ESG Glossary

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Introduction

In today's rapidly changing business world, **Environmental, Social and Governance (ESG)** principles have become critical components of corporate strategy and operations. As a team specializing in almost every area of law, we understand the far-reaching impact of ESG issues on the legal and regulatory frameworks governing modern businesses, with knowledge of international trade, European Union law, banking and finance, capital markets, environmental law, energy law, sustainable finance and corporate governance, and experience in compliance processes.

Our commitment to advising clients on issues such as supply chain compliance, Emissions Trading System and Carbon Cap and Trade Mechanism reporting activities, green financing and bond issuances, and overall ESG compliance and strategy emphasizes the need for a comprehensive understanding of ESG-related terminology and concepts. Our aim in producing this ESG glossary is to help understand the complex and often nuanced language surrounding ESG issues.

As businesses strive to align with sustainable practices and meet regulatory requirements, clear and precise communication is essential. We hope this glossary serves as a valuable resource for our clients and partners and helps them navigate the complex ESG landscape effectively.

ESG represents the intersection of ethical responsibility and business sustainability. By integrating ESG principles into corporate governance, companies not only enhance their reputation and stakeholder trust, but also contribute to long-term economic resilience and environmental protection. Our goal is to empower organizations equipped with the knowledge and tools to implement sound ESG strategies. This enables positive change and sustainable growth. Through this glossary, we aim to support our clients and stakeholders on their journey to achieve excellence in ESG performance and ultimately contribute to creating a more sustainable and just world for future generations.

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Adverse Impact:

Impacts of investment decisions and advice that result in negative effects on ESG / sustainability components.

Benchmarking:

The practice of comparing environmental, social, and governance metrics with other companies with the same metrics.

Blue Hydrogen:

Hydrogen generation from fossil fuel coupled with capture and storage of the produced carbon. Although biomass, coal, and other hydrocarbon liquids can be gasified to generate H_2, natural gas can be formed from H_2 using Steam-methane reforming (SMR) or autothermal reforming making capture of CO_2 simpler than other methane combustion applications and easier to sequester.

Carbon Capture and Storage:

Carbon capture and storage (CCS) is the process of capturing waste CO_2 and placing it into a geological storage site in such a way that it will not enter the atmosphere and contribute to further global warming. CCS uses several technologies including absorption, chemical looping, and membrane gas separation.

Carbon Disclosure Project (CDP):

CDP is a global non-profit organisation founded in 2000 and headquartered in London. CDP requests standardized climate change, water and forest information from some of the world's largest listed companies through annual questionnaires sent on behalf of institutional investors who are endorsed as 'CDP signatories'. These shareholder requests for information encourage companies to account for - and be transparent about - environmental risks.

Carbon Footprint:

A measure of the total greenhouse gas emissions produced by an individual, group, or company over a set time period.

Carbon Management and Accounting System (CMAB):

CMAB is a policy tool designed to address carbon leakage and ensure a level playing field for industries within the European Union (EU) that are subject to stringent carbon emission regulations. The CMAB aims to prevent companies from relocating production to countries with laxer environmental regulations and to encourage global reduction in carbon emissions.

Carbon Pricing:

Carbon pricing is a price or tax applied to carbon pollution. It can be an effective way to encourage emitters to reduce their CO_2 emissions and thereby limit climate change. Carbon prices can be in the form of a carbon tax, or form part of carbon emissions trading, where 'allowances' are issued and traded.

Carbon Sequestration:

Carbon sequestration is a proposed way to slow the accumulation of greenhouse gases, mitigate climate change, and avoid climate change through long-term storage of CO_2 and other forms of carbon.

Carbon Tracker:

A non-profit headquartered in London that researches the impact of climate change on financial markets. Carbon Tracker popularized the notion of a "carbon bubble", which describes the incompatibility between the continued development of fossil fuel projects and combating climate change.

Circular Economy:

A circular economy aims to maintain the value of products, materials and resources for as long as possible by returning them into the product cycle at the end of their use, while minimising the generation of waste. The fewer products we discard, the less materials we extract, the better for our environment.

Climate Action Tracker:

The Climate Action Tracker is an independent scientific body that tracks decarbonization initiatives by governments and measures them against the goals of the Paris Agreement. This seeks to limit the rise in global temperatures to well below 2°C above pre-industrial levels, and to pursue efforts to keep the rise to 1.5°C by the end of this century.

The tracker is a collaboration between two German organizations, Climate Analytics and New Climate Institute, that was founded in 2009 and is based in Berlin. It tracks data from 36 countries plus the EU, covering about 80% of global greenhouse gas emissions and about 70% of the world's population.

