STATUS UPDATE FROM THE GRC

ESG as a business imperative for trade finance

Environmental

(Emissions, Sustainability, Biodiversity, …)

Social

(Human rights, Diversity & Inclusion, Societal resilience…)

Governance

(Management structure, Employee relations, Compensation, …)

ESG concerns are a standard part of any financial institutions transaction screening process! But we need to acknowledge that

- on a global level, past efforts were mainly insufficient
- there is a much higher expectation now for transparency about process & outcome

STATUS UPDATE FROM THE GRC

Highlights from ITFA & TFG Tradecast (15th April)

Business implications:

- ESG is a business opportunity! Investment in ESG labelled assets is a multi-trillion USD market.
- Today, significant portion of assets is originated by non-bank FIs. Application of ESG standards in trade finance will lead to increased access to financing.
- Sustainable trade finance can create new and more resilient value chains.

Risk implications:

- The industry should transition in a harmonious way together with its clients. There is a risk of putting too much burden on small suppliers (the “S” in ESG).
- ESG is mainly a “future” risk for banks’ portfolios and difficult to quantify today; nevertheless, high on regulators’ agenda.
- “Greenwashing” is a major concern (and reputational risk!).

STATUS UPDATE FROM THE GRC

Highlights from ITFA & TFG Tradecast (15th April)

<u>Practical implications</u>:

- ESG criteria for trade finance transactions should be easy to track, but no good (automated) solutions exist yet.
- For market to scale, banks need industry standards, external ratings or labels they can rely on (requires collaboration with outside stakeholders).
- Trade finance industry is still at the beginning of its ESG journey. Education and learning will be key enablers.