment Initiative, GABV, Bankers 4 Net-Zero, Paris Aligned Investment, Investment Leaders Group

Leading the pack

A second step in analysing the public commitment to ESG across the different sectors of the industry is to look at the proportion of large companies globally and within each region that are signatories or supporters to one or more of the main initiatives relevant to their sector.

Fig. 5 shows the proportion of signatories in each region that have signed up to one or more initiatives. The level of commitment varies across sectors but in all sectors we analysed we found that a higher proportion of large European firms have publicly committed to ESG compared to their peers from around the world.

While the total number of companies in each sector is different, there is a much higher proportion of asset managers committing to ESG compared to other sectors: Nearly three quarters of the largest asset managers have signed up to one or more initiatives compared to around half for insurance companies, 41% for pension funds and around a quarter for the largest banks in the world.

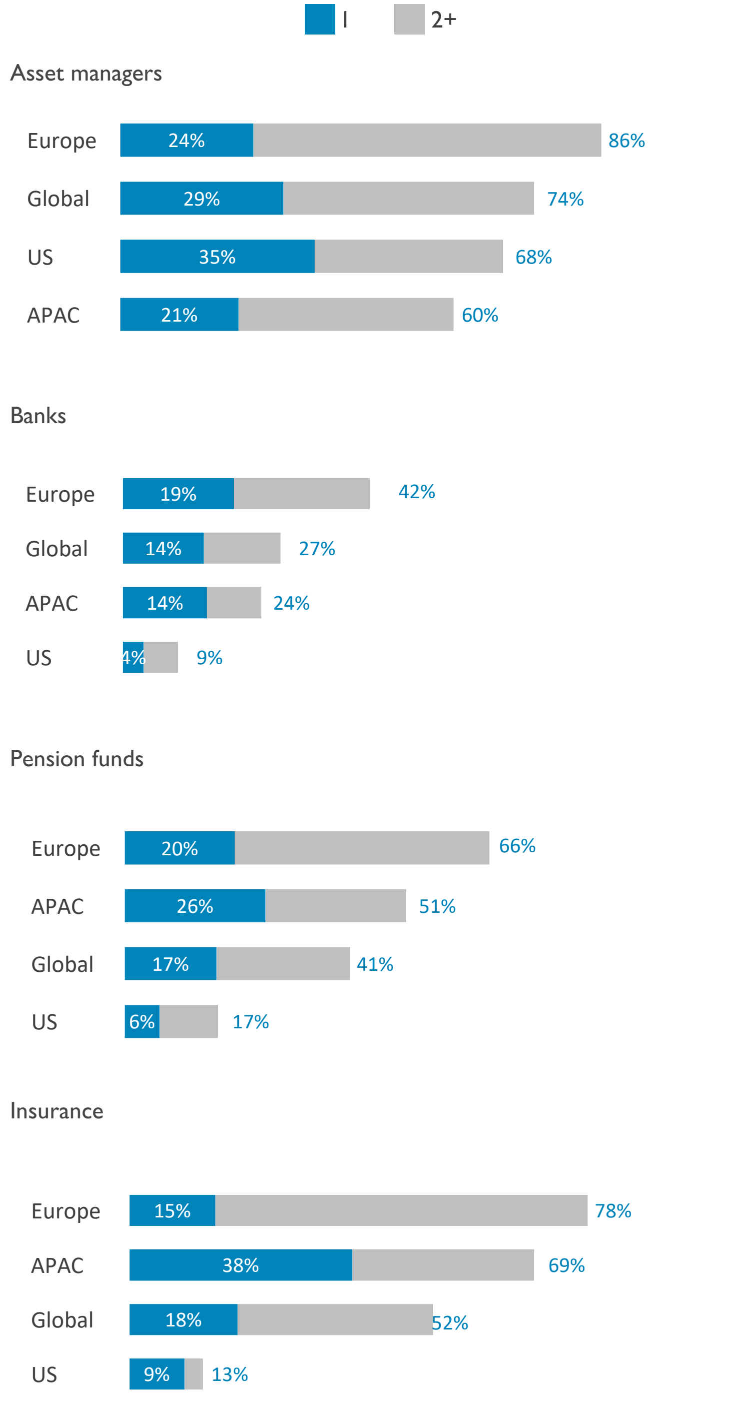
European asset managers are a long way ahead of peers in other regions: 86% of the European asset managers that are among the top 500 asset managers in the world are signatories of ESG initiatives compared to two thirds of US firms. And nearly 62% of the largest European asset managers are signatories to more than one initiative compared to a just a third of US firms.

The margin is much bigger for European banks: 42% of European banks in the largest 1000 banks in the world have signed up to at least one initiative, nearly four times higher proportion than that of the US and nearly two times that of Asia Pacific.

European pension funds and insurance companies are also a long way ahead of their peers: two thirds of European pension funds that are among the top 300 pension funds in the world have signed up to ESG intiatives, compared with less than 20% of the largest US funds, and more than three quarters of European insurers in the top 114 insurance companies in the world have signed up to related ESG initiatives compared to just 13% of US insurers.

Fig.5 Proportion of signatories by region

The proportion of signatories in each region that have signed up to 1 or more initiatives



Source: New Financial analysis of signatory lists & lists of largest firms in the world
Note: data as of July 2021

Punching above its weight

The third step in analysing the public commitment to ESG is to look at the regional distribution of signatories in the different sectors and compare it with the representation of each region in the world's largest companies.

Fig. 6 shows the regional distribution of signatories across all ESG relevant initiatives for each of the sectors we looked at. The level of representation varies across sectors but in every sector European firms have the highest representation among their peers from around the world, and Europe has a larger share of overall signatories than the size of the European market would suggest.

This high level of representation is disproportionate to the size of the European industry and the level of representation in the lists of the largest firms in the world. This dominance is mainly because of the higher proportion of European firms signing up to initiatives compared to other regions.

European asset managers account for 43% of all asset managers signing up to ESG initiatives, significantly higher than the 30% from the much larger US market. For reference, European asset managers account for a third of the largest asset managers in the world.

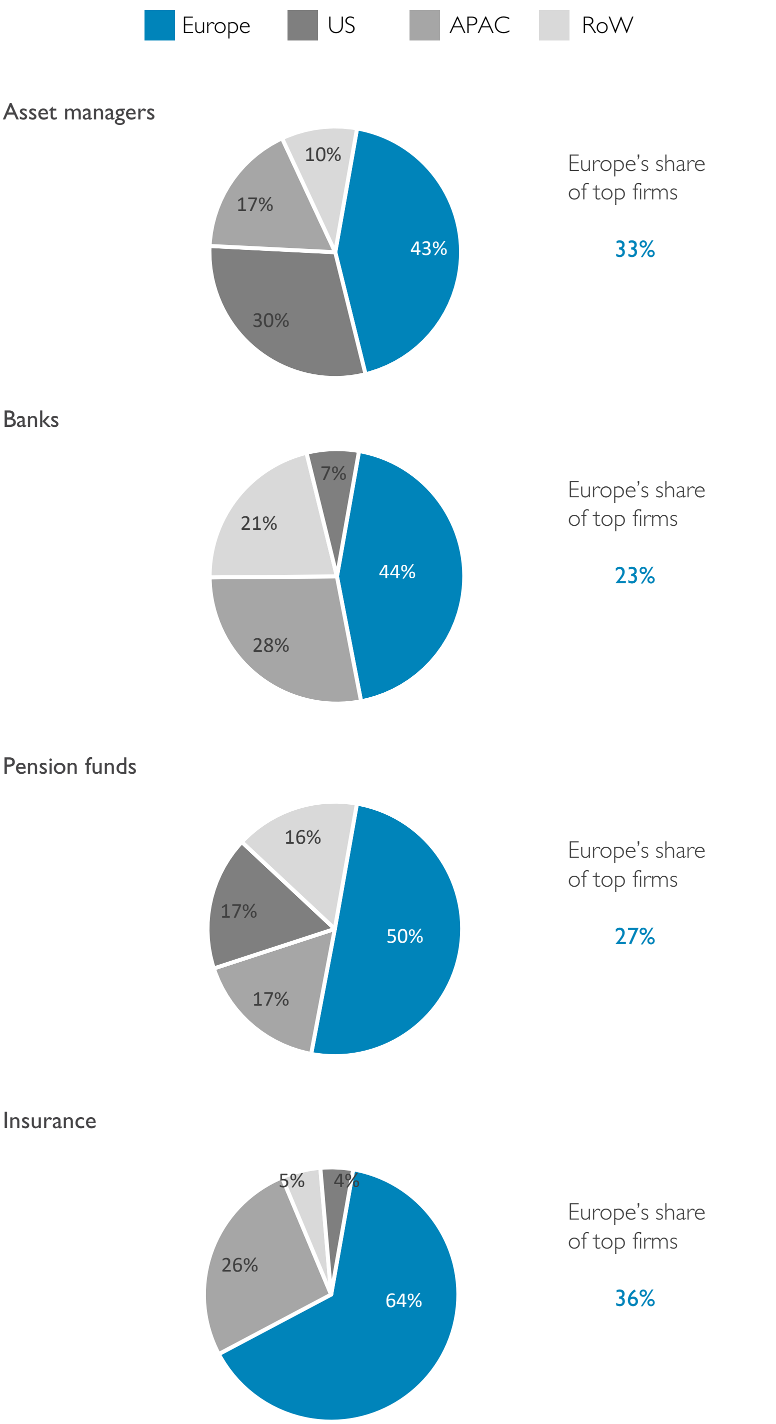
The share of European banks is 44% compared to just 7% for US banks, 28% for banks from Asia Pacific and 21% of banks from the rest of the world. For reference, European banks account for less than a quarter of the largest banks in the world.

European pension funds account for half of all signatories, which is much higher than their share of the largest pension funds in the world. Their share is nearly three times larger than the share of US and APAC pension funds.

The biggest dominance for Europe is in insurance where European insurance companies account for nearly two thirds of signatories. This is more than double the share of APAC and much bigger than the share of US firms. For reference, it is nearly three quarters higher than the share of European insurers in the top 114 insurers in the world (36%).

Fig.6 Distribution of signatories in selected sectors

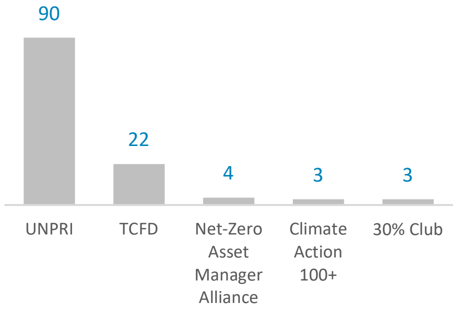
The regional distribution of signatories to initiatives by sector
Weighted average across all initiatives related to each sector



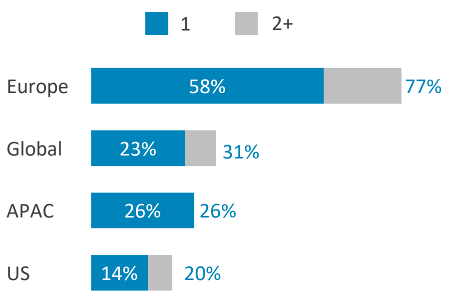
Source: New Financial analysis of signatory lists & lists of largest firms in the world
Notes: data as of July 2021

Fig.7 The commitment to ESG

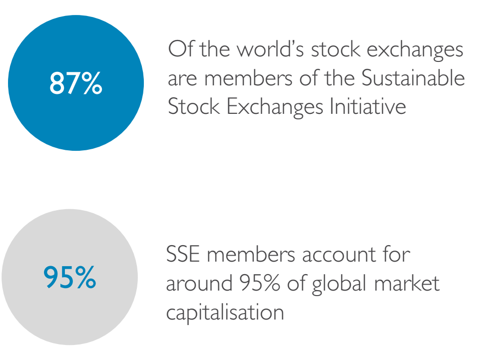
i. The number of the world's largest 300 private equity firms signing up to different initiatives



ii. The proportion of private equity firms within each region that have signed up to 1 or more relevant initiatives



iii. The commitment of stock exchanges to ESG



Source: New Financial analysis of signatory lists and lists of largest private equity firms and Sustainable Stock Exchanges
Note: data as of July 2021

Private equity

We applied the same approach to analyse the public commitment of private equity firms to ESG. Although there are no major initiatives specifically targeting private equity firms we identified initiatives that are indirectly relevant to the sector. We picked five initiatives: the UNPRI, TCFD, Net-Zero Asset Manager Alliance, Climate Action 100+ and the 30% Club.

Out of the largest 300 private equity firms in the world, 90 are signed up to the UNPRI but just 22 are TCFD supporters. Similarly to the other sectors we analysed, European private equity firms are a long way ahead of their peers: More than three quarters (77%) of the European private equity firms that are among the top 300 private equity firms in the world are signatories to ESG initiatives compared to 31% globally, a quarter of APAC firms and a fifth of US firms.

Nearly 20% of European private equity firms in the top 300 in the world have signed up to two or more initiatives compared to just 6% of US firms and 8% globally.

Private equity is the only sector out of those we analysed where European firms do not have the highest representation among signatories. European firms account for 41% of all signatories compared to 47% for US private equity firms and just 9% for APAC firms. However, their share is disproportionate to the size of the European industry and the level of representation in the top 300 private equity firms in the world (17%)

Stock exchanges

Another sector we looked at is stock exchanges. We identified just one major initiative the Sustainable Stock Exchanges, which is a project of the United Nations with key stakeholders the World Federation of Exchanges and IOSCO.

There is almost universal take-up of this initiative: around 87% of the world's stock exchanges (108 stock exchanges) are members of the Sustainable Stock Exchanges (SSE) initiative. According to our analysis, they together account for roughly 95% of global market capitalisation.