Climate Bonds:

Climate bonds are debt instruments used to finance or re-finance projects needed to address climate-related issues (e.g. wind farms, solar and hydropower plants, to rail transport and building sea walls in cities threatened by rising sea levels). Only a small portion of these bonds have actually been labelled as green or climate bonds by their issuers. (See the Climate Bond Initiative's website for detailed information)

Climate Bonds Initiative (CBI):

Investor-focused no-for-profit international organisation working solely to mobilize the $100 trillion bond market for climate change solutions by promoting investment in projects and assets necessary for a rapid transition to a low carbon and climate resilient economy. The strategy is to develop a large and liquid Green and Climate Bonds Market that will help drive down the cost of capital for climate projects in developed and emerging markets; to grow aggregation mechanisms for fragmented sectors; and to support governments seeking to tap debt capital markets.

Climate Change:

Climate change is a long-term change in the average weather patterns that have come to define Earth's local, regional and global climates.

Climate Change Adaptation:

"Economic activity reducing the negative effects of the current and future climate or preventing an increase or shifting of negative effects of climate change [...]." (See European Commission's proposal for a regulation on the establishment of a framework to facilitate sustainable investment – "Taxonomy proposal", May 2018).

Climate Change Mitigation:

"Economic activity shall be considered to contribute substantially to climate change mitigation where that activity substantially contributes to the stabilization of greenhouse gas concentrations in the atmosphere at a level which prevents dangerous anthropogenic interference with the climate system by avoiding or reducing greenhouse gasemissions or enhancing greenhouse gas removals [...]." (Taxonomy proposal, May 2018). Example: The UN-REDD Programme is the United Nations Collaborative Programme on Reducing Emissions from Deforestation and forest Degradation (REDD+) in developing countries.

Climate Clock:

A climate clock is a means of demonstrating how much carbon can still be released into the atmosphere without breaching the Paris Agreement. Two of the best known are the MCC Carbon Clock run by German scientists and a grassroots Climate Clock launched by a network of activists.

Climate Disclosure Standards Board (CDSB):

A voluntary reporting framework for disclosing material environmental information in mainstream financial reports and natural capital and climate change-related information.

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Climate Finance (Adaptation / Mitigation):

Local, national or transnational financing (drawn from public, private and alternative sources of financing) that seeks to support mitigation and adaptation actions or activities that will address climate change.

Climate Funds:

Climate funds are investment portfolios that seek to buy the equities or bonds of companies that are aligned with the goals of the Paris Agreement. They can also target the sovereign bonds of governments that are cutting greenhouse gas emissions, thereby reducing their contribution to global warming.

Climate Risks:

Physical risks: Damages to companies and assets because of the physical impact of volatile and extreme weather events, for example, heat waves, droughts, rising sea levels, storms or flooding (including secondary financial impacts of extreme weather, such as lower crop yields, borrowers defaulting on their loans, disruption to supply chains, political instability, insurance claims or losses, legal damages, or conflict).

Community Impact Investing:

Directing investment capital to communities that are underserved by traditional financial services institutions. Community Impact Investing generally provides access to credit, equity, capital, and basic banking products that these communities would otherwise lack.

Corporate Citizenship:

The concept that corporations have both rights and obligations to the societies and jurisdictions in which they operate and are themselves stakeholders within society.

Corporate Governance:

The set of rules, practices and processes by which a company is managed (governed) and management is supervised.

Corporate Responsibility:

The responsibility of corporations to generate profit in an ethical way. Taking responsibility for a company’s impact on the environment and society.

Corporate Social Responsibility (CSR):

The responsibility of corporations to contribute positively to society. A corporation’s self-regulation that aims to contribute to societal goals of a philanthropic, activist, or charitable nature by engaging in or supporting volunteering or ethically-oriented practices.

CSR Report:

A CSR report is a periodic (usually annual) report published by companies with the goal of sharing their corporate social responsibility actions and results.

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Decarbonization:

Decarbonization is the reduction in the carbon intensity of worldwide energy use. In line with this development, investment portfolios can also be decarbonized.

Development Finance:

Development finance refers to financial support (usually grants or concessional loans) from developed countries to developing countries, through local development banks or bilateral/multilateral development banks (EIB). The funds are provided to advance development in areas such as health, sanitation, education, infrastructure, and strengthening tax system and administrative capacity. (See OECD's website)

Development Finance Institutions (DFI):

National and international development finance institutions (DFIs) are specialised development banks or subsidiaries set up to support private sector development in developing countries. They are usually majority-owned by national governments and source their capital from national or international development funds or benefit from government guarantees. This ensures their creditworthiness, which enables them to raise large amounts of money on international capital markets and provide financing on very competitive terms. (Source: OECD / EDFI)

The German Credit Institute for Reconstruction (Kreditanstalt für Wiederaufbau - KfW)

The KfW is a German public financial institution with a wide scope of action including:

- Domestic promotion: promoting the investments of private individuals, municipal enterprises and public institutions;
- Export and project finance: financing projects of German and European companies so they can compete on global markets;
- Development finance: supporting economic and social progress in developing and transition countries to help ensure the people there are better off;

The French Development Agency (Agence Française de Développement - AFD)

AFD finances, supports and aims to accelerate the transition to a fairer and more sustainable world. Peace, climate change, health, education: its teams are involved in more than 4,000 projects in 115 countries and French overseas departments. It contributes to France's commitment to the Sustainable Development Goals (SDG) across the developing world.

