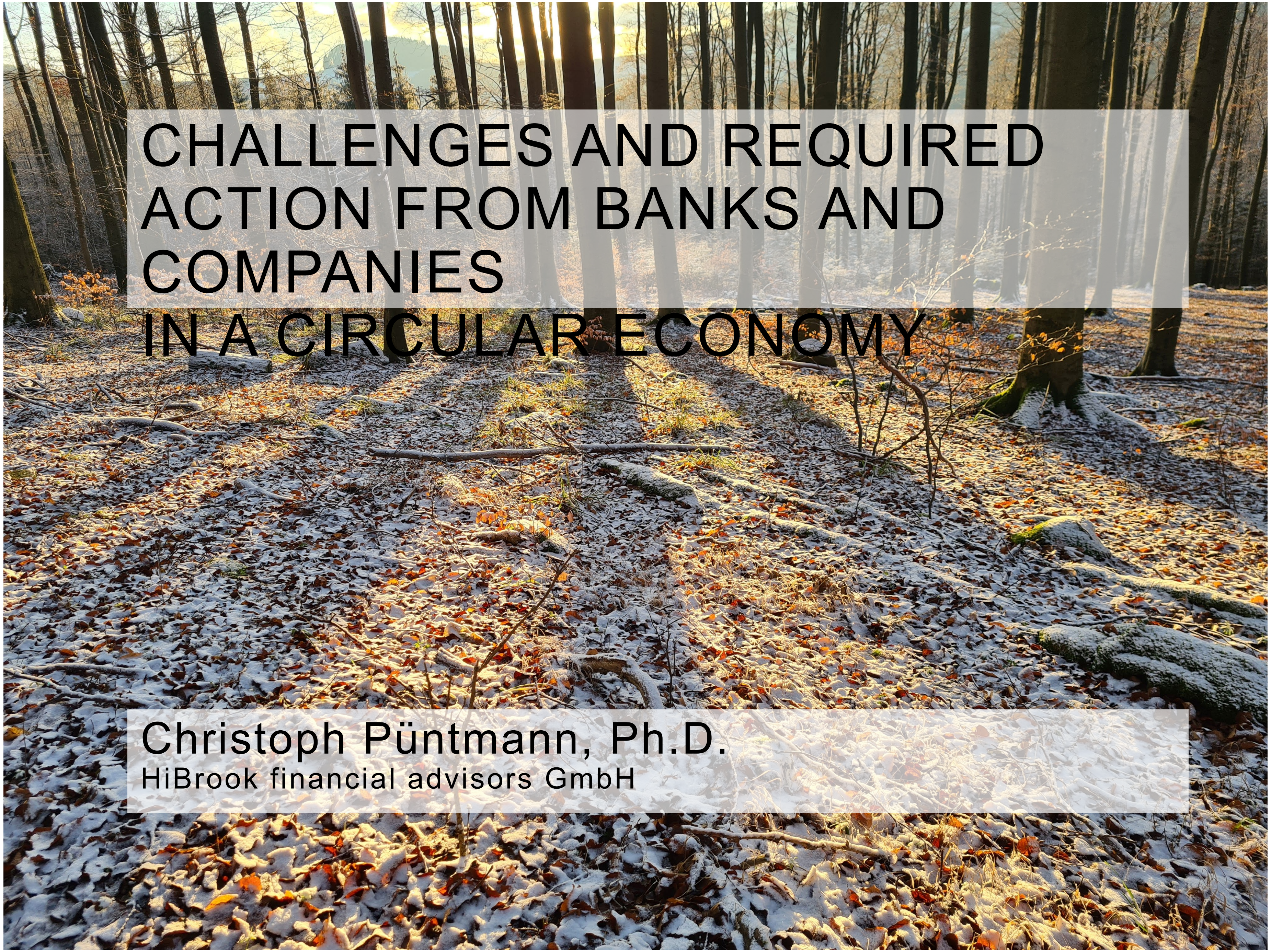

CHALLENGES AND REQUIRED ACTION FROM BANKS AND COMPANIES IN A CIRCULAR ECONOMY

Christoph Püntmann, Ph.D.
HiBrook financial advisors GmbH

CIRCULAR BUSINESS ACADEMY

C. Püntmann
Member of the Faculty
Circular Business Academy

HiBrook financial advisors
cp@hibrook.com

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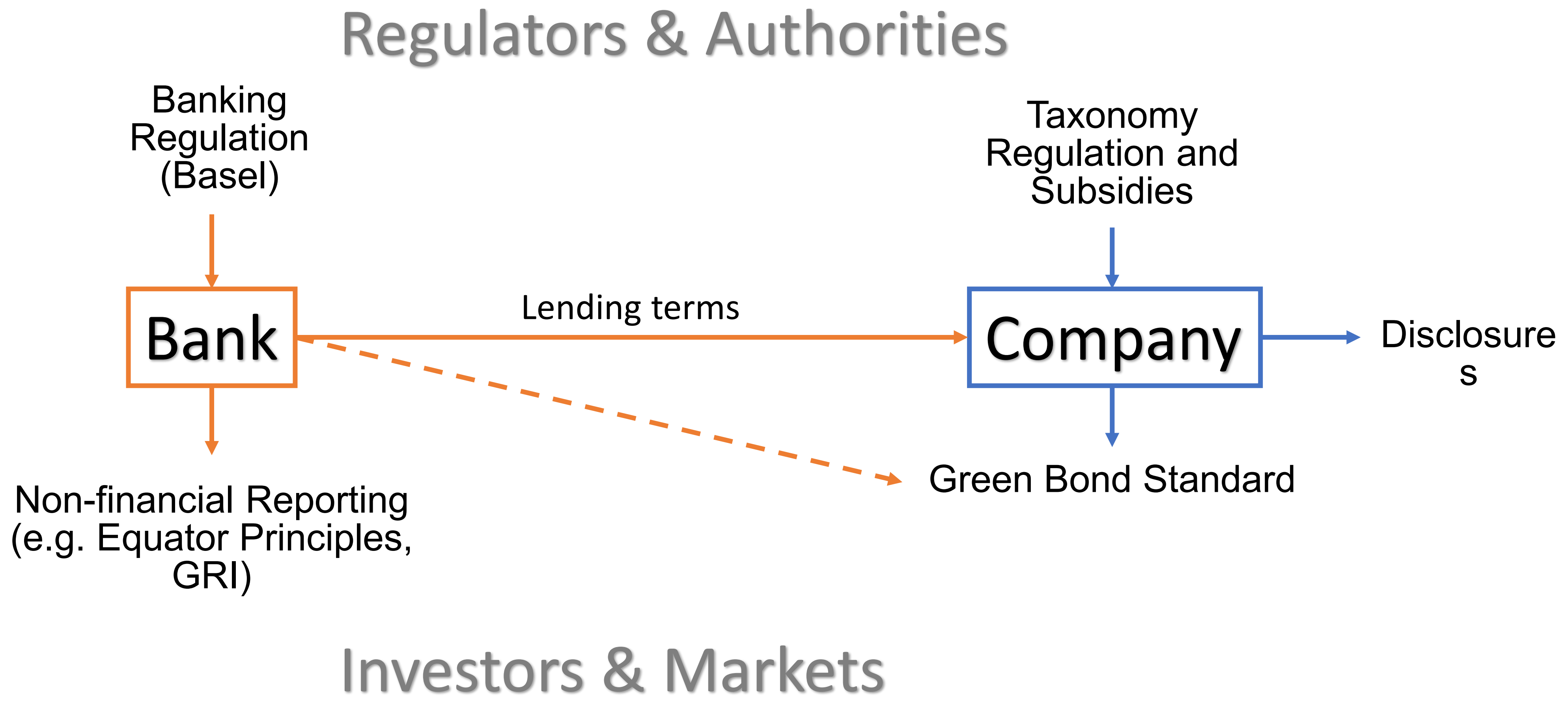
CBA is a business venture built upon a year-long organic development by Gm in cooperation with members of CBA Faculty, its programme and service partners.

All contained information in this presentation is intended solely to destined CBA proramme participants and parties who are aspiring business partners of CBA with the best intention to encourage their engagement and collaboration.

Roles of Banks and Companies in a Sustainable Economy



Viewpoint of the Bank

Credit Approval Process:

- Company business risk is transformed into **credit risk on the bank balance sheet** (e.g.: PD, LGD, EAD). The more sound and resilient the business model, the better the credit
- Assessment of entrepreneurial, sustainable, and social aspects of the **business model** (e.g. the **10 Equator Principles** or the **Global Reporting Initiative**)
- Transparent and comprehensive **risk management process**
- **Minimum standard**: exclusion of companies violating human rights or being destructive to ecology, as well as of companies engaging in corruption, money laundering, arms finance, and other sectors (e.g. gambling)
- Quality of **collateral** provided, especially in a stressed case (e.g. stranded assets)
- **Terms of the loan** are set in accordance with perceived risk and longevity of the business model (e.g. interest rate, amortisation profile, covenants)