Roughly 90% of European stock exchanges are members of the SSE initiative (24 stock exchanges are located in the EU27) compared to around 87% of world's stock exchanges.

The SSE initiative provides a public database with sustainability activities of the stock exchanges that are members of the initiative. (for further analysis and charts please see Appendix on stock exchanges).

The value of designated ESG activity

The second step for measuring the penetration of ESG in the banking and finance industry is to analyse those sectors of the banking and finance industry that have clearly designated sustainable or ESG activity. In this section we measure the growth in designated sustainable or ESG activity, the proportion of that activity out of the total globally and within each region and the distribution of global activity designated as sustainable or ESG by region.

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Full steam ahead?

One of the few areas of capital markets that there is clearly designated sustainable or ESG activity is debt capital markets. We measured the growth in the value of green, social, and sustainable debt issuance in capital markets, the proportion of that activity out of the total globally and within each region, and the regional distribution of global ESG bond market activity.

Fig.8i shows the growth in the value and penetration of ESG debt capital markets issuance globally and for the EU27 from 2016 to 2020. Over the past five years the growth in ESG-labelled debt issuance has been rapid, with activity increasing fivefold from around $107bn in 2016 to $579bn in 2020.

While this growth is impressive and welcome, ESG issuance represents just a small fraction of all activity in debt capital markets. Designated ESG activity today accounts for around 6% of global issuance in debt capital markets compared to less than 2% in 2016. On average over the past five years, global ESG activity accounted for just 4% of all activity.

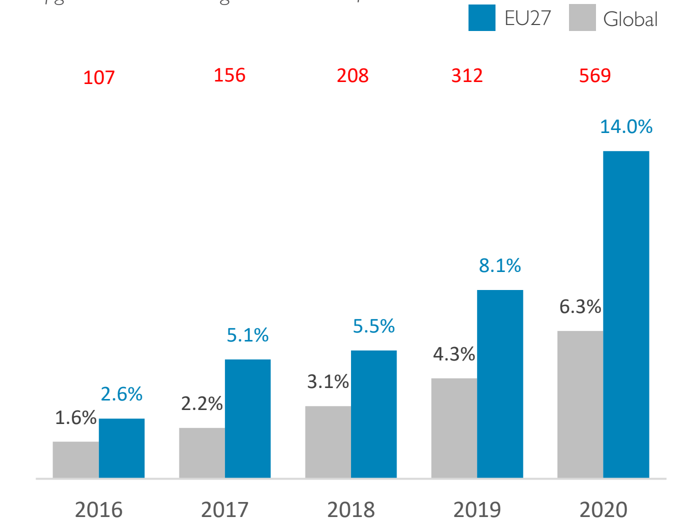
The EU27 is a long way ahead of other regions. Last year, ESG issuance from EU27 companies, governments and supranational institutions reached an all time high of 14% of all activity (Fig.8i) compared to less than 3% in 2016.This is more than double the level of ESG in global activity, more than three times the level in APAC and the US, and more than four times higher than in the UK.

The dominance of the EU27 is reflected on the regional distribution of designated ESG debt capital markets issuance (Fig.8ii). The EU27 accounts for almost half of global designated ESG debt issuance, which is more than double its overall share of all debt capital markets activity. For reference, UK issuers account for around 4% of all global activity, but only 2% of ESG activity.

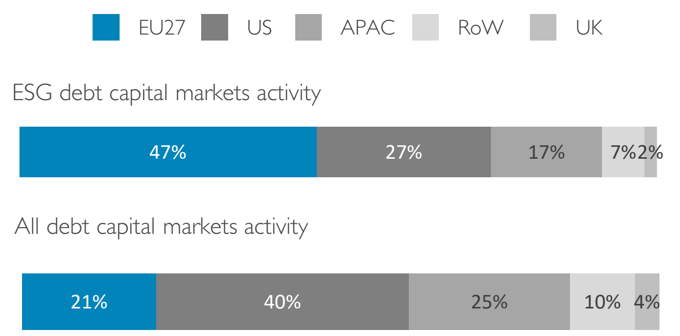
We also looked at the composition of designated ESG debt capital markets issuance globally and within each region on a five-year average basis (Fig.8iii). ESG issuance is dominated by financial companies, governments, and supranational institutions across all regions. Non-financial corporations account for only a third of global ESG issuance. Their share is the smallest in the EU27 where it stands at 29% of all ESG issuance and the biggest in Asia Pacific (38%).

Fig.8 Designated ESG debt capital markets activity

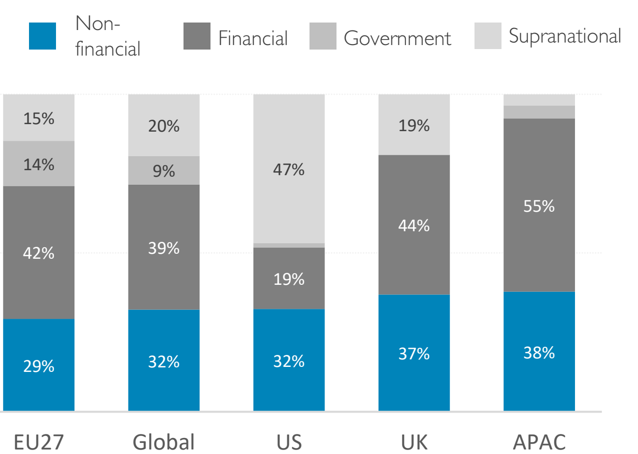
i. The growth in ESG debt capital markets issuance globally and the EU27
The figures in red is the global value in $bn



ii. The distribution of ESG debt capital markets issuance across regions in 2020



iii. The composition of of ESG debt capital markets issuance in each region, *5 year weighted average*



Source: Dealogic, New Financial analysis
DCM issuance includes medium-term notes, asset-backed securities, all bonds, covered bonds, preferred shares and mortgage-backed securities)

Gathering steam

Fig.9 zooms in on the corporate bond market and shows three things: the rapid growth in the value and penetration of green, social, and sustainable corporate bond issuance globally and in the EU27; the differences in penetration in different regions; and the regional distribution of global ESG corporate bond issuance.

Perhaps not surprisingly, the findings are similar to those on total debt capital markets issuance. Over the past five years the value of ESG corporate bonds issuance has grown rapidly and today is more than three times larger than in 2016: global ESG issuance has increased from around $36bn in 2016 to $151bn last year.

While this growth has been substantial, ESG issuance still only represents a small proportion of all corporate bond activity. Today designated ESG corporate bond issuance accounts for less than 5% of global corporate bond activity, although this proportion has tripled in the past five years. On a five year weighted average basis, global ESG corporate bonds account for just 3% of all activity.

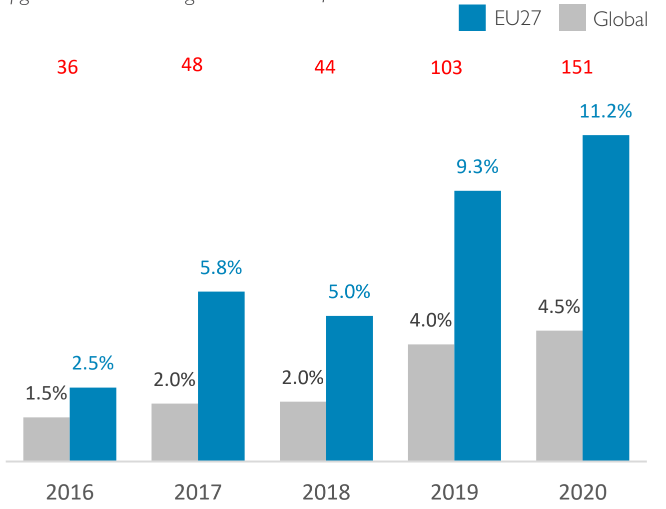
The growth in ESG corporate bond issuance in the EU27 has been particularly fast over the past five years. Last year, ESG issuance from EU27 companies reached 11% of all corporate bond activity by EU27 companies compared to just 4.5% globally (Fig.9i) - and so far this year it has continued climbing to around 18%. The value of ESG corporate bonds in 2020 in the EU27 was four times higher than in 2016.

The EU27 is a global leader in ESG corporate bonds: the penetration of ESG bonds out of total corporate bond issuance in the EU27 is more than double the global average of 4.5%. US issuers are bringing up the rear with ESG activity representing just 2.7% of all corporate bond issuance in 2020, just one quarter the level of the EU27 (Fig.9ii).

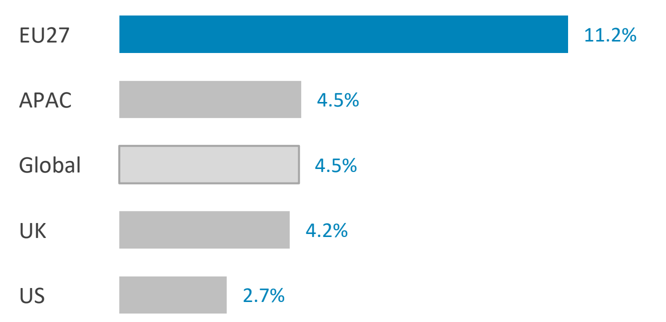
The high level of penetration of ESG in corporate bond markets in the EU27 is reflected in the regional distribution of global activity (Fig.9iii). The EU27 accounts for around a third of global ESG corporate bond issuance, well ahead of the US and Asia Pacific. This is more than double its overall share of all corporate bond issuance in the world (14%). While the US represents nearly half of all corporate bond activity (46%) it's share of ESG activity is little more than half that (28%).

Fig.9 Designated ESG corporate bonds activity

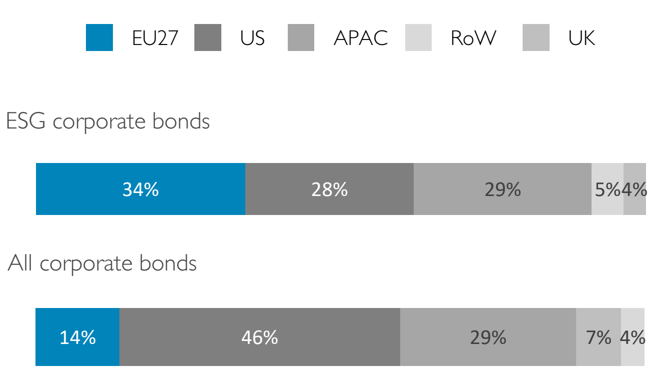
i. The growth in ESG corporate bonds issuance globally and the EU27
The figures in red is the global value in $bn



ii. The proportion of ESG corporate bonds issuance out of total corporate bonds issuance in each region in 2020



iii. The distribution of ESG corporate bonds issuance across regions in 2020



Source: Dealogic, New Financial analysis

A growing market

Another area where it is possible to measure the 'hard value' of ESG in capital markets is the syndicated and leveraged loan markets, where many borrowers have embraced 'sustainability linked' loans in the past few years. Fig. 10 shows three things: first, the rapid growth in the value of ESG corporate loans globally and in the EU27 over the past three years. Second, the proportion of ESG activity in each region in 2020 (with a particularly high proportion in the EU). And third, the regional distribution of global ESG corporate loans activity.

Over the past five years the value of ESG corporate loans issuance has grown rapidly and today is more than 50 times bigger than in 2017. Global ESG issuance has increased from virtually zero in 2016 to nearly $164bn in 2020. However, it still represents just a small fraction of all corporate loans: today designated ESG corporate loans issuance accounts for around 5% of all corporate loans activity globally.

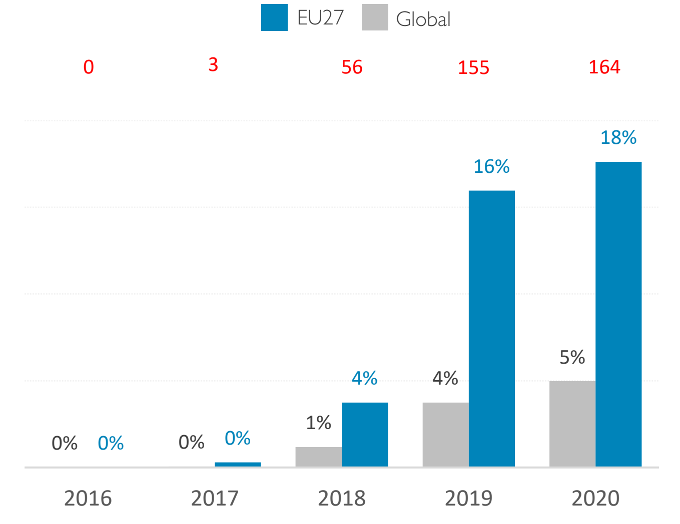
The growth in ESG corporate loans issuance in the EU27 has been particularly pronounced over the past five years. Last year, ESG loan activity from EU27 companies reached 18% of all issuance from EU27 companies, compared to just 5% globally (see Fig.10i). As recently as 2017, ESG activity accounted for less than 1% of issuance in the EU, and the value of ESG loans today in the EU27 is 50 times bigger than in 2017. This activity has continued to grow in Europe in 2021: in the first half of the year, just over 25% of all loan market activity in Europe was in the form of ESG-linked loans.

In line with the other sectors where designated ESG activity exists, the EU27 is also a global leader in ESG linked corporate loans. The share of ESG activity out of total loans issuance in the EU27 is more than double the share of ESG activity in the UK, more than triple the global level - and more than 10 times the level in the US or Asia (see Fig.10ii).