Double Bottom Line:

The combination of quantitative and qualitative analysis embraced by socially conscious investors. The qualitative analysis overlay generally differentiates responsible investing from its conventional roots and competitors.

Dow Jones Sustainability Index (DJSI):

The Dow Jones Sustainability Index, which was launched in 1999 and tracks the stock performance of the world's leading companies in terms of economic, environmental and social criteria.

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Energy Efficiency:

Energy efficiency refers to the method of using less energy to provide the same service or achieve the same outcome. It is the practice of reducing energy consumption while maintaining or even enhancing productivity and comfort levels. In essence, energy efficiency means doing more with less energy.

Engagement:

A long-term active dialogue between investors and companies on environmental, social, and governance factors.

Environmental Factors:

Issues relating to the quality and functioning of the natural environment and natural systems, identified or assessed in responsible investment processes.

Environmental Justice:

The fair treatment and inclusion of all people, regardless of their race, color, national origin or socio-economic status. This inclusion is comprehensive of all issues, from development, implementation and enforcement of environmental laws, regulations, and policies. Flint Michigan and Hurricane Katrina are two historic examples of environmental injustice.

Environmental, Social, Governance (ESG):

Three central factors in measuring the sustainability and societal impact of an investment in a company or business. These criteria help to better determine the future financial performance of companies.

Equator Principles (EPs):

A risk management framework adopted by financial institutions for determining, assessing and managing environmental and social risk in project finance. The EPs are primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making.

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ESG Funds:

ESG funds are portfolios of equities and/or bonds for which environmental, social and governance factors have been integrated into the investment process. This means the equities and bonds contained in the fund have passed stringent tests over how sustainable the company or government is regarding its ESG criteria.

ESG Integration:

The structural integration of information on Environmental, Social and Governance (ESG) factors into the investment decision making process.

EU Action Plan on Financing a Sustainable Growth:

The action plan on financing sustainable growth adopted by the European Commission in March 2018 set 3 main goals:

- Reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth
- Manage financial risks stemming from climate change, environmental degradation and social issues
- Foster transparency and long-termism in financial and economic activity.

The action plan key actions include:

- Establishing a clear and detailed EU classification system – or taxonomy – for sustainable activities. This will create a common language for all actors in the financial system
- Establishing EU labels for green financial products. This will help investors to easily identify products that comply with green or low-carbon criteria
- Introducing measures to clarify asset managers' and institutional investors' duties regarding sustainability
- Strengthening the transparency of companies on their environmental, social and governance (ESG) policies. The Commission will evaluate the current reporting requirements for issuers to make sure they provide the right information to investors
- Introducing a 'green supporting factor' in the EU prudential rules for banks and insurance companies. This means incorporating climate risks into banks' risk management policies and supporting financial institutions that contribute to fund sustainable projects.

European Environmental Agency (EEA):

Agency of the European Union, whose task it is to provide sound and independent information on the environment. The EEA aims to support sustainable development by helping to achieve significant and measurable improvement in Europe's environment, through the provision of timely, targeted, relevant and reliable information to policymaking agents and the public.

Fair Trade:

Fair trade is a methodology with the goal of helping ensure that producers in developing countries are provided sustainable and equitable trade relationships.

FTSE4Good Index Series:

Index series designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. Transparent management and clearly-defined ESG criteria make FTSE4Good indexes suitable tools to be used by a wide variety of market participants when creating or assessing sustainable investment products.

Global Impact Investing Network (GIIN):

A nonprofit organization dedicated to increasing the scale and effectiveness of impact investing which are investments made to generate a social & environmental impact alongside a financial return.

Global Real Estate Sustainability Benchmark (GRESB):

GRESB is an investor-led and mission-driven initiative to provide ESG data on real asset investments to investors, managers and the wider industry. GRESB Assessments provide a consistent framework to measure ESG performance based on self-reported data that is validated, scored and peer benchmarked. Their approach allows investors to analyze their portfolios for ESG risks, opportunities and impacts and engage with managers on their performance.

Global Reporting Initiative (GRI):

The Global Reporting Initiative. GRI is the most widely used and most extensive voluntary reporting framework for ESG and sustainability topics. The latest version of its framework, the GRI Standards was published in 2016.

Global Warming:

Scientists define global warming as the human-produced temperature increase since the early 20th century due to fossil fuel burning, which increase heat-trapping greenhouse gas levels in Earth's atmosphere, raising the average surface temperature.

