

# Panel on Green Investing



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Greener  
Finance for  
Sustainable  
Future

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# Green Investing – some thoughts from a central bank side

Greener Finance for Sustainable Future  
Helsinki 30 October 2019

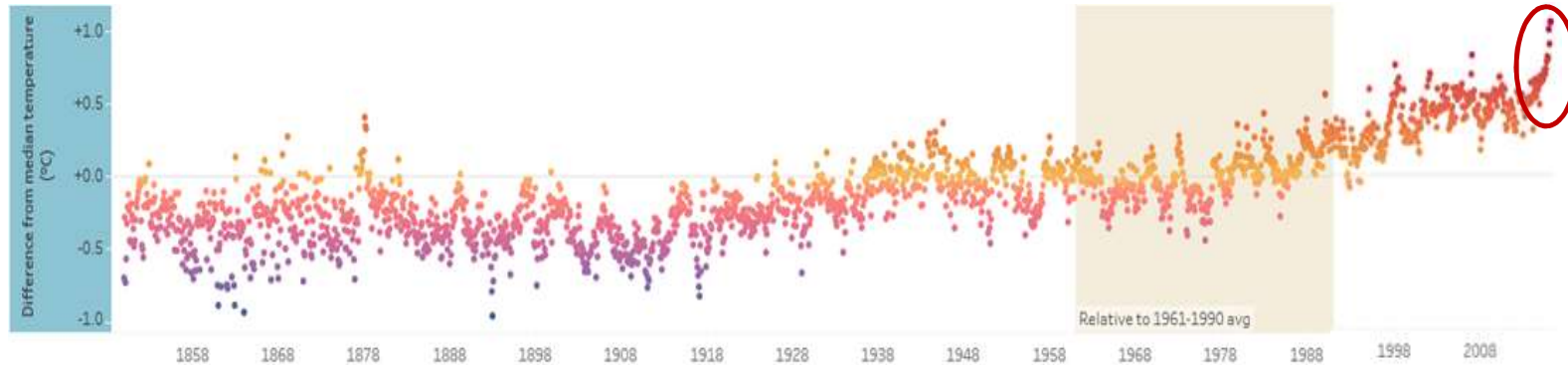
*The views expressed do not necessarily reflect those of the ECB or the Eurosystem.*

# Overview

- 1 Warming up
- 2 What do central banks and the ECB do in the area of sustainable investing?

# Warming up

## Global temperatures 1850 - 2016



This data contains 100 observations of surface temperature (°C) around the world. Each data point is presented as a difference from the median, or temperature anomaly, calculated relative to the 1961-1990 average.  
Based on viz by: Naledi Holly | Makoover Monday Challenge [http://public.tableau.com/profile/naledi.holly/viz/Globalwarming\\_2/Dashboard1](http://public.tableau.com/profile/naledi.holly/viz/Globalwarming_2/Dashboard1)  
Source: Met Office Hadley Centre for Climate Change [http://www.metoffice.gov.uk/hadobs/hadcrut4/data/current/series\\_fm.html](http://www.metoffice.gov.uk/hadobs/hadcrut4/data/current/series_fm.html)

Source: Amundi 2018

### 5-6 years ago

1. Deniers
2. One of many risks
3. Limited regulations
4. No global agreement
5. China blocking
6. Limited interest by people
7. Abstract topic
8. Cost of renewables
9. Few European investors
10. Few green bonds