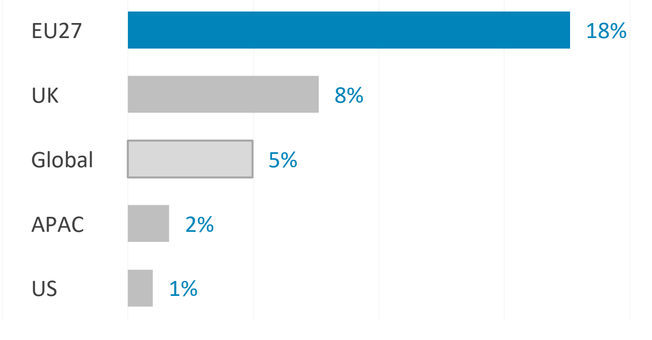
The dominance of the EU27 is reflected in the regional distribution of the value of global ESG corporate loans issuance (Fig.10iii). The EU27 accounts for more than two thirds of global ESG corporate loans issuance. This is more than triple its overall share of all corporate loans issuance in the world (20%) and more than seven times higher than that of the US, Asia Pacific, and the UK.

Fig.10 Designated ESG corporate loans activity

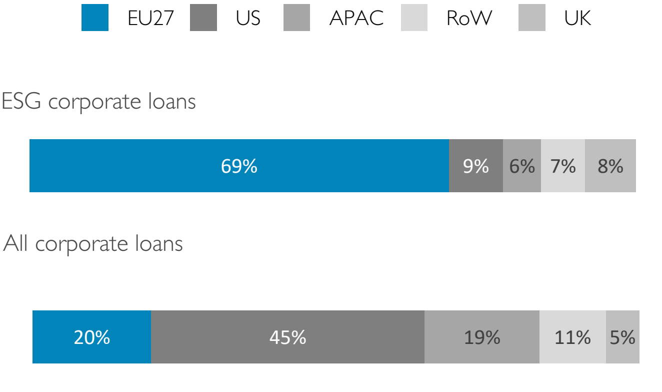
i. The growth in ESG corporate loans issuance globally and the EU27
The figures in red are the global value of activity in $bn



ii. ESG corporate loans issuance as a proportion of total corporate loans activity in each region in 2020



iii. The distribution of ESG corporate loans issuance across regions in 2020



Source: Dealogic, New Financial analysis

Punching above its weight

Another area of capital markets that there is clearly designated sustainable or ESG activity is investment funds. We analysed the growth in the value of assets under management of sustainable investment funds, their penetration relative to the universe of all investment funds assets globally and within each region, and the regional distribution of sustainable funds. We ran the same analysis for investment flows, the number of funds, and ETFs (see Appendix).

Fig.11i shows the rapid growth in the value and penetration of sustainable investment funds assets globally and for investment funds domiciled in the EU27 from 2016 to 2020. Over the past five years the growth in sustainable investment funds has been rapid.

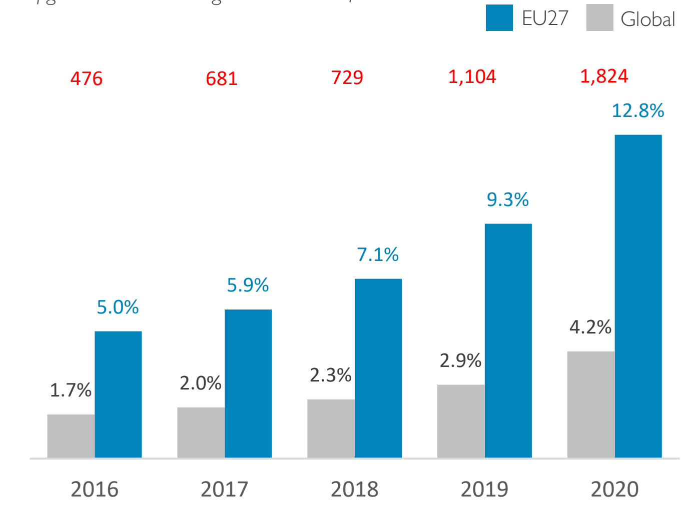
The value of assets in sustainable funds today is almost four times higher than in 2016, increasing from just under $480bn in 2016 to just over $1.8 trillion last year. While this growth is impressive, the value of sustainable funds represent just a small fraction of global investment funds assets: today assets of sustainable funds account for just over 4% of the total value of investment fund assets, although this proportion has more than doubled from less than 2% in 2016.

The EU27 is the global leader in sustainable investment funds with a huge lead over other regions. The growth in the EU27 has been rapid since 2016: the value of sustainable funds domiciled in the EU27 has quadrupled and today it accounts for 13% of all funds in the EU27 compared to just 5% in 2016 (Fig.11i). This is nearly three times the penetration of sustainable funds globally, more than double the share in the UK, and more than 10 times the level in the US (Fig.11ii).

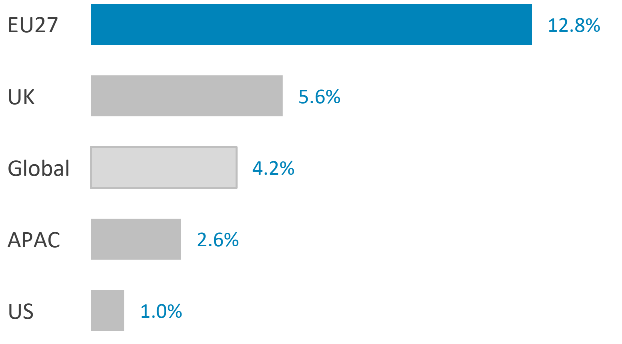
The dominance of the EU27 and the extent of its lead over other regions is more clear when we look at the regional distribution of the assets of sustainable investment funds (Fig.11iii). The EU27 accounts for nearly three quarters of all sustainable investment funds' assets (71%) and is clearly punching above its weight: this is nearly three times its 24% share of the global investment fund market. The EU27's share is five times bigger than the US. This dominance is also prevalent in fund flows: investors put more than €200bn into ESG funds in the EU27 last year, accounting for more than half of all flows into EU27 funds, and two thirds of global ESG flows.

Fig.11 ESG Investment funds

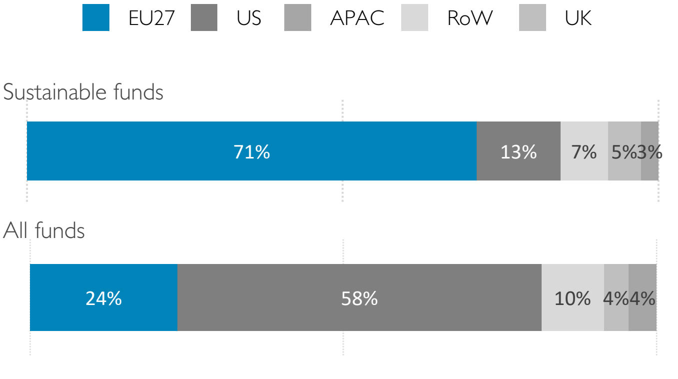
i. The growth in ESG investment funds globally and the EU27
The figures in red is the global value in $bn



ii. The proportion of ESG investment funds assets out of total in each region in 2020

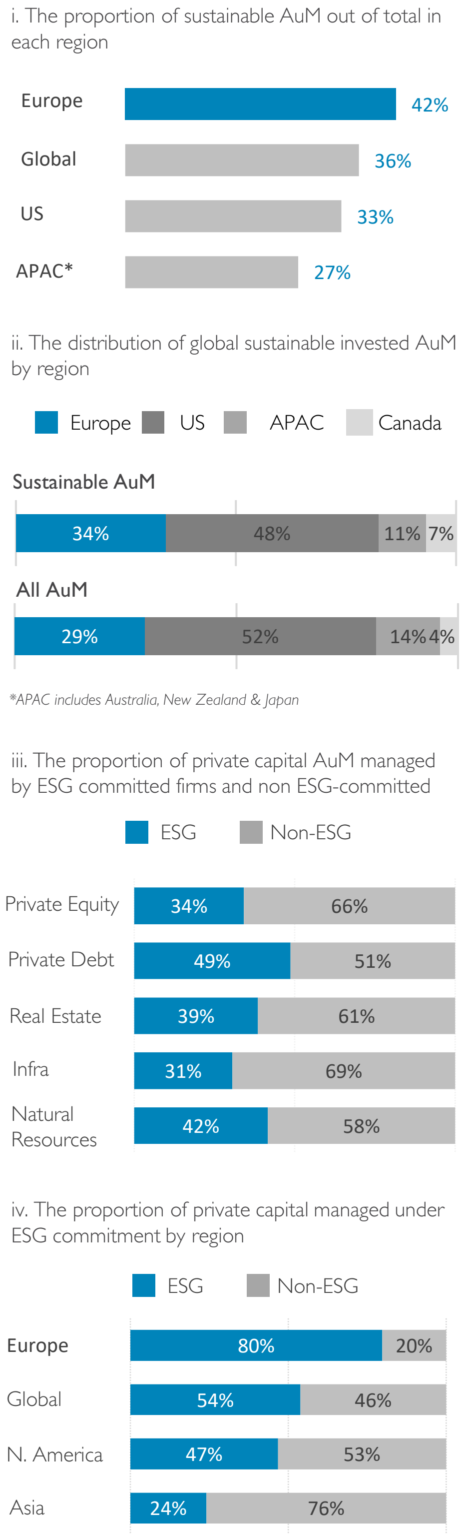


iii. The distribution of sustainable investment funds assets across regions in 2020



Source: Morningstar, New Financial

Fig.12 ESG assets under management



Source: Preqin, Global Sustainable Investment Alliance

Asset management

Another area of capital markets where data on sustainable or ESG activity exist is assets under management. However, any data here should be treated cautiously because the numbers are self-reported, there is a lack of a universal agreement on what counts as sustainable, and there are plenty of questions over how embedded ESG is into the investment process.

With the data available we were able to look at the proportion of assets under management that are managed on a sustainable basis or under an ESG framework as a percentage of total AuM globally and within each region, and the regional distribution of AuM (Fig.12i & Fig.12ii). Just over a third of global assets under management are managed on a sustainable basis.

Europe again has a big lead over other regions. Sustainable assets in Europe account for 42% of all assets under management in Europe. This is significantly higher than the share of sustainable AuM in the US (33%) and roughly double the level in Australia, New Zealand and Japan. Looking at the regional distribution, although Europe is second to the US by value it clearly punches above its weight and its share of global sustainable AuM is significantly bigger than its overall share of global assets under management.

Private equity

We also looked into private capital markets, but again the data should be treated cautiously as there is lack of clarity on what constitutes 'ESG' and what is not. Fig.12iii shows the share of private capital assets managed by ESG committed firms compared to those managed by firms not committed to ESG across the different asset classes.

Around 40% of private capital assets are managed by ESG committed firms on average across the different asset classes. Only a third of private equity AuM is managed by ESG committed firms whereas private debt assets managed by ESG committed firms account for almost half of all private debt AuM.

European private equity firms are a long way ahead of their peers in all other regions. The private capital managed under ESG commitments in Europe accounts for 80% of all private capital assets compared to 54% globally, 47% in North America and just a quarter in Asia.

Private capital fundraising under ESG commitment accounted for 43% of all private capital fundraising in 2020, up from 37% in 2016. According to Preqin the value of the assets under management by impact funds has grown by more than 80% since 2016 and the number of impact funds has tripled over the same period (see charts in the Appendix).

Implementation

The third step for measuring the penetration of ESG in the banking and finance industry is to analyse activity related to ESG in the day to day world of banking, finance and capital markets.

This section looks at the ESG ratings for financial companies compared to non-financial companies and the distribution of ratings across regions and sectors of the industry; and the nature and level at which the industry engages with clients on climate reporting and targets, or follows specific recommendations on ESG.

In addition, we measured the growth, proportion out of total within each region and regional distribution of capital markets activity for two groups of companies: 1) 'good ESG' companies, whose primary activity is specifically trying to address environmental and social issues (such as renewable energy companies) and 2) 'bad ESG' companies - companies that have severe ESG risk ratings, are on the Climate Action 100+ list of the most polluting companies in the world, or are active in oil, gas and mining.

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Risky business?

One way to measure how and whether the public commitment to ESG by the banking and finance industry translates into implementation is to look at the ESG ratings of financial firms and compare them with non-financial firms, across different sectors and different regions.

Fig. 13 shows the distribution of ESG risk ratings for financial companies compared to non-financial companies; the distribution of ESG risk ratings across different sectors of the industry; and the distribution between different regions. It is important to note here that the four main providers of ESG scores all have a different methodology which produces different results. In some cases the score for a company was different across providers indicating the challenges around measurement.