Governance Factors:

Issues relating to the governance of companies and other investee entities, identified or assessed in responsible investment processes.

Green Bonds:

Green bonds are debt instruments issued to fund projects that have a positive environmental or climate impact (e.g. renewable energies, energy efficiency, pollution prevention and control, sustainable management of land use, biodiversity conservation, clean transportation, water management, climate change adaptation, etc.). Proceeds from these bonds are typically earmarked for green projects and are backed by the issuer's entire balance sheet (See ICMA or Luxembourg Green Exchange).

Green Hydrogen:

The production of H2 using an electrolysis method where water is split and electrical power (fuel source) has zero GHG emissions (i.e. - nuclear, solar, wind).

$2\ H_2O \rightarrow 2\ H_2 + O_2$

Greenhouse Gas Protocol:

The most widely used international accounting tool for government and business to understand, quantify, and manage greenhouse gas emissions.

Greenhouse Gases (GHG):

GHG is any gas that absorbs infrared radiation in the atmosphere, thereby trapping heat and contributing to the greenhouse effect. Greenhouse gases include, but are not limited to, water vapor, carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), chlorofluorocarbons (CFCs), hydrochlorofluorocarbons (HCFCs), ozone (O_3), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF_6).

Greenwashing:

Promoting a product, service, or company as more environmentally-friendly than it truly is by falsely advertising environmental benefits.

Grey Hydrogen:

The use of fossil fuel for H2 production. Current methods for making ammonia for fertilizers, refine metals, and produce methanol for plastics. The resulting CO2 emissions are simply vented, increasing greenhouse gas emissions.

Governance Factors:

Issues relating to the governance of companies and other investee entities, identified or assessed in responsible investment processes.

GRI Standards:

A set of standards published by the GRI, which anticipate that companies will choose their own level of disclosure on a wide variety of ESG and sustainability topics and publish annual sustainability reports.

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High Level Expert Group (HLEG) on Sustainable Finance:

Following the signature of the Paris agreement, the European Commission appointed the High-Level Expert Group (HLEG) on Sustainable Finance. The group was given a mandate to prepare a comprehensive blueprint for reforms along the entire investment chain, on which to build a sustainable finance strategy for the EU. Its final report was released in January 2018 and was quickly followed in March 2018 by the "European Commission's action plan for financing a sustainable growth" based on the HLEG recommendations. "Reaching Paris agreement goals requires no less than a transformation of the entire financial system, its culture, and its incentives. Europe should lead this change." (Forewords of the HLEG's final report by Commissioner Dombrovskis and Katainen)

Human Rights Watch:

An international non-governmental organization, headquartered in New York City, which investigates and reports on human rights abuses around the world.

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Impact Investing:

Impact investing refers to investments made with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return. Impact investments provide private capital to address social and/or environmental issues.

Institutional Shareholder Services (ISS):

Institutional Shareholder Services, Inc., which launched an Environmental & Social QualityScore Disclosure and Transparency Signal scoring tool that provides a metric for institutional investors to use, together with ISS's Governance QualityScore, to more fully evaluate the ESG risk of their portfolio companies.

Integrated Reporting:

Communicating both sustainability and financial targets and results in one report, linking them to each other.

Intergovernmental Panel on Climate Change (IPCC):

The IPCC was established jointly by the United Nations Environment Programme and the World Meteorological Organization in 1988. The purpose of the IPCC is to assess information related to all significant components of the issue of climate change by drawing upon hundreds of the world's expert scientists as authors and thousands more as expert reviewers.

IPCC releases periodic assessments of the scientific underpinnings for understanding global climate change and its consequences. The IPCC is looked to as the official advisory body to the world's governments on the state of the science on climate change.

The IPCC's Fifth Assessment Report was a critical scientific input into the UNFCCC's Paris Agreement in 2015. IPCC input also played a major part in the Business Roundtable's Statement on the Purpose of a Corporation, signed by 181 CEOs who commit to lead their companies for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders.

International Integrated Reporting Council (IIRC):

An international cross section of leaders from the corporate, investment, accounting, securities, regulatory, academic and standard-setting sectors and civil society. Promotes communication about value creation as the next step in the evolution of corporate reporting.

International Integrated Reporting Framework:

Created IIRC, the International Integrated Reporting Framework is used to accelerate the adoption of integrated reporting across the world. An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.

International Labour Organization (ILO):

A United Nations agency that sets international labour standards and promotes social protection and work opportunities for all. ILO brings together governments, employers and workers of 187 member States to set labour standards, develop policies, and devise programs promoting decent work for all women and men.

Investment Stewardship:

Investment stewardship involves engaging public companies as a way to advocate for corporate governance policies and practices that promote long-term stakeholder value creation.