=>

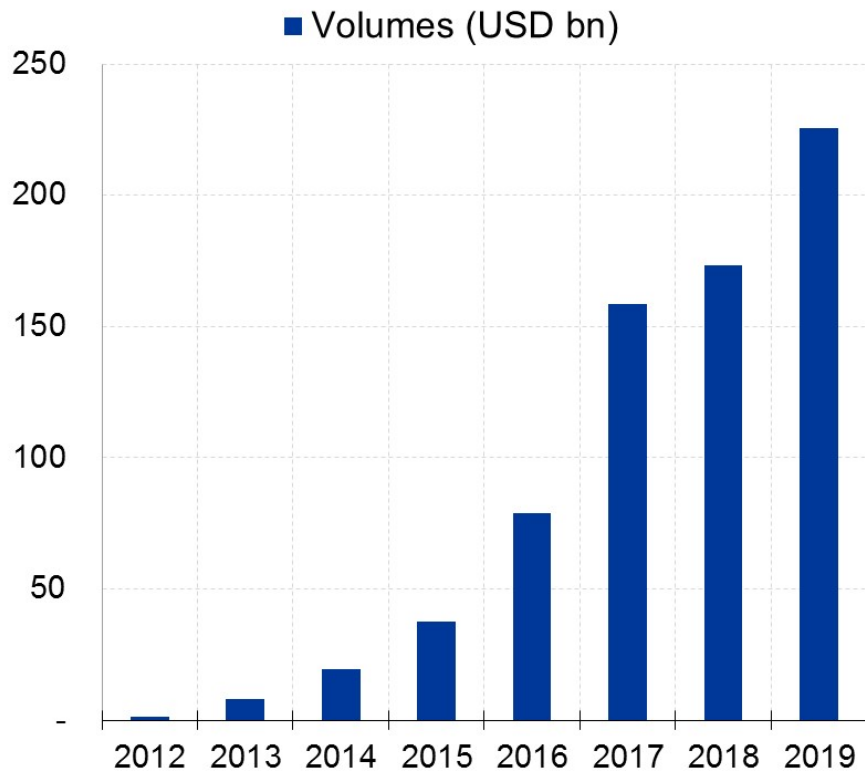
### NOW

- => **Acceptance of climate change**
- => **Biggest risk**
- => **Multiple regulations**
- => **COP 21 in Paris 2015**
- => **China leading**
- => **Millennials**
- => **Observations in day to day live**
- => **Competitive pricing reached**
- => **Major world investors**
- => **Growing number of large issuers**

# ESG bond issuance continues to grow and diversify across bond types

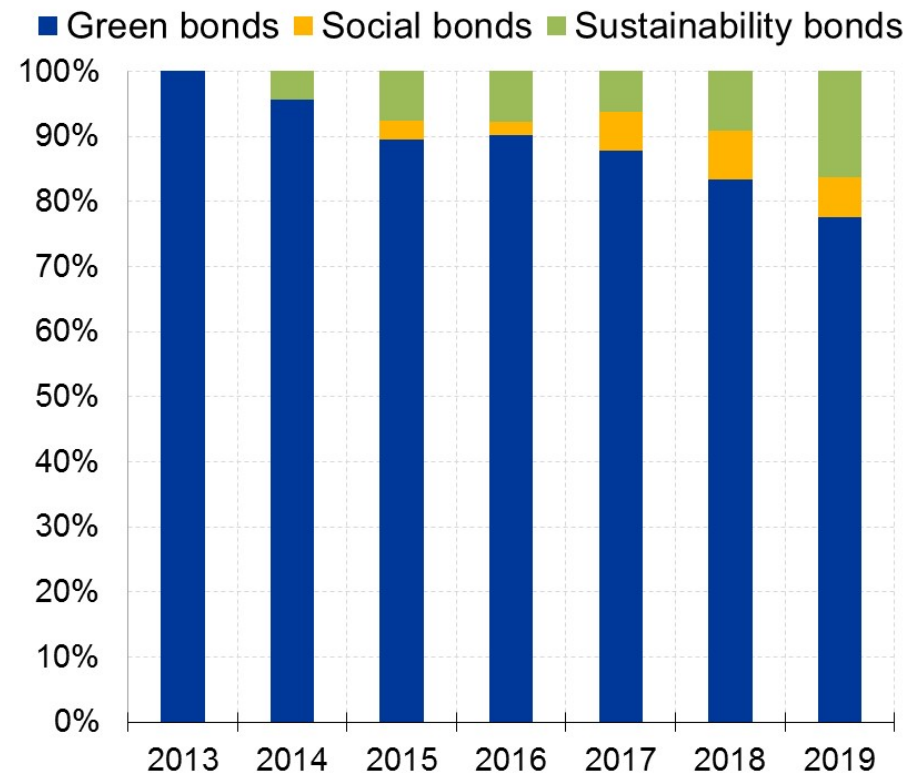
## ESG bond supply becoming more broad-based across type of bonds