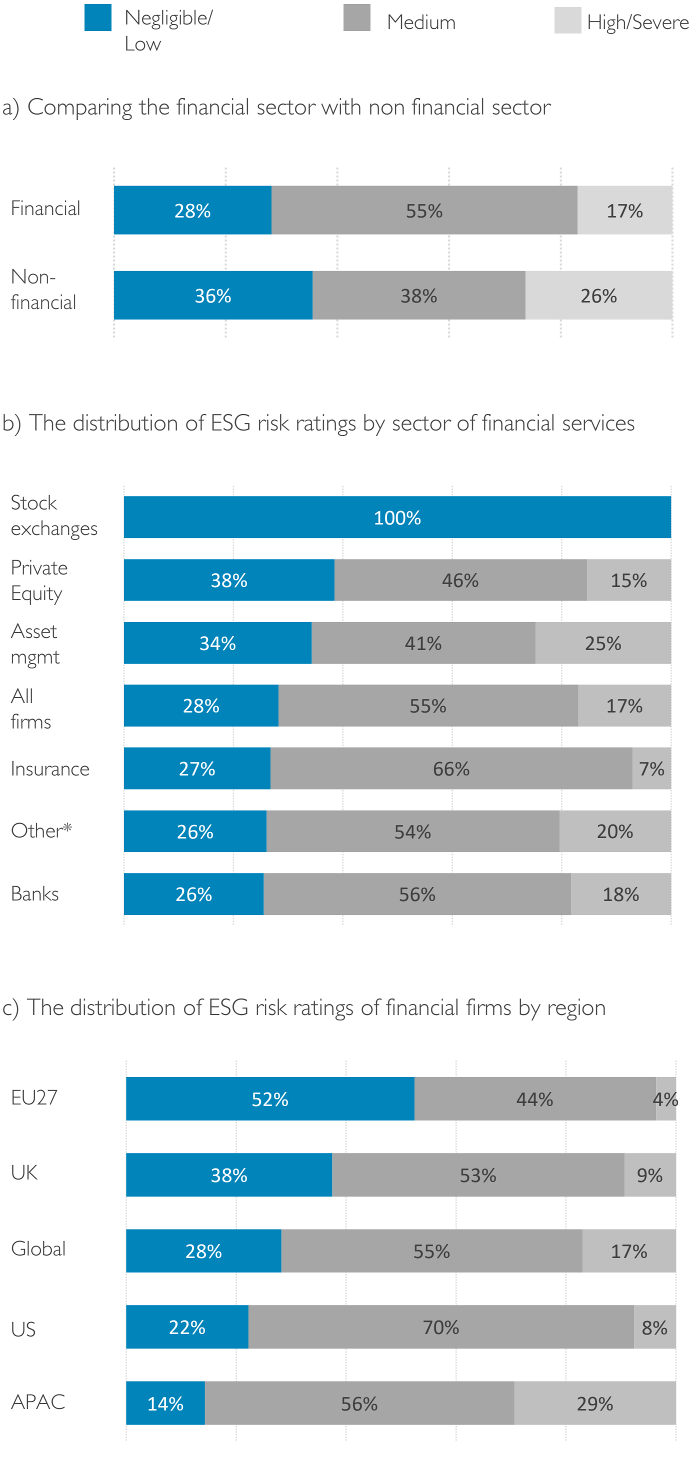
For the purposes of this analysis we used ESG risk ratings from Sustainalytics which measure a company's exposure to material ESG issues and how well it manages relevant ESG issues. Our analysis suggests that the banking and finance industry has a lot of work to do. While financial and non-financial companies have an average score that falls under medium ESG risk, a higher proportion of financial firms have either medium, high or severe ESG risk rating (71%) than non-financial firms (64%), and a lower proportion have a low risk (Fig.13a).

Drilling down into the different sectors of banking and finance the results confirms our research. Banks and insurance companies, which are the two sectors with the least consistent data and data availability in terms of ESG activity, have the lowest proportion of firms with negligible or low ESG risk. The best performers are stock exchanges, all of which have a low ESG risk (Fig.13b).

Financial companies based in the EU27 have much lower ESG risk profile than all other regions (Fig.13c).They have an average score that falls under low ESG risk compared to all other regions that have medium ESG risk. More than half of EU27 financials have negligible or low ESG risk, this share is more than a third higher than that of the UK, more than two times higher than that of the US, and nearly four times higher than that of Asia. This suggests they have a lower exposure to high risk companies and / or are trying to address ESG more seriously than their global peers.

Fig.13 ESG risk ratings in financial services

The distribution of ESG risk ratings spanning from negligible risk and low risk to medium, high and severe



Source: Sustainalytics, New Financial
Note: Other includes boutique investment banks, brokers, platforms, payment systems, rating agencies and others

Putting into practice?

Another way to measure how and whether the public commitment to ESG by the banking and finance industry translates into implementation is to look at how the largest firms in each sector are engaging with their clients.

Fig. 14 shows the proportion of the top 20 largest companies within each region that have published an engagement strategy around climate reporting and / or set targets for portfolio companies and customers in different sectors of the industry. It highlights that beyond signing up to an initiative, launching an ESG fund or issuing an ESG bond, sustainability is not an easy task and there is a lot of work that the industry needs to do.

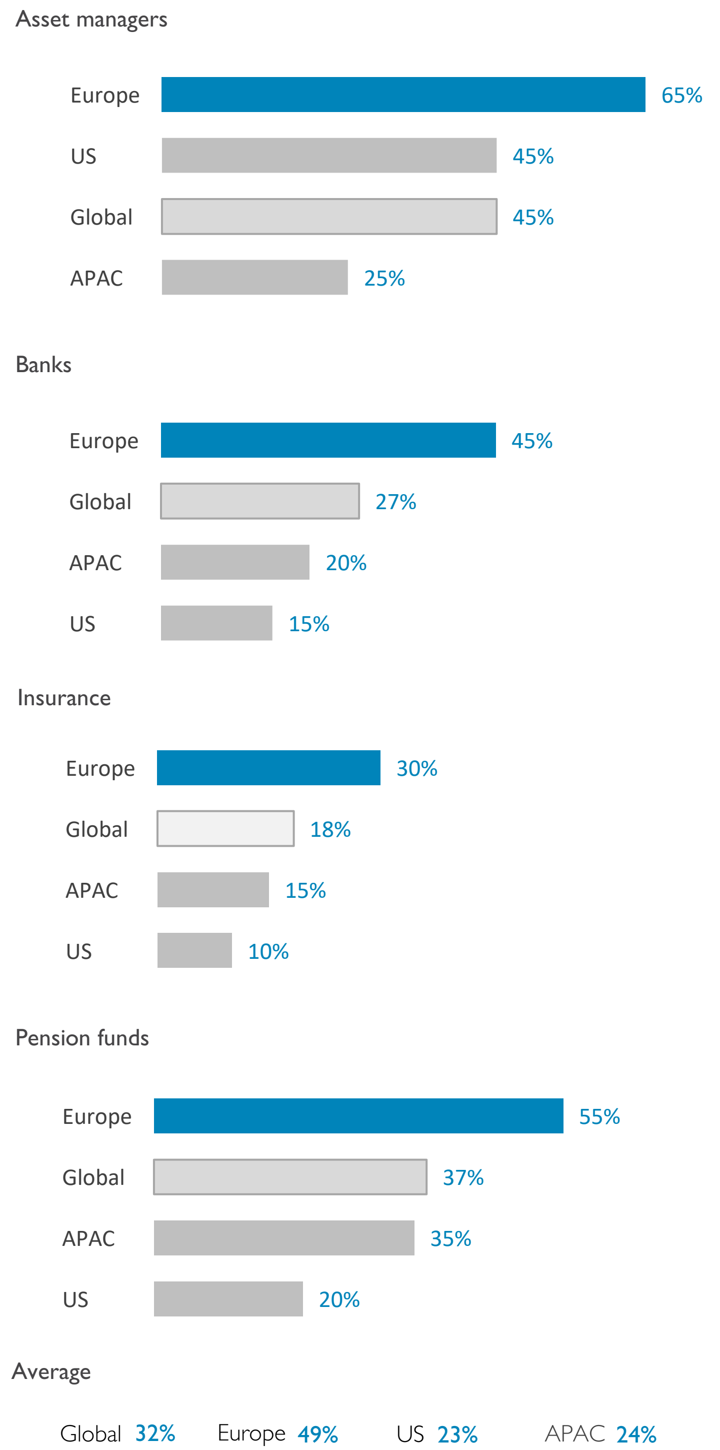
We looked at the 20 largest firms in each region and within each sector to see how they engage with their clients around climate reporting. While the sample is small, we found that only a third of the largest financial firms globally and that less than half of the largest firms in Europe have published a clear engagement strategy for climate reporting and targets with their portfolio companies or customers. Again European firms are well ahead of firms in other regions: the proportion of European firms that have a clear strategy of engagement is more than double that of US firms and Asian firms.

The same trend is evident across sectors. Nearly two thirds of large European asset managers have an engagement strategy around climate reporting and targets compared to less than half of firms globally and in the US. And more than half of European pension funds have a strategy compared to just 37% globally, 35% of APAC firms and a fifth of US firms. In banking, just under half of European banks have a clear strategy compared to just 15% of US banks and a fifth of Asian banks. In insurance less than a third of European insurance companies engage with their clients. This is double the share in Asia Pacific and triple the share in the US.

Perhaps not surprisingly, asset managers have the highest share of firms engaging with their clients on climate reporting and targets. It is more than double the share of insurance companies, which is the sector with the lowest proportion of firms having a strategy. Pension funds have the second highest share ahead of banks. Across all the sectors we analysed, less than half of the largest firms in each of them have an engagement strategy highlighting the urgent need for the industry to step up.

Fig.14 Requesting climate-based targets & reporting

Proportion of the largest 20 companies in each region that have an engagement strategy on climate reporting & targets for portfolio companies



Source: New Financial analysis of disclosures by the largest firms in the world

Mind the gap

A unique way to measure the extent to which the banking and finance industry is putting its public commitment into practice and the result of its actions is to measure capital markets activity by 'good ESG' and 'bad ESG' companies. While banks and investors are often vocal around ESG, how much of their activity involves supporting companies that are trying to solve the problem - and how much involves companies that helped cause the problem?

To do that we measured capital markets activity for two groups of companies: 'good ESG' companies that are specifically trying to address ESG issues - for example a solar or wind power company - and 'bad ESG' companies that have severe ESG risk ratings, are on the Climate Action 100+ list, or active in oil, gas and mining.

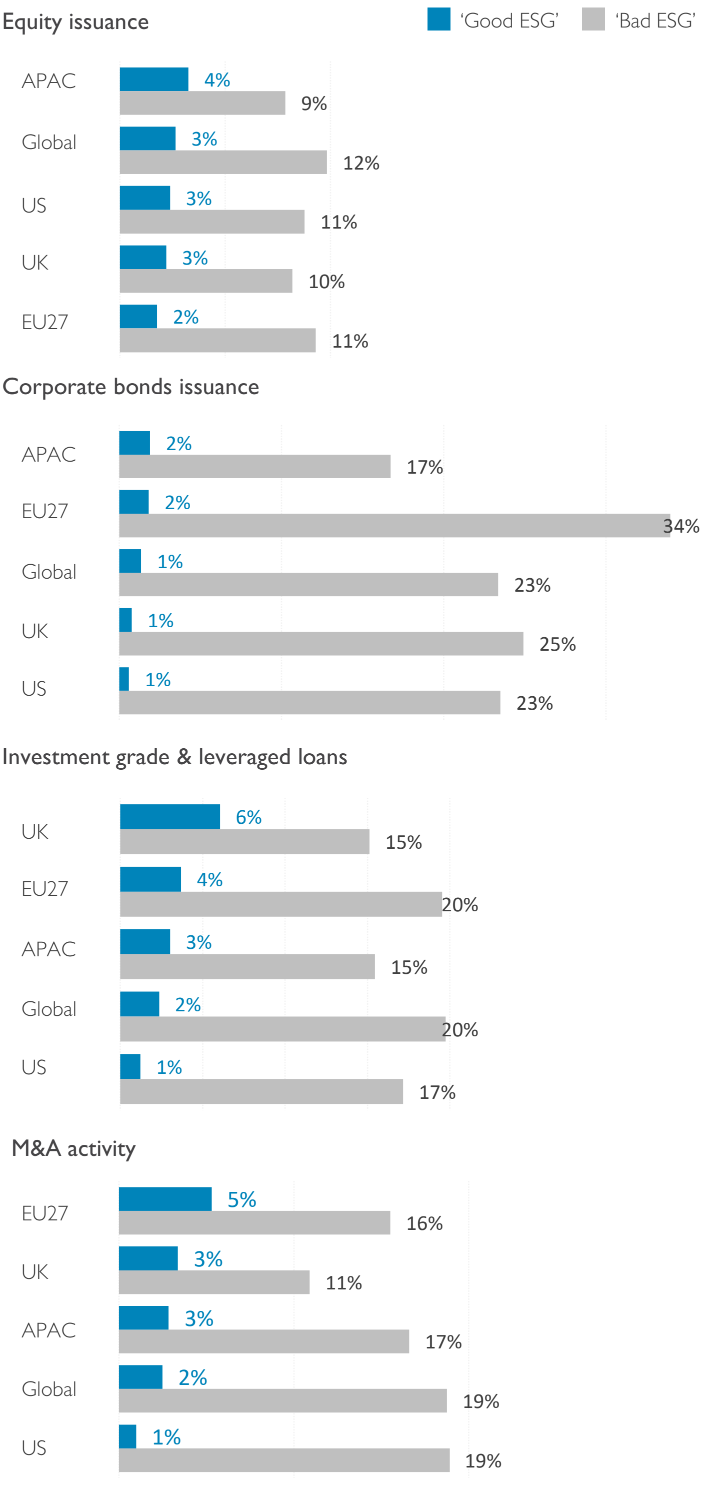
Fig. 15 shows the share of capital markets activity by good and bad ESG companies in each region as a proportion of total activity over the past five years. The blue bars are 'good ESG' companies and the grey bars are 'bad ESG' companies. In almost every market, only a tiny proportion of overall activity comes from 'good ESG' ESG companies, and a far bigger proportion comes from 'bad ESG' companies.

On average, for every dollar raised in capital markets by a wind power company or other 'good ESG' companies to help address climate change, roughly $10 dollars are raised by the 'bad ESG' companies that are causing the problem in the first place. From 2016 to 2020, 'good ESG' companies raised $791bn in the equity, bond and loan markets - but 'bad ESG' companies raised $7.6 trillion. This may reflect the relative size of these sectors: oil, gas, mining, chemicals and transport companies represent a far bigger share of global markets than renewable energy, but we think it is stark all the same.