ISO 26000:

The International Organization for Standardization (ISO) Standard 26000. The ISO publishes many different operational standards for companies, with ISO 26000 covering "socially responsible" processes that companies may implement and report.

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Materiality:

Materiality is a measure of the importance of specific topics and information during the investment process. The more significant a topic is, the more material it is, and vice versa.

Millennium Development Goals (MDGs):

The Millennium Development Goals (MDGs) were eight goals to improve human society launched by the United Nations in 2000. They were mainly aimed at helping the world's poorest people, led by the starvation that was seen in many developing countries. They were succeeded by the Sustainable Developments Goals (SDGs) launched in 2015.

The eight Millennium Development Goals were:

1. Eradicate extreme poverty and hunger;
2. Achieve universal primary education;
3. Promote gender equality and empower women;
4. Reduce child mortality;
5. Improve maternal health;
6. Combat HIV/AIDS, malaria, and other diseases;
7. Ensure environmental sustainability
8. Develop a global partnership for development.

Morgan Stanley Capital International (MSCI):

MSCI seeks to rate companies based on ESG risks and management's response to those risks. MSCI considers 37 ESG indicators in its ratings. Data is collected from publicly available sources and monitored on an ongoing basis, but each company also receives an annual in-depth review. MSCI has a formal data verification process that companies may use to verify and comment on data.

Multilateral Development Banks (MDB):

Multilateral development banks, or MDBs, are supranational institutions set up by sovereign states, which are their shareholders. Their remits reflect the development aid and cooperation policies established by these states. They have the common task of fostering economic and social progress in developing countries by financing projects, supporting investment and generating capital for the benefit of all global citizens. MDBs also play a major role on the international capital markets, where they raise the large volume of funds required to finance their loans. (Source: EIB) Examples of MDBs:

- The European Investment Bank (EIB)
- The World Bank Group

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Negative Screening:

The strategy of avoiding investing in companies whose products and business practices are harmful to individuals, communities, or the environment. It is a common mistake to assume that SRI "screening" is simply exclusionary, or only involves negative screens. In reality, SRI screens are being used more and more frequently to identify and invest in companies that are leaders in adopting clean technologies, managing environmental impacts, and integrating exceptional social and governance practices.

Net Zero:

Net zero refers to buildings with zero net energy consumption, meaning the amount of energy used at the property is equal to the amount of renewable energy created on-site.

OECD MNEs:

The Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises. The OECD MNEs provide "recommendations for responsible business conduct in a global context" and recommend multinational companies to take specific actions with regards to human rights, employment, the environment, corruption, consumers, science and technology, competition, and taxation.

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Paris Agreement:

The Paris Agreement is an international accord that aims to limit the rise in global average temperatures to below 2 degrees Celsius above pre-industrial levels by the end of this century, and to pursue efforts to limit it to 1.5 degrees.

Physical Risk:

Physical risks are outcomes from disruptive events like extreme weather that have a direct impact on society and the economy.

Portfolio Tilting:

An investment strategy that overweighs a particular investment style.

Positive Screening:

The act of including strong CSR performers or otherwise incorporating positive CSR factors into the investment analysis process. Generally, socially conscious investors seek to own profitable companies that make positive contributions to society, and avoid those that do not. “Buy” lists may include enterprises with, for example, good employer-employee relations, strong environmental practices, products that are safe and useful, and operations that respect human rights around the world.

R-Factor:

R-Factor is short for "Responsibility-Factor", which is a transparent ESG scoring system developed by State Street Global Advisors. It measures the performance of a company's business operations and governance as it relates to financially material ESG issues facing the company's industry.

Renewable Energy:

Energy attained from perpetual, unending sources, such as collection of energy with solar panels or wind turbines.

Renewable Energy Certificates (RECs):