### ESG bond issuance



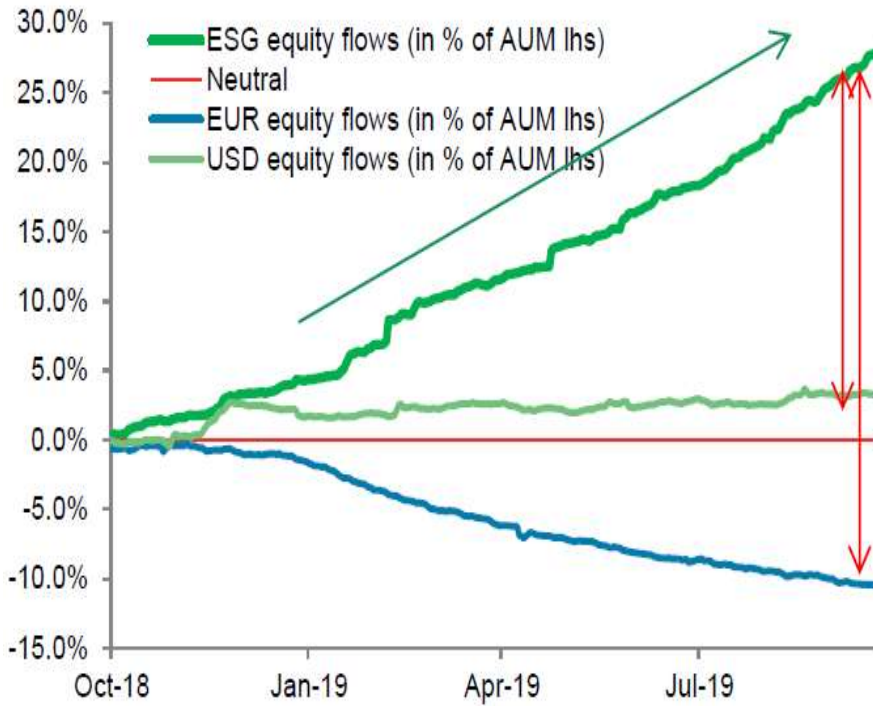
Source: Bloomberg, ECB calculations

### ESG issuance by bond type

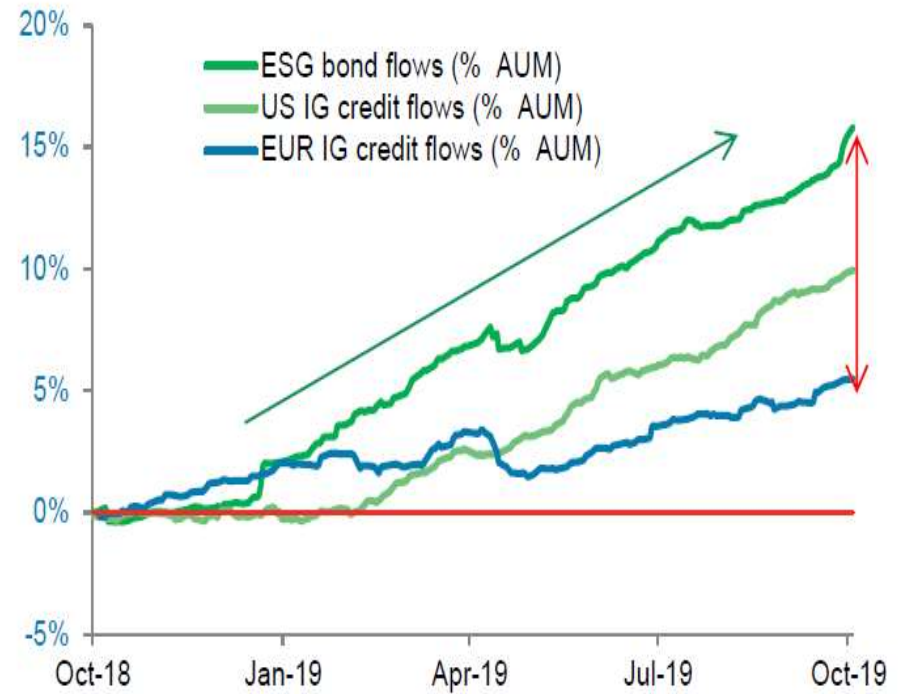


## ESG equity and bond funds experienced strong inflows over past year

### Inflows into (ESG) equities (in % of AuM)



### Inflows into (ESG) bonds (in % of AuM)

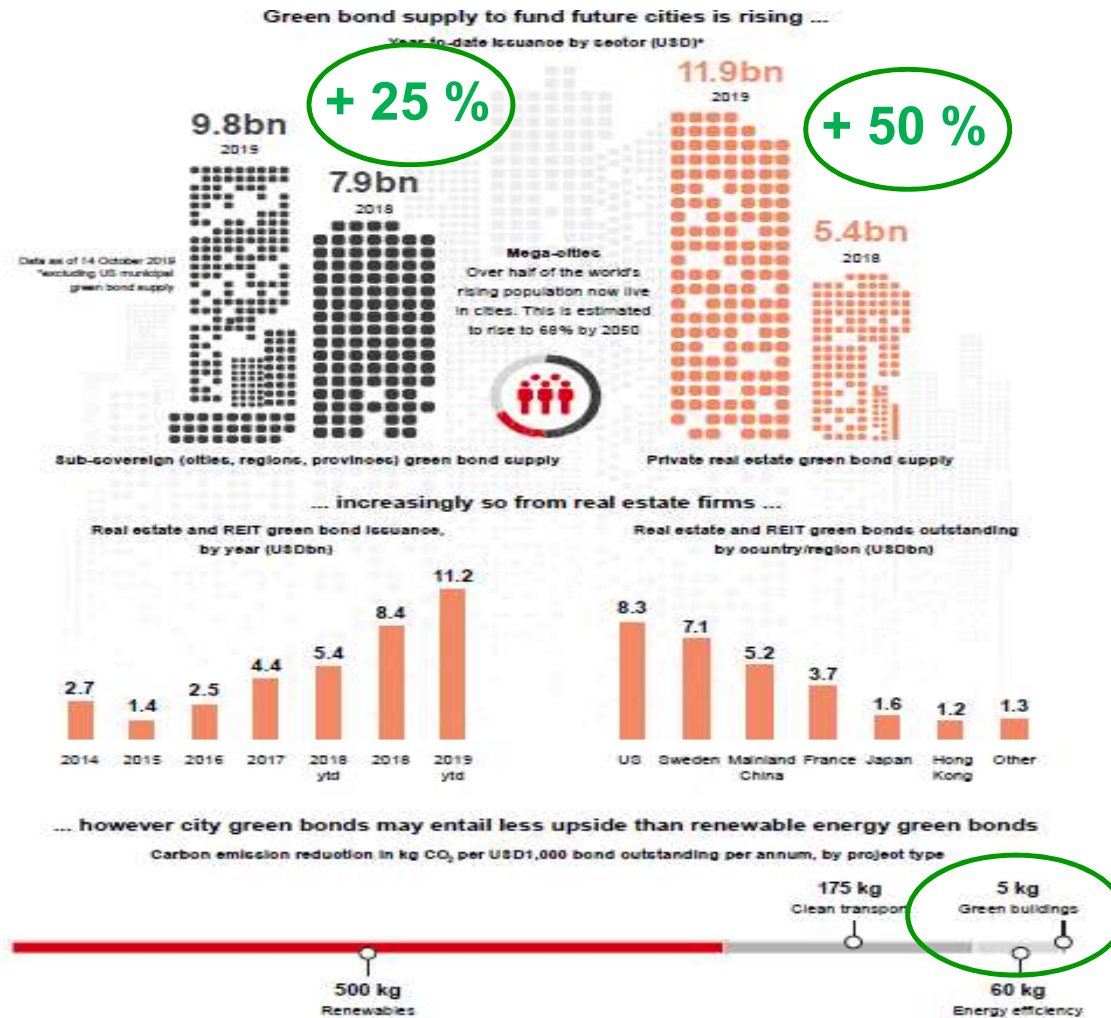


Source: Bloomberg, EPFR

**Rapid growth  
of new Green  
City Bonds**

**but**

**less upside  
on carbon  
emission  
reduction**



## Overview

- 1 Warming up
- 2 What do central banks and the ECB do in the area of sustainable investing?



### Network for Greening the Financial System (NGFS)



**The NGFS is a coalition of the willing.**

It is a voluntary, consensus-based forum whose purpose is to share best practices and contribute to the development of climate – and environment – related risk management in the financial sector



# What are central banks doing? – Three NGFS Work Streams

[ECB-PUBLIC]

## WS1: Supervision of climate and environmental risks

Exchange best practices on integrating climate risk in micro-prudential frameworks