The gap is most pronounced in corporate bonds issuance where only 1% of global issuance comes from good ESG companies and nearly a quarter from bad ESG companies. The gap is less pronounced in equity issuance where good ESG companies account for 3% of total issuance compared to 12% from bad ESG companies. In investment grade and leveraged loans issuance from ESG companies account for around 2% of global activity whereas bad ESG companies for 20%. In M&A deals 'good ESG' companies account for 2% of all deals by target, compared to 19% for 'bad ESG' companies.

Fig.15 The penetration of ESG in capital markets

The share of capital markets by 'good ESG' and 'bad ESG' companies out of total activity in each region from 2016 to 2020



Source: Dealogic, New Financial

A long way to go

Another way of looking at this is to drill down into the nature of capital markets activity by 'good' and 'bad' ESG companies. Fig.16 takes a closer look at designated ESG corporate bond issuance and shows how much of it comes from 'good' and 'bad' companies in different regions. It also shows what proportion of bond issuance by these companies is in the form of ESG bonds.

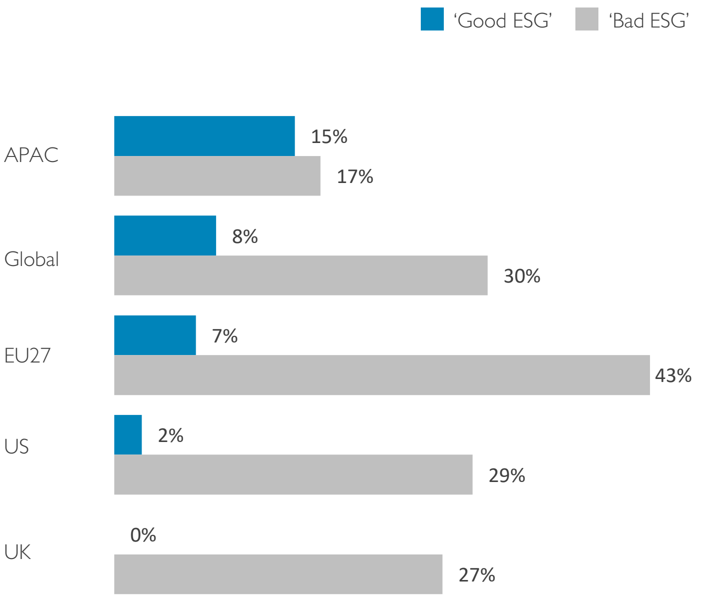
Nearly a third of all green, social and sustainable bonds (designated as ESG) in the world are issued by 'bad ESG' companies, meaning that some of these companies are actively trying to address ESG issues. In the EU27, this share rises to 43%: in other words, nearly half of all ESG bonds issued by companies in the EU27 are issued by companies with a 'bad ESG' rating. This is not in itself a negative: it demonstrates that capital markets can help companies address and mitigate the environmental and social issues that they play a big part in causing.

The flipside of this analysis is that just 8% of global ESG bond issuance is by 'good ESG' companies. Again, this reflects the relative size of different sectors, but it still represents a clear gap. It is encouraging to see that 'good ESG' companies in APAC account for almost as much ESG bond issuance as 'bad ESG' companies. While 'bad ESG' companies account for a large part of ESG issuance, in order to get a better understanding of the extent to which these companies are actively doing something to address ESG issues we looked at how much of their total corporate bond issuance is in the form of designated ESG issuance (see Fig.16ii).

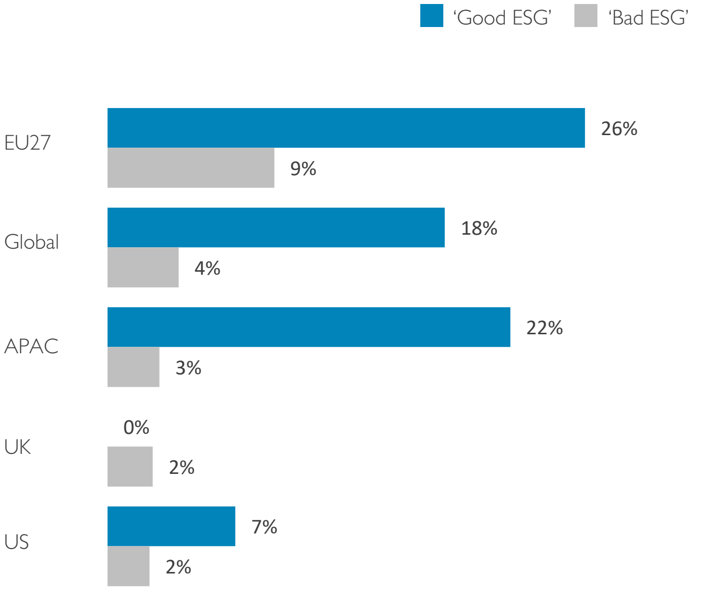
At a global level, just 4% of the corporate bonds issued by 'bad ESG' companies is in the form of ESG bonds, compared with 18% for 'good ESG' companies. In other words, for every dollar in sustainable bonds raised by an oil company or mining firm, $25 is raised in the 'normal' bond market with no specific ESG-related conditions attached. This disconnect suggests there is a long way to go for companies, investment banks and investors that often proudly tout their ESG bond credentials. The EU27 has a better balance: a quarter of all bond issuance by 'good ESG' companies is in the form of ESG bonds, while 9% of bond issuance by 'bad ESG' firms is in the form of ESG bonds, which means these companies raise 10 times much in the 'normal' bond market as the ESG market.

Fig.16 ESG corporate bonds of good and bad ESG

i. The share of ESG bond issuance by 'good ESG' and 'bad ESG' in each region from 2016 to 2020 *(%, 5 year weighted average)*



ii. ESG bond issuance as a proportion of total corporate bond issuance by 'good ESG' and 'bad ESG' companies in each region *(%, 5 year average)*



Source: Dealogic, New Financial

Walking the walk?

One of the most popular ESG initiatives in banking and finance is the Task Force on Climate-related Financial Disclosures that sits under the umbrella of the Financial Stability Board. In this section we look at the extent to which asset managers and asset owners comply with TCFD recommendations. Fig. 17 shows the average compliance rate across 10 TCFD recommendations by asset managers and asset owners that are signatories to the UNPRI initiative, the evolution of that compliance since 2018; and the proportion of asset managers and owners that have fulfilled the four areas of specific recommendations.

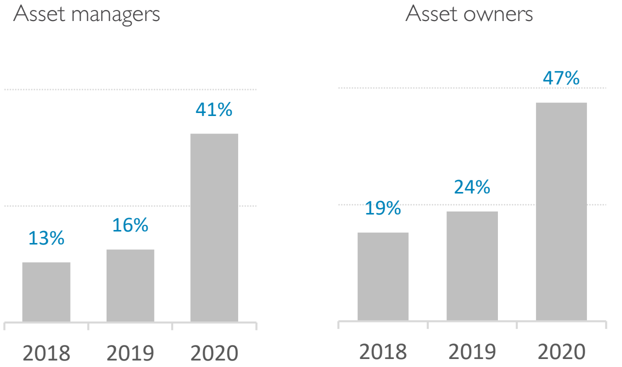
There has been significant growth in the adoption of TCFD recommendations by asset managers and asset owners over the past three years (Fig17i). The proportion of asset managers and asset owners that comply with TCFD recommendations has more than doubled since 2018. However, as of 2020 less than half of the asset managers and asset owners that have signed up to the UNPRI meet the requirements of the TCFD. The share of asset managers is 41% while for asset owners it is a little higher at 47% (data for banks and insurance firms is only available to 2019).

The TCFD recommendations cover four areas that represent core elements of how companies operate. These are governance, strategy, risk management and metrics and targets. Recommendations on governance are around board oversight and management's role, on strategy about the impact and risks to the organisation, on risk management about risk assessment and management processes and metrics and targets about climate related metrics, targets and emissions.

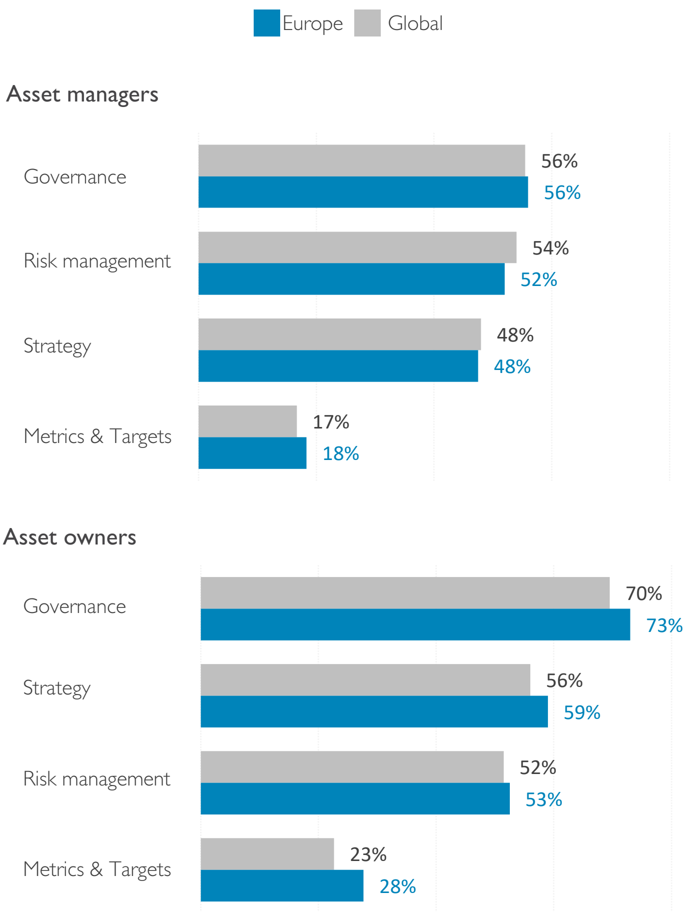
Fig. 17ii zooms into each of the four different areas of recommendations and looks at the proportion of asset managers and asset owners that follow them in Europe and globally. Around half of asset owners comply with recommendations on governance, risk management and strategy - but less than a fifth on metrics and targets (arguably the most important set of recommendations). More than half of asset managers comply with the recommendations on governance, risk management and strategy, but less than a quarter with metrics and targets. There is no clear advantage for European firms as the levels of compliance are similar to the global level, but European firms have a slightly higher rate of compliance to metrics & targets.

Fig.17 Complying with TCFD recommendations

i. Average compliance rate by UNPRI signatories across TCFD recommendations



ii. The proportion of UNPRI asset managers & asset owners globally and in Europe that follow specific TCFD recommendations



Source: New Financial, TCFD, UNPRI

Driving change from the top down

Over the past few years sustainable finance and ESG have climbed to the top of the agenda for regulators and policymakers in Europe and across the world. The EU has been leading the world in creating a framework for sustainable finance, but other regions have stepped up.

Fig. 18 shows the total number of green finance policies and regulations relevant to the different areas of the industry, and the proportion of green finance policies and regulations within each region that relate to mandatory reporting and disclosure obligations.

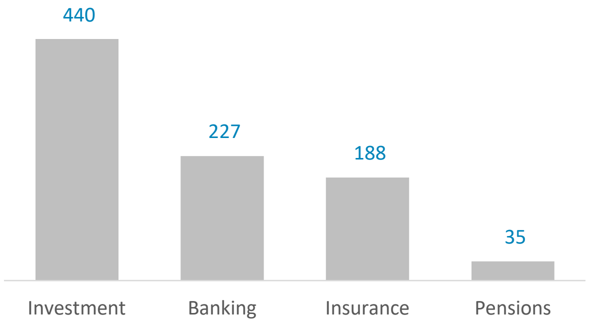
There has been a blizzard of green finance policies and regulations across the world. We counted 440 green finance policies and regulations relevant to investments, 227 relevant to banking, 188 to insurance and 35 specifically relevant to pensions. Across all of these areas of banking and finance the majority of policies and regulations have come from European countries with Asia Pacific following.

We also looked at how many of the green finance policies and regulations in each region relate to mandatory reporting and disclosure obligations. Fig. 18ii shows that less than a fifth of these policies across the world are around mandatory reporting and disclosure obligations. In asset management only 16% of green finance policies and regulations are around mandatory reporting and disclosure obligations, while in banking the share drops to 10% and in insurance to 12%. In other words, the majority of policy and regulation in ESG does not involve mandatory reporting or disclosure.