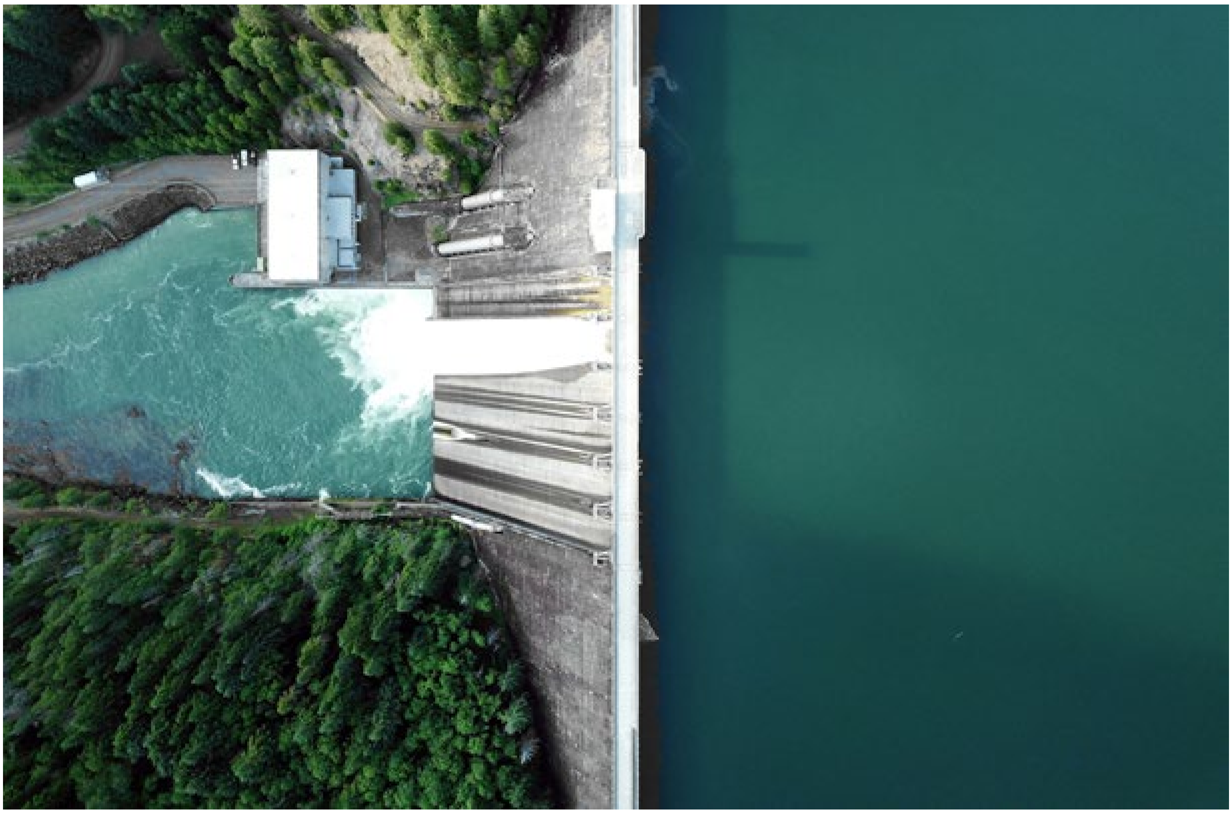
Renewable Energy Certificates (also known as green tags, renewable energy credits, renewable electricity certificates, or tradable renewable certificates) are non-tangible energy commodities in the U.S. that represent proof of 1 megawatt-hour of electricity being generated from an eligible renewable energy source and used in a shared system of power lines.

Resilience:

Resilience is a measure of how well a building is prepared for potentially disruptive events and changing conditions, such as earthquake-proofing or features designed to combat negative effects from long-term risks like climate change.

Resource Sustainability:

Resource sustainability refers to the long-term availability of a raw material that is either renewable (it can naturally replenish itself) or non-renewable (it will eventually run out). It is an important metric for sustainable investors in understanding how quickly humans are using the Earth's dwindling resources, how much can be replaced or recycled, and how long other materials have left before they are exhausted.



Responsible Investing:

A philosophy that includes ESG factors during the investment selection, portfolio construction, and monitoring processes, with the goal of maximizing opportunities, ensuring high performance, and mitigating risks.

RobecoSAM CSA:

The RobecoSAM Corporate Sustainability Assessment, which is an ESG and sustainability questionnaire that is sent to companies annually. RobecoSAM uses the results of the questionnaire to benchmark companies, provide a sustainability score, and to create the DJSI. RobecoSAM allows companies who pay for their services to receive individual feedback and to discuss their scores with a RobecoSAM representative.

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Science Based Targets (SBTs):

Targets adopted by companies to reduce greenhouse gas (GHG) emissions are considered “science-based” if they are in line with the level of decarbonization required to keep global temperature increase below 2 degrees Celsius compared to pre-industrial temperatures, as described in the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC AR5). The Science Based Targets initiative (SBTi) is a collaboration between CDP, the United Nations Global Compact (UNGC), World Resources Institute (WRI), and the World Wide Fund for Nature (WWF) and one of the We Mean Business Coalition commitments, to champion science-based target setting as a powerful way of boosting companies' competitive advantage in the transition to a low carbon economy.

- **Scope I Emissions:** Scope I emissions are greenhouse gas emissions that your company is directly responsible for, such as emissions from on-site burning of fossil fuels or emissions from fleet vehicles.
- **Scope II Emissions:** Scope II emissions are greenhouse gas emissions from sources that your company owns or controls, such as the generation of electricity, heat, or steam purchased from a utility provider.
- **Scope III Emissions:** Scope III emissions are greenhouse gas emissions from sources your company doesn't own or control but are related to your operations, such as employee commuting or contracted solid waste and wastewater disposal.