### Focus:

1. Integrating environmental/climate risk into micro-prudential supervision
2. Environmental disclosure by financial institutions
3. Financial risk differential between 'green' and 'brown' assets

## WS2: Analysing macro financial impact of climate change

Develop an analytical framework for assessing climate-related risks under different climate scenarios

### Focus:

1. Literature review on impact of physical and transition risks
2. Stock-take knowledge in macro-economic forecasting models
3. Provide menu of options for (i) macro modelling, (ii) scenarios analysis, (iii) stress testing exercises, (iv) key risk indicators and (v) fin system exposure analysis

## WS3: Scaling up green finance

Take stock of initiatives to scale up green financing; work on green taxonomies, green bonds labeling and prevention of greenwashing.

### Focus:

1. Examine practices of central banks to incorporate ESG criteria in their operational activities.
2. Monitor market conditions on the green bond market and green financial innovations.
3. Support identifying market barriers and dysfunctions to demand and supply side.

## Six recommendations\*

1. **Integrating climate-related risks into financial stability monitoring and micro-supervision**
2. **Integrating sustainability factors into own-portfolio management**
3. **Bridging the data gaps**
4. **Building awareness and intellectual capacity and encouraging technical assistance and knowledge sharing**
5. **Achieving robust and internationally consistent climate disclosure**
6. **Supporting the development of a taxonomy of economic activities**

\* NGFS addressed the six recommendations for central banks, supervisors, policymakers and financial institutions



Source: NGF document October 2019

<https://www.ngfs.net/sites/default/files/medias/documents/ngfs-a-sustainable-and-responsible-investment-guide.pdf>

## Central bank portfolios

### Investment portfolios

#### Pension Funds

- **Very long term investment horizon**
- **Well diversified asset allocation**
- **More discretion for asset types and risk considerations**

#### Own Funds

- **Long term Investment horizon**
- **Diversified asset allocation**
- **Discretion for asset types and risk considerations**

