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Impact Financing

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SUSTAINABLE
DEVELOPMENT
GOALS

17 PARTNERSHIPS
FOR THE GOALS



Introduction

- What is impact financing?
- What is driving the need for impact financing?
- Public bodies, initiatives and principles
- EU and the SDGs
- Key legislative initiatives in the UK and EU
- Challenges and opportunities
- HL Impact Financing



Paris Climate Change Agreement & UN SDGs



What is Impact Financing?

Terminology and multiple initiatives and organisations

- “Impact investments” are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.
Source: Global Impact Investing Network, (GIIN)
- A growing market phenomenon whereby investment and lending decisions are being driven partly (or even primarily) by: a consideration of the sustainability of the target enterprise; and the impact that the investment is likely to have on given ESG priorities and/or on the attainment of one or more of the UN SDGs.
Source: Andrew Carey, Sukhvir Basran, Hogan Lovells (!!)
- ESG lending/ESG investments, Sustainable Finance, SIIs, SRIs.
- Green Finance, Transition Finance, Sustainability Linked Loans, Gender Lens Investing, SIBs, DIBs, Blended Finance.
- Faith-Based Lending?

Why is there an increased focus on Impact Financing?

- Factors driving the shift in business culture:
 - Business contribution to the SDGs
 - Public commitment to international goals and policies
 - Stakeholder demand
 - Opportunity - redirection of capital/new products
 - Arguably increases performance



“Investors and executives now fear that it is more costly and risky to ignore ESG than embrace...it.”

FT Moral Money

“Without a sense of purpose, no company, either public or private can achieve its full potential.”

**Larry Fink, CEO of
Blackrock**

Multiple (confusing) public initiatives, principles and bodies



United Nations
Global Compact



UK's
Green Finance Taskforce



UKSIF
UK Sustainable Investment
and Finance Association



Banking Environment Initiative
Cambridge Institute for Sustainability Leadership



EU & the UN SDGs

A changing legal landscape

- EU has a multitude of initiatives relating to UN SDGs
- EU Action Plan for Sustainable Finance

Key Legislative Initiatives: EU – The Environment (& Social?)

- European Commission's Action Plan for Sustainable Finance:
 - published in March 2018
 - proposals for taxonomy, disclosure requirements relating to sustainability and low carbon benchmarks published in May 2018
 - renewed sustainable finance strategy to be published in Q3 2020
- Taxonomy Regulation:
 - EU-wide taxonomy to identify environmentally sustainable economic activities based on contribution to environmental objectives and screening criteria as well as wider social & sustainability factors
- Disclosure Regulation:
 - introduces harmonised rules for financial market participants (.e.g. institutional investors, fund managers and credit institutions/investments firms providing portfolio management) and financial advisers regarding integration of sustainability risks and the consideration of adverse sustainability impacts into risk and investment decision-making and advisory processes and policies.
 - prescribes how sustainability-related information with respect to financial products is provided to investors.
- Low Carbon Benchmark Regulation:
 - New categories of low carbon benchmarks
 - New requirements imposed on administrators regarding disclosures

Key Legislative Initiatives: European Union - WIP

- Amendments proposed to MiFID II and the Insurance Distribution Directive, UCITS and AIFMD
- EU Eco-label for Retail Financial Products
- EU Green Bond standard
 - TEG prepared recommendations
- Making sustainability part of ESA mandates
 - EBA action plan Dec 2019 & ESMA 2020 strategy Feb 2020
- EU Green Deal:
 - Commission's aim is to transition towards achieving climate neutrality by 2050 in a manner which is just and socially fair

Key Initiatives: UK

- Green Finance Strategy (July 2019), Green Finance Capital
- Green Investment Group (formerly Green Investment Bank), Green Finance Taskforce
- Bank of England- proposal for stress testing
- London Stock Exchange:
 - launched green bond segment in 2015- criteria aligned with ICMA GBP
 - launched Sustainable Bond Market segment in October 2019- includes new dedicated segments for social and sustainability bonds, in addition to the existing Green Bond Segment
 - launched “Green Economy Mark” in October 2019- companies/investment funds on main market and AIM that derive at least 50% of total revenues from products/services contributing to green economy

Key Initiatives: UK and impact of Brexit

- UK Government confirmed EU sustainable finance action plan is aligned with UK's interests in developing green finance- July 2018
- UK to “*match ambition*” of EU's action plan and recognises need for clear and consistent frameworks- Jan 2020.
- In-flight legislation- pending primary & secondary legislation could be on-shored but requires UK legislation.
- Expected that Taxonomy Regulation will become binding in UK during transition period.
- Regulatory divergence on secondary implementing legislation (technical screening criteria)? TBC
- Consider composition of TEG/EU Platform on Sustainable Finance- Platform to be established under Art 15 of the Taxonomy Regulation; to take over from TEG on developing technical screening criteria.

Challenges and opportunities

- Increasing law and regulation
- Issues with measurement, metrics and data
- Rising number of “experienced” third party firms and consultants
- Fiduciary duties
- Sustainable economics vs traditional capitalism?
- Long termism/short termism
- Stakeholder activism
- Product innovation
- “washing”
- Governance

Impact Financing at Hogan Lovells

We believe that international goals and policies can only be achieved through the creation of **strong partnerships, increased collaboration**, the sharing of knowledge and insights and through the creation of innovative financial solutions.

Commitment to environmental and social issues has long formed a core part of our firm's culture.

We are dedicated to ensuring we support our clients across our network of offices and practices using our sector expertise to help navigate through the increasing law, regulation, market standards whilst managing changing stakeholder expectations and identifying increasing opportunities.



2020 highlights...

HL | [Global Goals Workshop](#)



Our experience across the sector

EDF on its market first precedent-setting €1.4 billion issue of green bonds to finance future renewable energy projects led by EDF Energies Nouvelles

Cassa depositi e prestiti on the issue of the first Italian Sustainability Bond. The proceeds arising from the issue will allow Cdp to fund projects with environmental and social impacts.

Deutsche Bank on the financing of three low-carbon emission ATR 72-600 aircraft, the first green financing of a commercial aircraft.

UBS Optimus Foundation on structuring its second Education Development Impact Bond (DIB) in India

LeapFrog Investments on the formation, fundraising and maintenance of a US\$400 million “Profit with Purpose” fund in Mauritius, established to invest in insurance companies in Africa and Southeast Asia.

Created a new standard for working on a pro bono basis with **Adie** and **BNP Paribas** to launch the first social impact bond in France, providing microcredit to entrepreneurs in rural areas.

Key takeaways

- Increasing law and regulation. Increased risk of possible litigation
- New opportunities including product innovation and beyond Green Finance
- Collaboration and partnerships

Today's speakers



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