SDG Alignment:

Aligning business strategies and operations with the 17 Sustainable Development Goals created by the United Nations Global Compact.

SEC Climate & ESG Task Force:

The U.S. Securities and Exchange Commission (SEC) recently announced the formation of a Climate and ESG Task Force within their Division of Enforcement. This new task force will work to develop initiatives that will proactively identify ESG-related misconduct.

Social Bonds:

Social bonds are debt instruments whose proceeds are used exclusively to finance or refinance social projects targeting various vulnerable population (e.g. affordable basic infrastructure, access to essential service, affordable housing, employment generation, food security, socioeconomic advancement and empowerment). (See ICMA or Luxembourg Green Exchange)

Social Factors:

The "S" in ESG, social factors relate to how a company treats employees and the community, and includes things like employee engagement programs, human rights policies, health and wellbeing initiatives, and employee and consumer protection.

Social Risks:

Social risks are related to actions a business takes that affect the surrounding community, such as labor and human rights issues or violations and corruption.

Socially Responsible Investing (SRI):

Socially responsible investing involves investments considered socially responsible through the nature of the business conducted, which includes factors like socially conscious investing, human rights policies, and emphasis on positive social impacts..

Stakeholder:

A group with an interest in a company that can affect or be affected by business performance. Historically defined as groups like investors, employees, and customers, but the definition has also expanded to include local and global communities, governments, and more.

Stewardship Code:

The stewardship code is a code requiring institutional investors to be transparent about their investment processes, engage with investee companies and vote at shareholders' meetings..

Stranded Asset:

Stranded assets are physical assets recorded on a corporate balance sheet whose investment value cannot be recouped and must be written off. Their loss of value can be due to regulatory rulings that mean they cannot be exploited, changing trends in the market that renders them redundant, or obsolescence caused by superior technology..

Sustainalytics:

Sustainalytics provides companies with an ESG risk rating score out of 100 and across five risk levels (negligible, low, medium, high and severe) based on industry-specific ESG indicators. Sustainalytics identifies areas of exposure to material ESG issues, analyzes management's responses to manageable areas of exposure, provide discounts for controversies, and assign an overall ESG Risk Rating. Sustainalytics does not indicate whether it has a mechanism for companies to verify information or provide feedback on their ESG disclosure score.

Sustainability:

Sustainability focuses on meeting the needs of the present without compromising the ability of future generations to meet their needs. The concept of sustainability is composed of three pillars: economic, environmental, and social —also known informally as profit, planet, and people.

Sustainability Accounting Standards Board (SASB):

Sustainability Accounting Standards Board (SASB) is a voluntary sustainability reporting framework for U.S. publicly listed companies with a unique sector-based materiality approach. It is an investor-driven and business focused framework. SASB encourages integrated disclosure in a company's financial filings.

SASB's Chair Emeritus is Michael Bloomberg (he also chairs TCFD). Their primary chair is Robert Steele, and former SEC chair Mary Schapiro and former FASB chair Robert Herz also hold seats on the SASB board.

Sustainability Reporting:

Sustainability reporting is the act of disclosing the environmental, social and governance (ESG) policies of an organization, and the impact these policies have on both internal performance and on wider society.

Sustainability Risks:

Potential material financial impact on the investment, or the company itself, arising from environmental, social and governance considerations (for an insurance specific definition, see EIOPA's "Technical advice on the integration of sustainability risks and factors under the delegated acts of Solvency II").

Sustainable Finance:

The European Commission defines «Sustainable Finance» as the process of considering the environmental and social impact in investment decision-making, leading to a growth of long-term investments and sustainable activities. All three ESG components – environmental, social and governance – are integral parts of sustainable economic development and finance.

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Sustainable Finance Disclosure Regulations (SFDR):

The Sustainable Finance Disclosure Regulations introduced various disclosure-related requirements for financial market participants and financial advisors at entity, service, and product level.

Sustainable Insurance:

Sustainable insurance is a strategic approach where all activities in the insurance value chain, including interactions with stakeholders, are done in a responsible and forward-looking way by identifying, assessing, managing and monitoring risks and opportunities associated with environmental, social and governance issues. Sustainable insurance aims to reduce risk, develop innovative solutions, improve business performance, and contribute to environmental, social and economic sustainability.

Sustainable Investing:

Sustainable investing is broadly defined as the practice of using environmental, social and governance (ESG) factors when making investment decisions about which stocks or bonds to buy.

Sustainable Stock Exchanges Initiative (SSE):

The Sustainable Stock Exchanges Initiative. The SSE is a UN Partnership Programme intended to provide a global platform for exploring how exchanges, in collaboration with investors, companies, regulators, policymakers and relevant international organizations, can enhance performance on ESG issues and encourage sustainable investment, including the financing of the UN Sustainable Development Goals.