### Policy portfolios

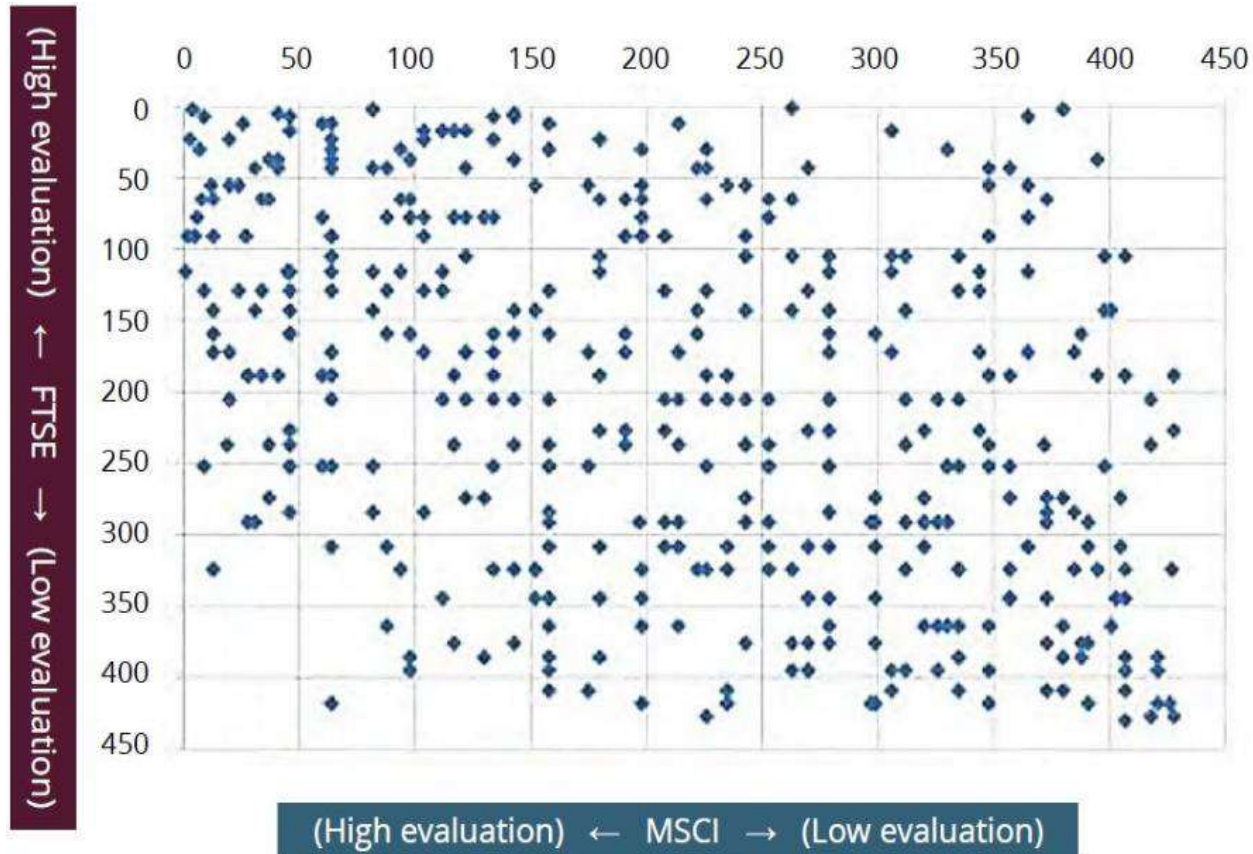
#### Foreign Reserves

- **Has to be always available for use**
- **Liquidity and security first**
- **Strict mandate specified in legal guideline**