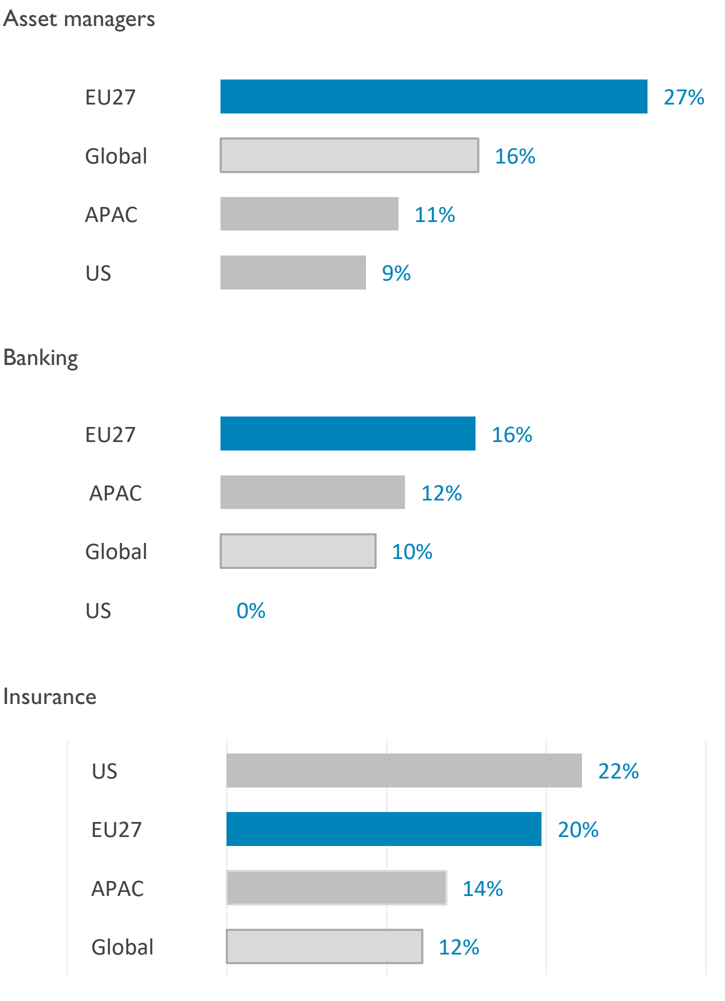
The EU27 has a clear lead in all sectors apart from insurance. In asset management, banking and pensions the proportion of policies related to mandatory disclosures and reporting obligations is much higher than in any other region and the global share. This lead is reflected on the distribution of policies and regulations related to mandatory disclosure and reporting obligations. Around half of all mandatory disclosure policies and regulations related to the investment and the banking sector are in the EU27. Given the EU's clear lead in most areas of ESG, this may suggest that the best way to drive more ESG activity is more mandatory reporting.

Fig.18 Green finance policies and regulations

i. Total number of green finance policies & regulations by area of banking and finance



ii. The proportion of green finance policies and regulations within each region that relate to mandatory disclosure obligations



Source: Green Finance Platform, New Financial

The future of ESG in banking and finance

This report highlights the rapid growth in ESG activity in banking and finance, the high level of public commitment to ESG across the industry, and some of the challenges of translating this into implementation and delivery. For all the progress, there is a lot more work to do. Here are 10 points for discussion around the future of ESG

1. **What's stopping you?:** for all of the noise around ESG, perhaps the most striking finding in this report is that while the level of public commitment to ESG is high across the industry it is far from universal. Given that signing up to an ESG initiative is virtually cost-free, it is remarkable that a third of the largest firms in Europe have not yet done so. At what point should firms that choose not to engage with these initiative have to explain their reluctance?
2. **Too much of a good thing:** it may sound harsh to criticise the hundreds of well-intended ESG initiatives and regulations in and around the banking and finance industry. But there is a risk that this complex and often overlapping patchwork creates confusion, enables firms to cherry pick their ESG credentials, and engage in ESG arbitrage between jurisdictions. While there has been some rationalisation, how can these initiatives and regulations be consolidated and better co-ordinated?
3. **A green backlash:** perhaps the biggest danger with ESG is that the rapid growth in activity and adoption by the industry turns out to have been a castle in the air. In other words, that a lot of ESG activity turn out to have been about marketing and PR. This could trigger a huge regulatory and political backlash against the industry. How can the industry, regulators and government work together to ensure that ESG does what it says on the tin?
4. **A reality check on ESG:** the main challenge for the industry identified in this report that translating public commitment and new products into implementation is really hard. How to embed ESG into the underlying business is beyond the scope of this report, but in future work we will be analysing what ESG really means for the banking and finance industry and what it should involve at a 'nuts and bolts' operational level.
5. **A concrete plan:** it is encouraging to see more firms in the banking and finance industry and the wider economy setting goals to become net zero in a few decades time - but a goal without a plan is just a wish. What sort of framework could be developed to encourage and perhaps require firms to provide detailed plans as to what they are going to do right now and over the next five years in concrete terms to help achieve that goal?
6. **Accountability:** while many firms have good intentions in their ESG efforts, the wide range of often overlapping initiatives and the inherently long-term nature of the problems means that there is limited accountability. How can we develop a more consistent framework that combines clearer disclosure on intentions and goals with better information on delivery and implementation to provide more accountability?
7. **A public interest:** much of the focus on ESG has been around public markets, where companies inevitably face more disclosure and scrutiny. The risk is that this could push more 'bad ESG' into private markets (there are already signs that private equity firms are buying up unloved 'bad ESG' companies). How can we develop a more balanced framework under which ESG issues are based on a company's activity and not its ownership status?
8. **The S in ESG:** the climate emergency has injected urgency and momentum into the ESG movement but there is a danger that ESG is being 'hijacked' by the 'E in ESG'. The Covid crisis has highlighted the importance of the 'S': social issues such as inequality, health, and companies treat their staff, suppliers and customers. How can the industry develop a better set of metrics on these issues to encourage more focus and more progress on the 'S in ESG'?
9. **Funding the transition: m**any of the 'bad ESG' companies that account for a big part of capital markets activity today are embedded in the modern economy and will continue to need funding through the transition. A big challenge will be more clarity on what they are doing to address their own transition and how it will be funded, while ensuring that 'good ESG' companies actively trying to address climate change have access to sufficient funding.
10. **Business as usual: we think** a better phrase for 'ESG' or 'sustainable finance' is 'finance'. The longer that ESG is treated as a separate corner of finance that is not fully integrated into the industry's day-to-day operations, the less likely it is that it will achieve what it sets out to do or deliver what it promises. The real measure of the penetration and success of ESG is when we stop using the term, and it becomes part of 'business as usual'.

IIII NEWFINANCIAL
Rethinking capital markets

About New Financial

New Financial is a think tank that believes Europe needs bigger and better capital markets to help drive growth and prosperity.

We think this presents a huge opportunity for the industry and its customers to embrace change and rethink how capital markets work. We work with market participants and policymakers to help make a more positive and constructive case for capital markets around four main themes: unlocking capital markets; rebuilding trust; driving diversity; and the impact of Brexit.

We are a social enterprise funded by institutional membership from different sectors of the capital markets industry. For more information on our work, please contact us:

New Financial LLP
23 Grafton Street
London
UK, W1S 4EY
www.newfinancial.org

Follow us on Twitter and on LinkedIn
@NewFinancialLLP

William Wright
Managing director
william.wright@newfinancial.org
+44 (0) 20 3743 8269

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Brexit & The City: The Impact So Far

The problem with European stock markets

What do EU capital markets look like on the other side of Brexit

A reality check on Capital Markets Union

Beyond Brexit: the future of UK banking & finance

Methodology

Setting the scene:
We conducted extensive desk research on ESG and sustainable finance and the different sectors of the banking and finance industry and we identified more than 70 metrics relevant to ESG and measuring the penetration of ESG across the industry. These metrics were grouped into metrics of commitment, hard value and implementation and divided by sector and sub sector. After assessing the suitability, availability and comparability of each metric we whittled the list down to around 60 metrics in total.

Sourcing:
The analysis is based on data from a combination of public sources such as the websites of the different initiatives (UNPRI, TCFD, Net Zero initiatives, Climate Action 100+, Sustainable Stock Exchanges, Global Sustainable Investment Alliance, Green Growth Knowledge Partnership) and of individual companies, and private sources such as Dealogic, Morningstar, TrackInsight, MarketAxess, and Preqin. Some of the metrics we used in this study have been constructed using private sources and our own analysis.

Geography, sectors and time frame:
Our analysis measures the penetration of ESG globally, by region and across sectors. Although there were specific challenges around data availability, comparability and consistency we have managed to maintain a consistent approach through all metrics. The regional focus is mainly on comparing the US, Europe, Asia Pacific and rest of world with 'Europe' defined as EU27 plus Iceland, Norway, Switzerland, and the UK. Where possible we have provided data on the EU27 and the UK. The study covers the whole spectrum of the industry. We collected data for asset management, banking, pensions, insurance, stock exchanges, private equity, investment funds and exchange-traded funds, policy & regulations, equity capital markets, bond trading and debt capital markets. We used the most recent data available (2020 or 2021), and where possible we collected data from 2016 onwards.

How we measured penetration:
We focused and analysed three areas:

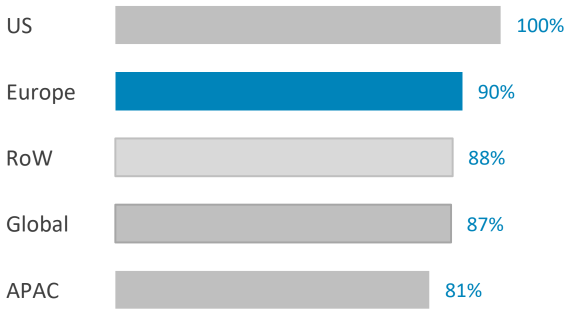
- **Commitment to ESG:** we found the different initiatives relevant to asset managers, banks, insurance companies, pension funds, and private equity firms, and the companies that have subscribed to each of these initiatives. We then overlaid the lists of signatories with the rankings of the largest companies in each sector such as the Banker's Top 1000 World Banks and Willis Towers Watson's largest 500 asset managers to see how many of the largest firms in the world are signatories to each initiative. We analysed the distribution of signatories by region across the different initiatives in each sector and the proportion of firms within each region that had signed up to at least one relevant ESG initiative.

- **Hard value**: we looked at the areas of banking and finance that have clearly designated sustainable or ESG activity. These sectors are debt capital markets issuance and corporate bonds, syndicated and leveraged loans, asset management and private capital, investment funds, and exchange-trade funds. For those sectors we measured three things where possible: the growth in activity, the penetration as a proportion of total activity globally and within each region, and the regional distribution of global ESG activity. We tried to find data for other sectors such as equities, derivatives, insurance, and banking either data was not consistent or comparable, did not exist or was only limited to anecdotal examples, perhaps indicating a lack of substantive activity.

- **Implementation:** We looked at the ESG ratings of financial companies compared to non-financial companies and the distribution of ratings across regions and sectors. We also looked at the level at which the industry engages with its clients on ESG such as whether it engages portfolio companies in climate reporting / targets or follows specific ESG requirements. Finally, we measured capital markets activity for two groups of companies: 'good ESG' companies that are specifically trying to address ESG issues - for example a solar or wind power company - and 'bad ESG' companies that have severe ESG risk ratings, on the Climate Action 100+ list, or active in oil, gas and mining.

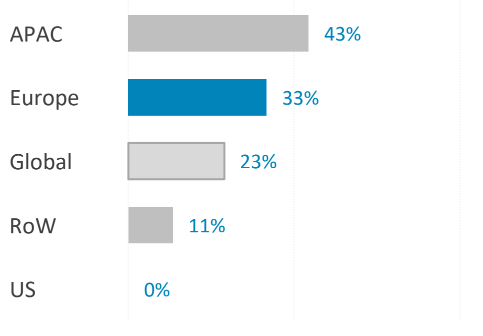
Fig.19 Stock exchanges

i. Proportion of stock exchanges in each region that are members of Sustainable Stock Exchanges

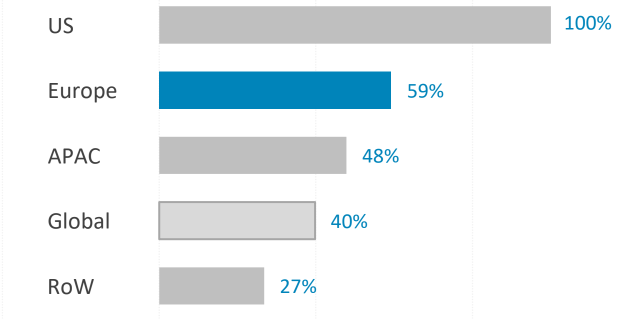


Note: there are only two signatories to the SSE in the US: Nasdaq and ICE

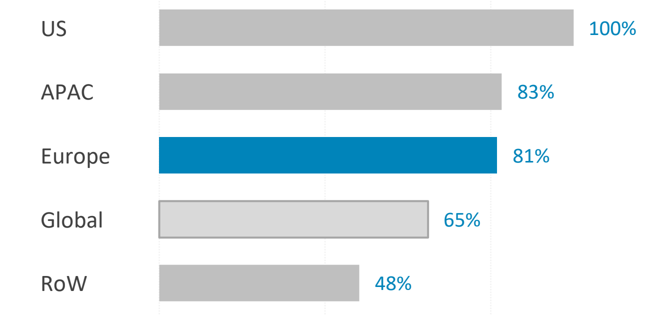
ii. Proportion of members of Sustainable Stock Exchanges within each region that have ESG reporting as a listing rule



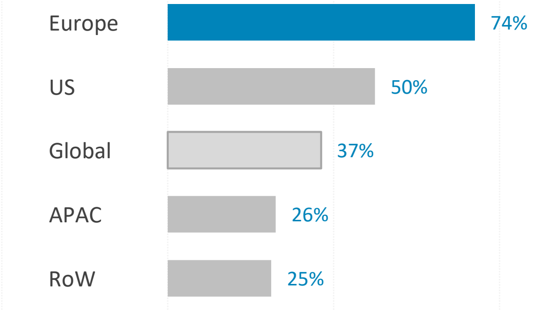
iii. Proportion of members of Sustainable Stock Exchanges within each region that have a market covered by an ESG related index



iv. Proportion of members of Sustainable Stock Exchanges within each region that provide some form of ESG guidance or training



v. Proportion of members of Sustainable Stock Exchanges within each region that have an ESG bond listing segment