Global Reporting Initiative (GRI)

Modular Structure of the GRI Standards for Sustainability Reporting

- GRI 100: Foundation, General Disclosure, Management Approach
- GRI 200: Economic Standards (Performance, Markets, Economic Impacts, Procurement Practices, Anti-Corruption)
- GRI 300: Environmental Standards (Materials, Energy, Water, Biodiversity, Emissions, Waste & Water)
- GRI 400: Social Standards (Employment, Labor, Health, Diversity,

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Equator Principles (EP)

<u>Principles set by the EP Financial Institutions</u>

- EPFI have adopted the EP in order to ensure that the projects they finance and advise on are socially responsible and follow sound environmental management practices.
- Follow Human Rights (in acc. with UN Guiding Principles)
- Support 2015 Paris Agreement, where EPFI play a role in improving climate-related information (Task Force on Financial Disclosures), while assessing the potential transition to physical risk of financed projects
- EP serve as common framework for FI to identify, assess, and manage environmental and social risks when financing projects.
- 10 Equator Principles include:

1) Categorisation of companies into
   A (significantly risky to ESG),
   B (potentially risky to ESG),
   C (minimally risky to ESG)
2) ESG Assessment
3) Applicable ESG Standards
4) ESG Management Systems and Action Plan
5) Stakeholder Engagement
6) Grievance Mechanisms
7) Independent Review
8) Covenants
9) Independent Monitoring and Reporting
10) Reporting and Transparency

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Viewpoint of the Company

<u>Company benefits from</u>

- **Sound and solid business model:**
    - Seasoned markets & products
    - Solid customer base
    - Diversified supply chains
    - Governance: clearly defined responsibilities and reporting lines
- **Solid Finances**
    - Track record of stable finances and accounts
    - Healthy level of capitalisation and ownership
    - Value in fixed assets and stock
- **Risk Awareness**
    - Manage business risks: e.g. reliance on resources, technologies
    - Transparency and disclosure of the RM process
    - Monitoring business conditions at the level of suppliers and servicers (e.g.: child labor; environmental pollution)

EU Taxonomy Regulation

<u>Taxonomy Regulation</u>

- Brings together (1) technologies to create a sustainable economy and (2) pools of capital and finance that we need to invest into the sustainable economy, so we can respond to the challenges that we face.
- Defines what is sustainable, providing a simple list of activities that are aligned to the sustainability goals.
- Helps companies to access finance to transition their activities to a sustainable economy.
- Establishes six environmental objectives:
    1) Climate change mitigation
    2) Climate change adaptation
    3) Sustainable use and protection of water and marine resources
    4) Transition to a circular economy
    5) Pollution prevention and control
    6) Protection and restoration of biodiversity and ecosystems

EU Green Bond Standard

<u>Green Bond Standard</u>

- Voluntary, non-legislative EU Green Bond Standard to enhance effectiveness, transparency, comparability and credibility of the green bond market and to encourage market participants to issue and invest in EUR green bonds
- Issuers must explain how their strategy aligns with the EU's environmental objectives (six goals), use of proceeds, processes involved, and reporting on green bonds
- Standard would solve several barriers in the current market, including uncertainty on what is green by linking it with taxonomy, standardised verification and reporting
- Four critical elements:
    1) Alignment with EU taxonomy
    2) Publication of a Green Bond Framework
    3) Mandatory reporting
    4) Mandatory verification
- Accreditation through the European Securities and Markets Authority (ESMA)

Conclusions: Circular Economy Aspects

How can Banks and Companies improve the Circular Economy?

- **Lending standards: banks and bank regulators** play a crucial role in the shaping of economic growth, and hence are in a position to impose the principles of Sustainable Finance and the Circular Economy
- **Disclosure and Reporting** are a key path to more adherence to the Sustainable and Circular Principles
- **Taxation regulation and subsidies** play a crucial role in driving companies towards Sustainable and Circular Processes
- Is**suance of Green Bonds** can be a standardised way to make companies adhere to Sustainable and Circular Standards, with Investors & Markets playing the role of judge to the adherence or Principles
- **Companies can improve their creditworthiness** by applying standards in the Circular Economy (Reliance on resources, materials, and spare parts, Reducing distance of shipping of goods, Reliance on fossil fuels and old technologies, Level of digitisation)
- Should bank regulation emphasize the benefit for companies following principles of Sustainable Finance and the Circular Economy? **Penalising linear vs. supporting circular** companies by changing the ICAAP capital assessment charges?

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