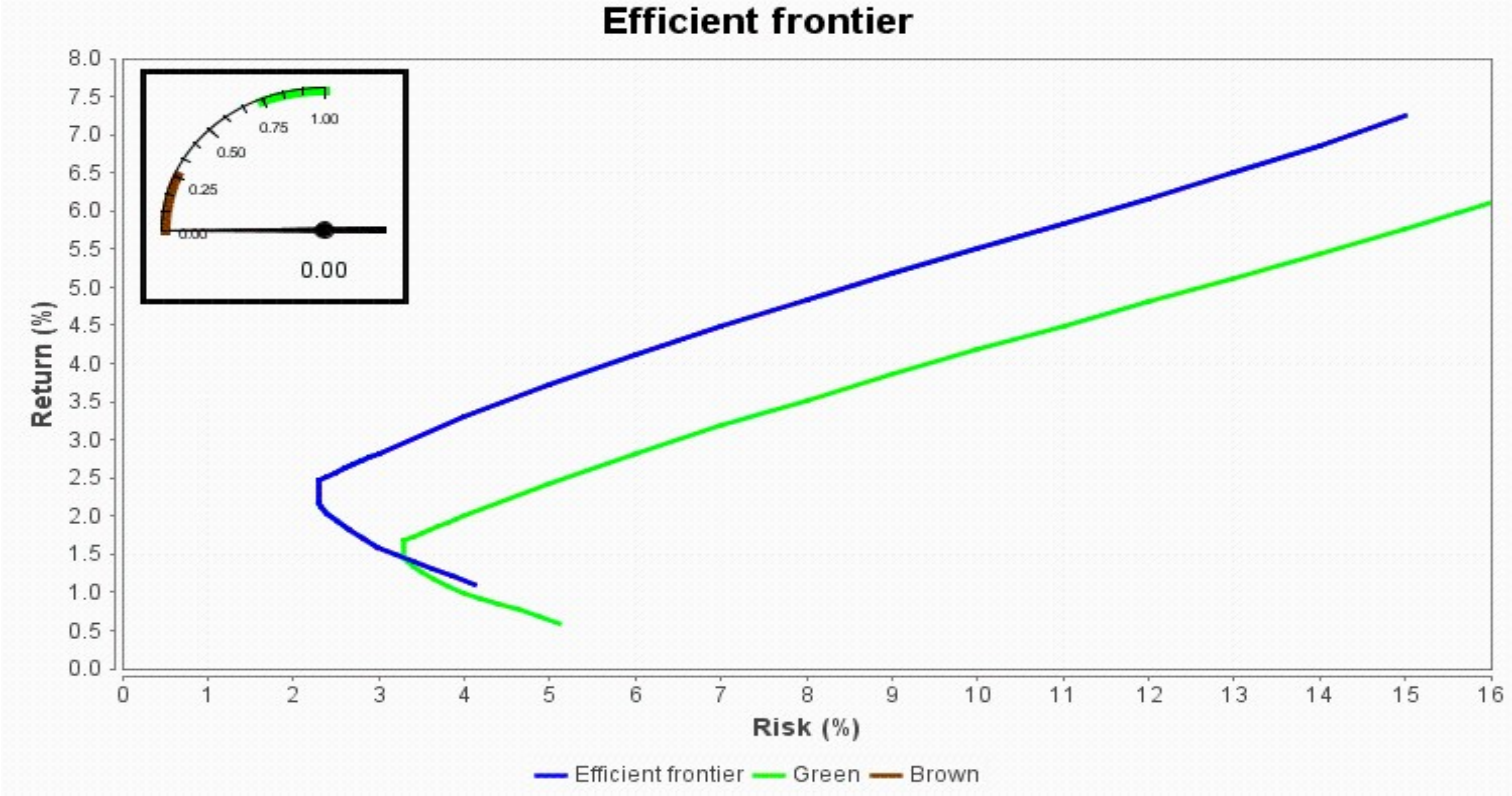
#### APP (QE)

- **Non-standard = temporary?**
- **Specific policy purpose first**
- **Strict mandate specified in legal guideline**

## Comparison of ESG scores from MSCI and FTSE



# SRI integration into investment portfolios





**Thank you for your attention**

# ILMARINEN'S RESPONSIBLE INVESTMENT

ILMARINEN

## Responsible Investment Tools

Environmental Policy

Ownership Policy

Human Rights Policy



## Societal Impacts

Impacts on Built Environment

Collaboration and Engagement

We Don't invest





Lars Eibeholm

Member of the Executive Committee at Nordic Investment Bank  
Head of Treasury and Mandate & Sustainability Ratings