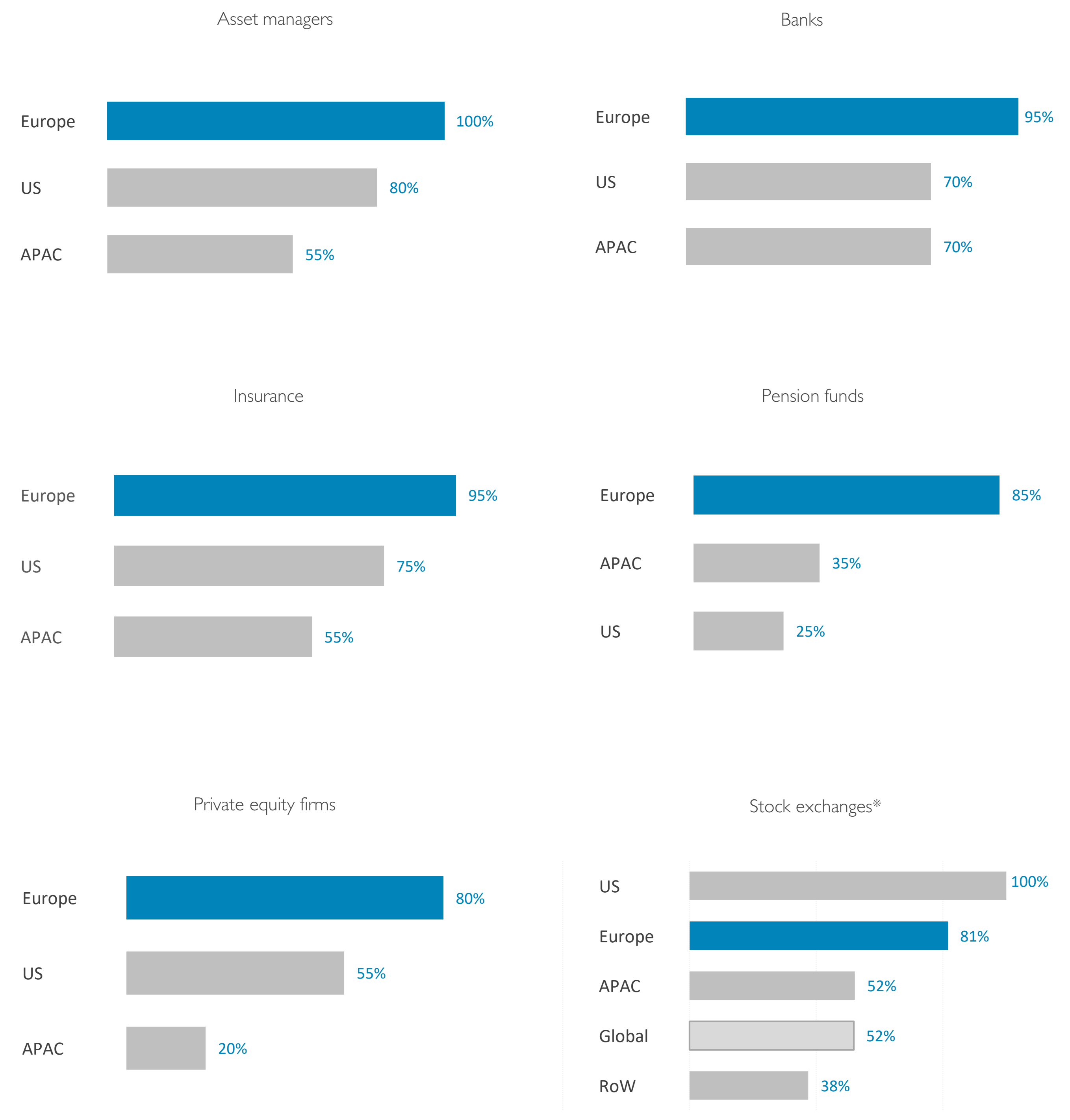


vi. Proportion of the largest 50 companies listed on stock exchanges in each region that publish an annual sustainability report

Source: New Financial analysis of Sustainable Stock Exchanges and publicly listed companies in the EU27, US and the UK

Fig.20 Publishing annual sustainability reports

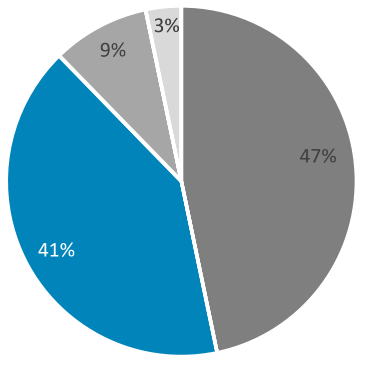
i. Proportion of the largest 20 companies in each region that publish an annual sustainability report



Source: New Financial analysis of disclosures by a sample of the largest firms in the world in each sector
**Note: the sample for stock exchanges is the members of the Sustainable Stock Exchanges initiative*

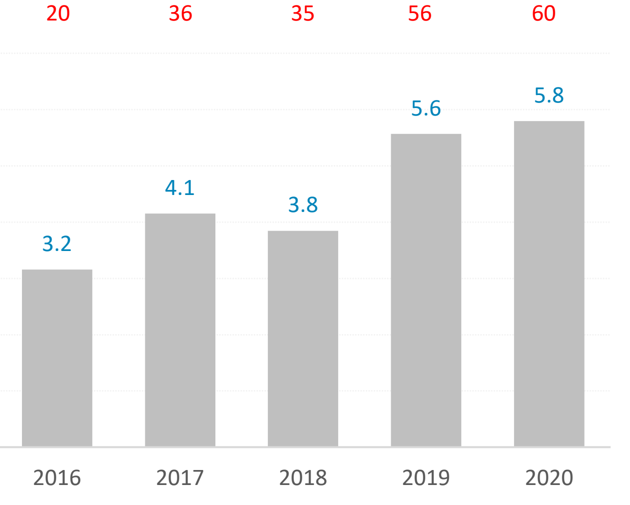
Fig.21 Private equity

i. Distribution of signatories to initiatives related to private equity by region *(Weighted average across all initiatives)*



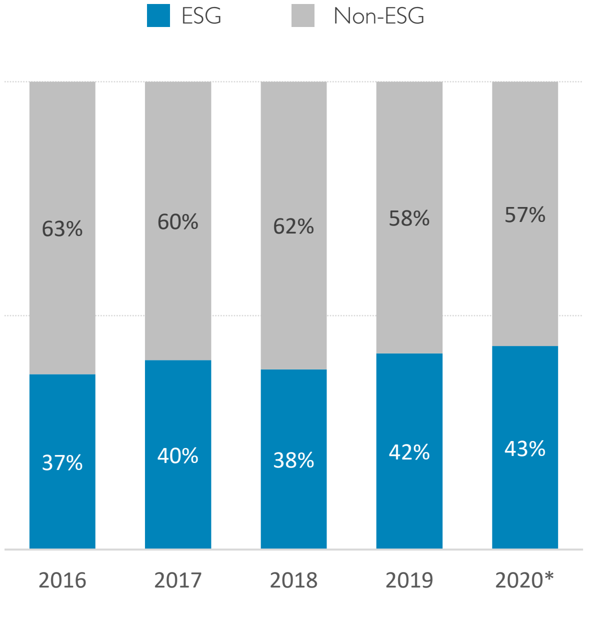
Source: New Financial analysis of signatory lists and lists of largest private equity firms

ii. Value of impact funds' assets under management by year *(the figures in red is the number of impact funds)*



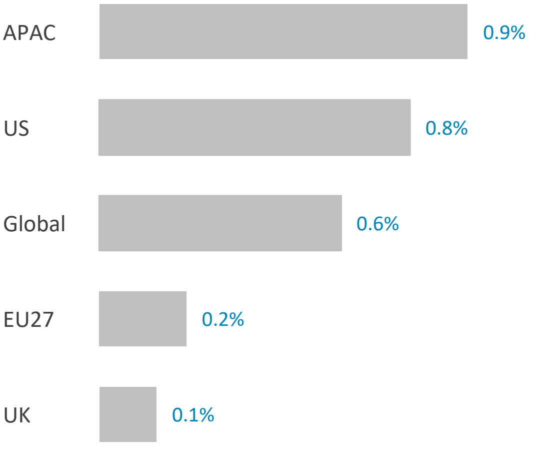
Source: Preqin

iii. Proportion of private capital fundraising under ESG commitment



*Source: Preqin ; *As of September 2021*

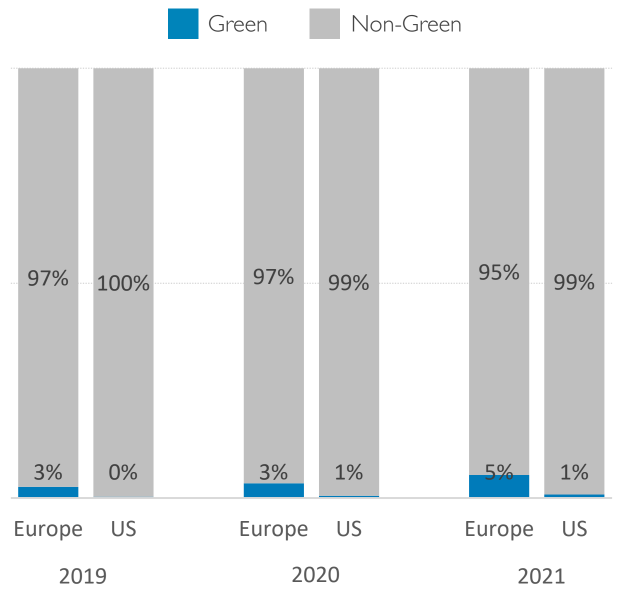
iv. Share of private equity deals targeting companies active in ESG out of total private equity deals (%, *5 year weighted average)*



Source: Dealogic, New Financial

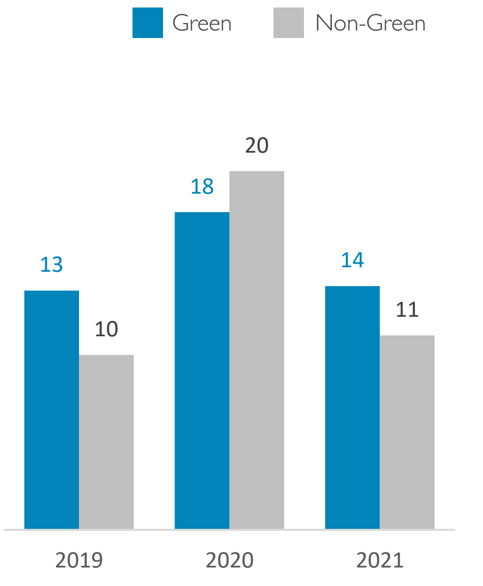
Fig.22 Other metrics

i. Share of green corporate bonds trading in Europe and the US compared to non-green bonds in each year.



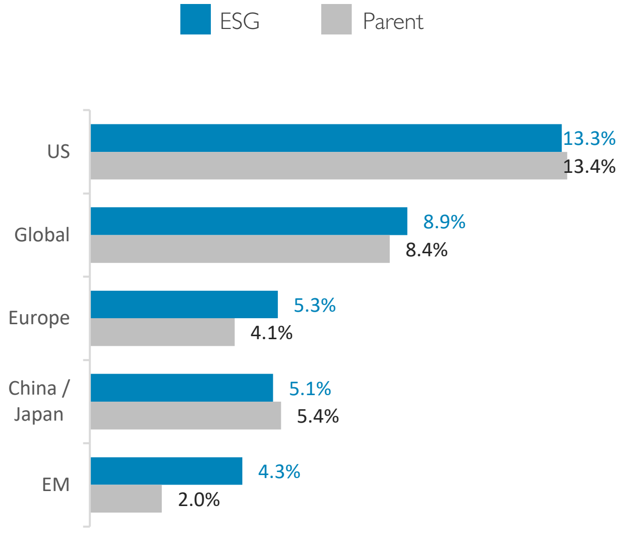
Source: MarketAxess

ii. Average bid-ask spread in euro-denominated green bonds traded in Europe *(yield, bps)*



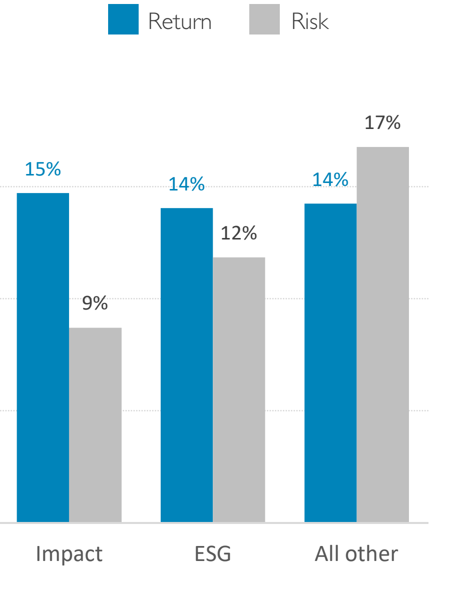
Source: MarketAxess

iii. Average daily returns of ESG indices compared to parent indices, *(average across different indices)*



Source: Hong Kong Exchanges and Clearing

iv. Performance of sustainable private capital funds *(Average across funds with vintages 2010-2017)*