Task Force on Climate-related Financial Disclosures (TCFD):

TCFD is a powerful organization tasked by the global Financial Stability Board with bringing uniformity to climate-related corporate risk disclosure. It released a voluntary reporting framework for companies in G20 countries in financial and four non-financial industry groups.

The four other industry groups are energy, transportation, materials and buildings, and agriculture (both food and forest products.) Investors, lenders and underwriters are the primary audience. TCFD emphasizes the use of climate risk scenario analysis to assess the resiliency of business strategies. TCFD prefers integrated disclosure in financial filings but leaves the option to companies as to where to disclose. The other frameworks, including GRI, SASB, CDP, and CDSB aligned their reporting frameworks to the TCFD recommendations.

Technical Expert Group (TEG):

Group on sustainable finance to assist it in developing, in line with the Commission's legislative proposals of May 2018:

- an EU classification system – the so-called EU taxonomy– to determine whether an economic activity is environmentally sustainable;
- an EU Green Bond Standard;
- methodologies for EU climate benchmarks and disclosures for benchmarks;
- guidance to improve corporate disclosure of climate-related information.

The TEG commenced its work in July 2018. Its 35 members from civil society, academia, business and the finance sector, as well as additional members and observers from EU, and international public bodies, work both through formal plenaries and sub-group meetings for each work stream. The work of the TEG has been officially extended until year-end 2019.

The Double Counting Issue:

Counting the same emissions reduction twice (e.g. both the host country and the buyer want to count the emissions reductions in their inventories). More generally the terms "double counting" in sustainable finance reflects a concern that the impact of the same underlying project(s) may be reported twice.

Transition Risks:

Transition risks relate to major societal and economic shifts, such as moving towards a less polluting, green economy. These paradigm shifts can have major impacts on various industries and sectors of the economy.

Triple Bottom Line:

The triple bottom line embraces the notion of focusing on 'people, planet, profit' when making business and investment decisions, and not just on the profit motive. The term was first introduced to expand the traditional definition of a 'bottom line', which is the net profit made by a company after all its costs have been accounted for. It is also known as the 'three Ps' and provided an early framework for sustainable investing.

United Nations Environmental Programme Finance Initiative (UNEP FI):

Partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development. UNEP FI works with more than 290 members banks, insurers, and investors, to help create a financial sector that serves people and planet while delivering positive impacts. Aiming to inspire, inform and enable financial institutions to improve people's quality of life without compromising that of future generations. By leveraging the UN's role, UNEP FI accelerates sustainable finance.

United Nations Framework Convention on Climate Change (UNFCCC) & the Conferences Of Parties (COPs):

The United Nations Framework Convention on Climate Change ("UNFCCC") holds the corresponding Conferences of Parties annually. The conferences started in 1995 in Berlin, laying the groundwork for future conferences and protocols that would notably lead to establishing the Kyoto Protocol and the Paris Agreements.

United Nations Global Compact (UNGC):

UNGC is a non-binding United Nations agreement to encourage businesses worldwide to adopt sustainable and socially responsible policies grounded in 10 principles on human rights, labor, environment, and anti-corruption.

United Nations Principles of Responsible Banking (UNPRB):

These are six principles that shape a framework for a sustainable banking system and will help the industry to demonstrate how it makes a positive contribution to society. The areas of strategy covered by these principles are alignment, impact & target setting, clients & customers, stakeholders, governance and culture, and transparency & accountability. The Principles for Responsible Banking were launched by 130 banks from 49 countries, representing more than USD $47 trillion in assets.

United Nations Principles of Responsible Investment (UNPRI):

A set of six principles that provide a global standard for responsible investing as it relates to environmental, social and corporate governance (ESG) factors. Organizations follow these principles to meet commitments to beneficiary's while aligning investment activities with the broader interests of society. There are 2372 signatories with a combined USD $86 trillion in asset under management in 2019.

- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

United Nations Sustainable Development Goals (UN SDG):

The Sustainable Development Goals (SDGs) are 17 objectives for improving human society, ecological sustainability and the quality of life published by the United Nations in 2015. They cover a broad spectrum of sustainability topics, ranging from eliminating hunger and combating climate change to promoting responsible consumption and making cities more sustainable. The SDGs are the successor to the Millennium Development Goals (MDGs), eight objectives launched in 2000. The goals recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth.

Vice Stocks (or Sin Stocks):

Stocks companies either directly or indirectly associated with activities considered to be unethical or immoral, such as tobacco, alcohol, or gambling.

WEF ESG Guidance and Metrics:

The World Federation Exchanges ESG Guidance and Metrics, which are published for member exchanges to consider to "introduce, improve or require ESG reporting in their markets.

Zero Waste:

A set of principles that focus on preventing the generation of waste by redesigning products, rethinking how products are used, and reusing products with the goal that no waste is sent to landfills.

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