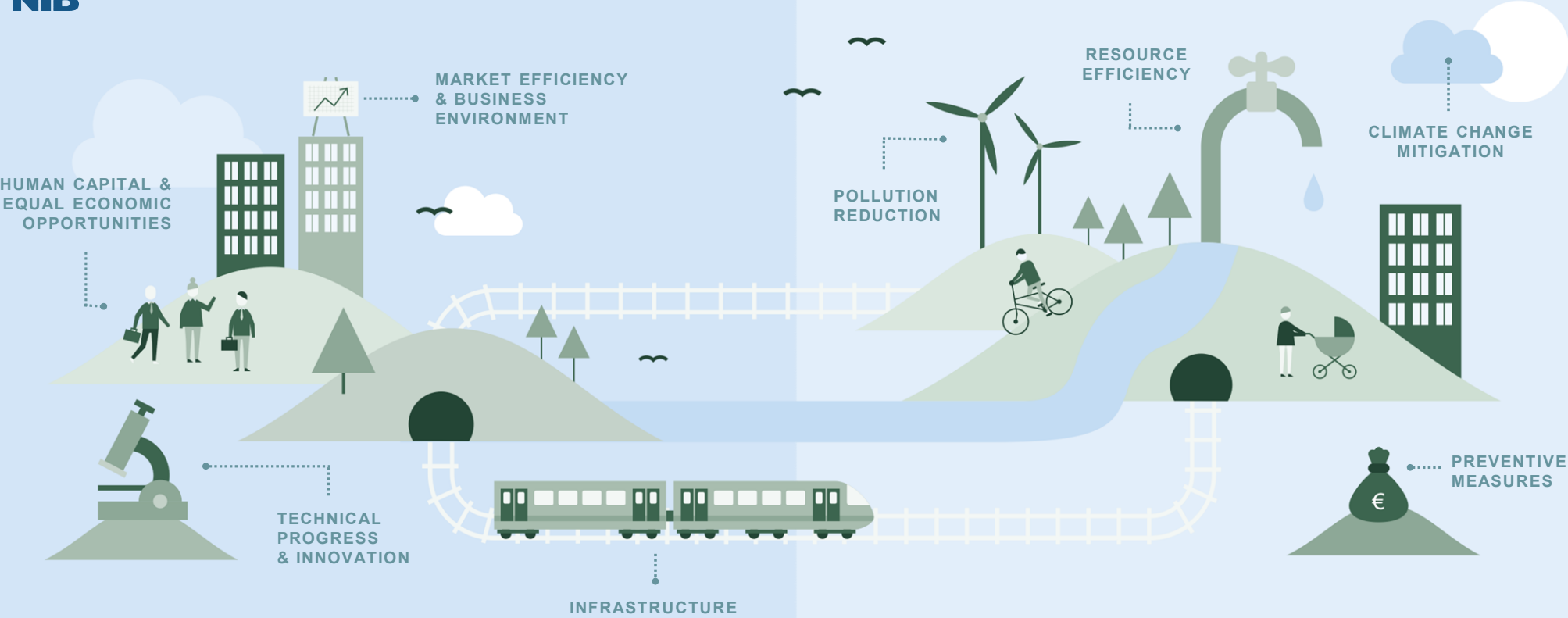
## Our Vision:

*"NIB works towards  
a prosperous and sustainable  
Nordic-Baltic region"*

Helgeland Kraft – NIB provided a NOK 470 million, 15-year loan for six hydropower plants to increase generation capacity by 166 GWh. The plants were designed to adapt well to the surrounding nature.

# Sustainable Finance at NIB

## Combining Productivity and Environmental benefits.



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