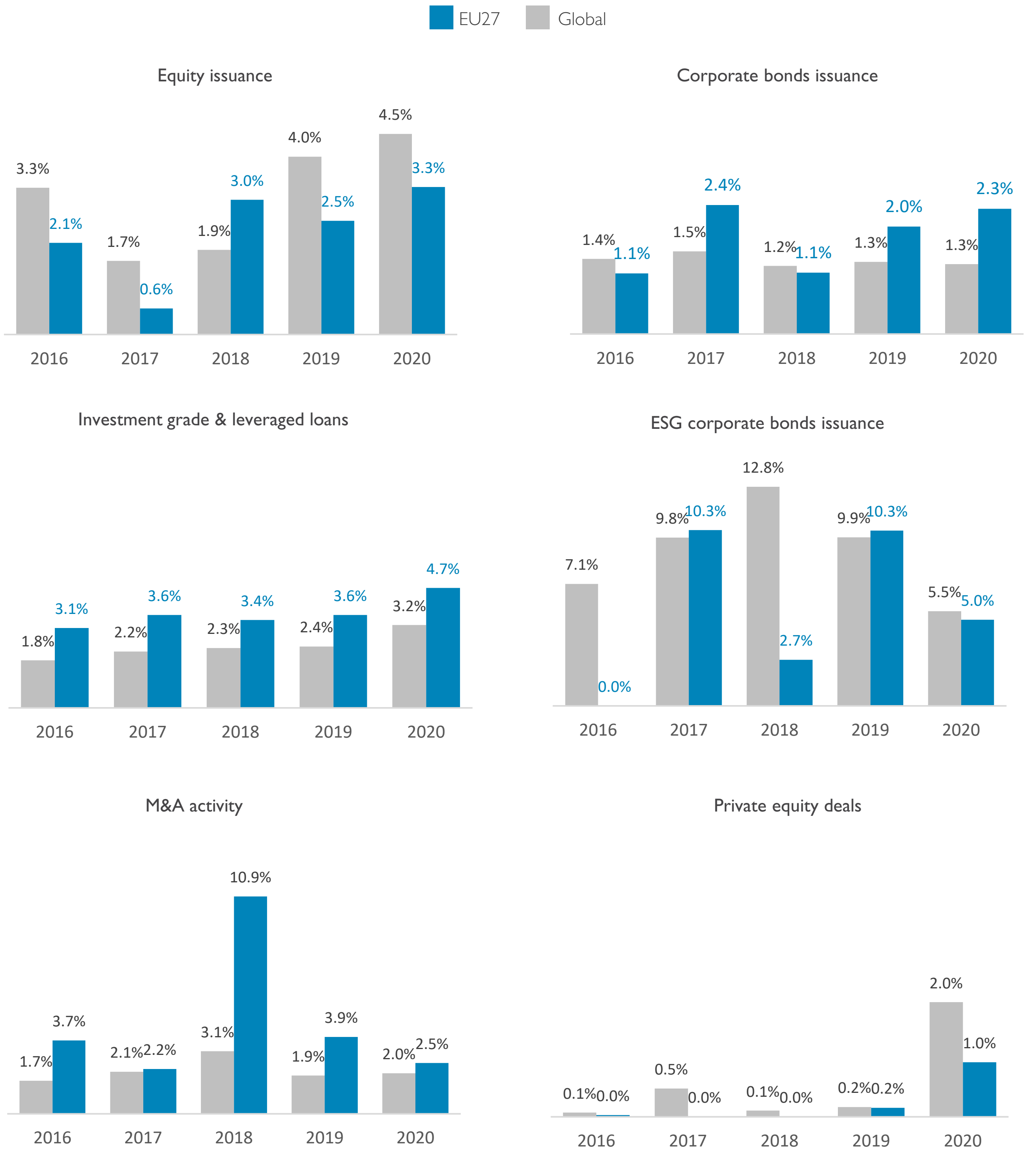


Source: Preqin

APPENDIX II - CAPITAL MARKETS ACTIVITY

Fig.23 ESG and capital markets

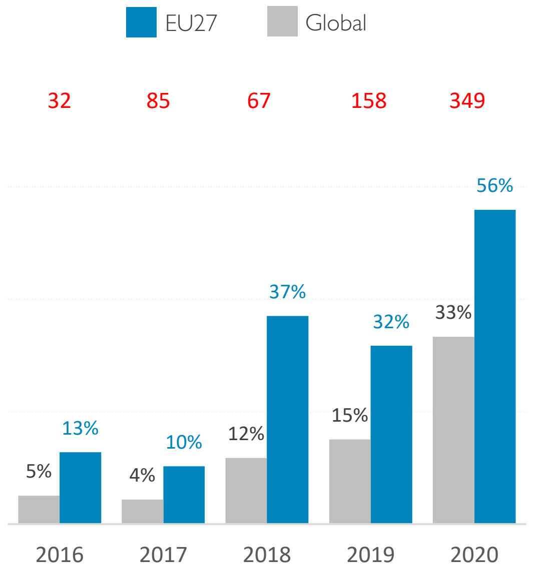
Proportion of capital markets activity by 'good ESG' and 'bad ESG' companies out of total capital markets activity in each region



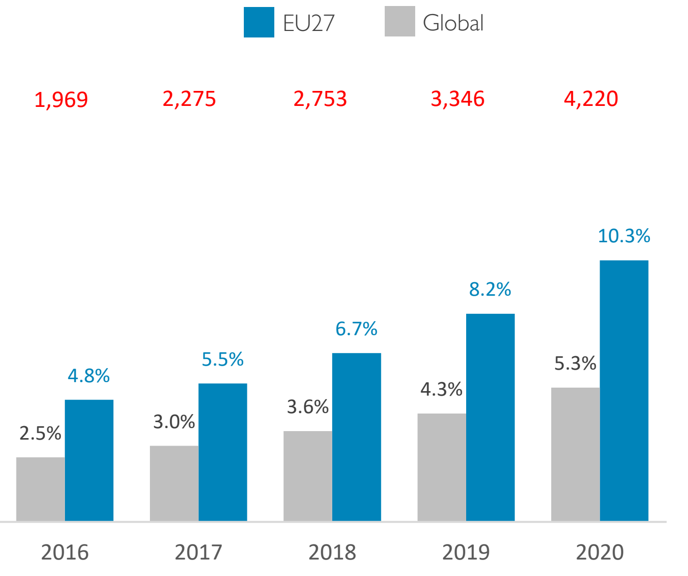
Source: Dealogic, New Financial

Fig.25 Investment funds

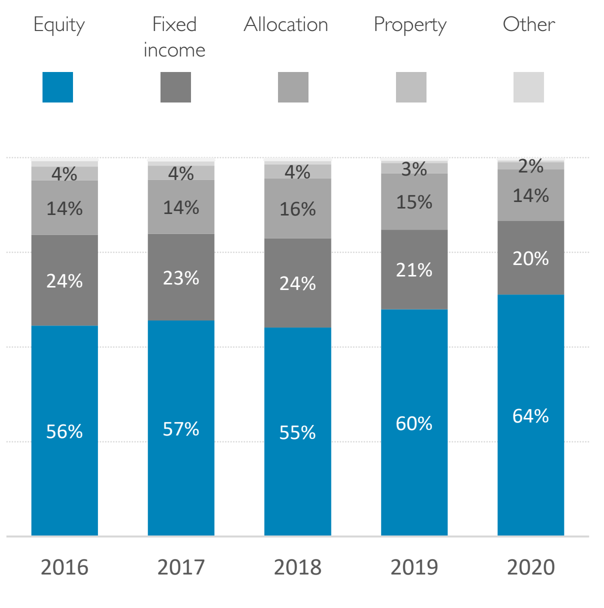
i. Flows of ESG funds in the EU27 and globally as a % of all investment fund flows *(figures in red is total number of ESG funds in the world in $bn)*



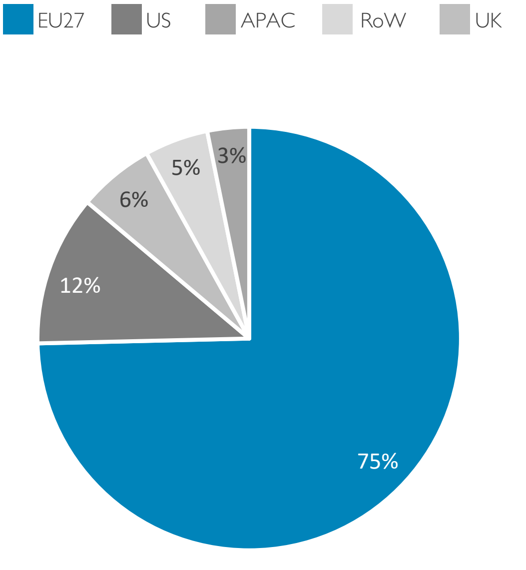
ii. Number of ESG funds in the EU27 and globally as a % of total number of investment funds *(figures in red is total number of ESG funds in the world)*



iii. Distribution of sustainable investment funds AuM by asset class



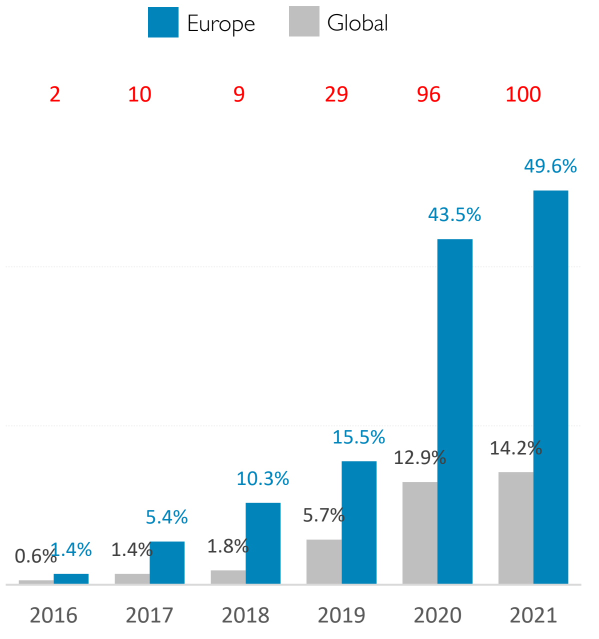
iv. Distribution of global ESG fund flows across regions *(5 year weighted average, 2016-2020)*



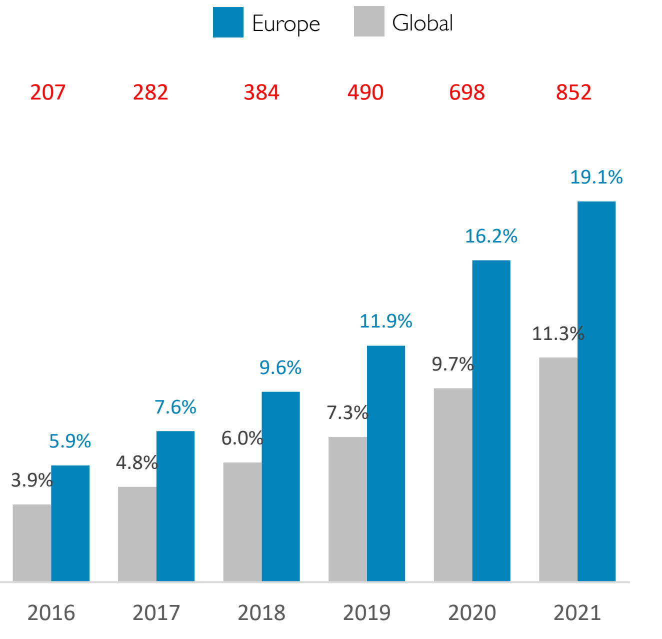
Source: Morningstar Direct, Morningstar Research

Fig.26 Exchange traded funds

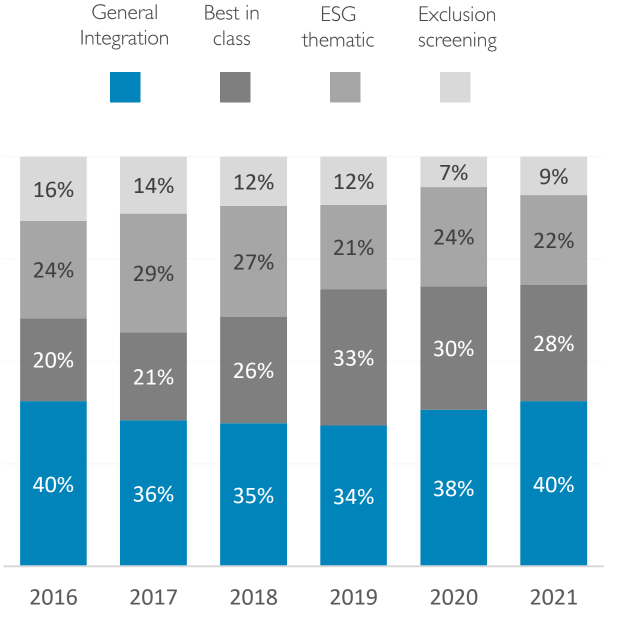
i. Flows of ESG ETFs in the EU27 and globally as a % of all investment fund flows *(number in red is value of global ESG ETF flows in $bn)*



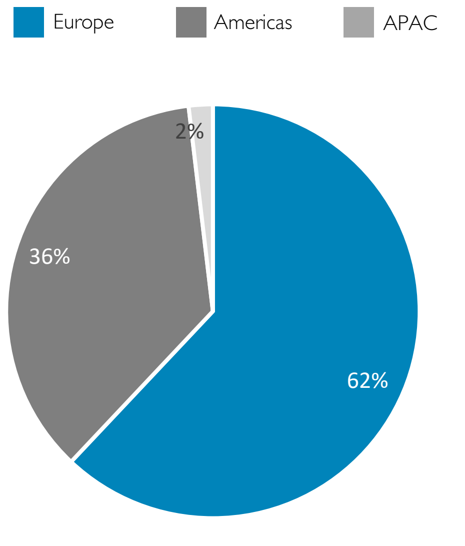
ii. Number of ESG ETFs in the EU27 and globally as a % of total number of ETFs (number in red is total number of ESG ETFs in the world)



iii. The distribution of sustainable ETFs AuM by strategy



iv. The distribution of global ESG ETF flows across regions *(weighted average, 2016-2021)*



Source: TrackInsight