

Scaling up sustainable solutions

EUROCLEAR, MFEX AND GREENOMY ARE ADDRESSING SUSTAINABLE FINANCE CHALLENGES WITH INNOVATIVE, SCALABLE SOLUTIONS.

ONE OF THE GREATEST challenges facing society today is climate change. The 2015 Paris Agreement marked the first legally binding agreement to meet an objective to keep the earth's mean temperature below 2°C of pre-industrial levels. To do this, the world must curb emissions by 7.6% a year for a decade. So, time is of the essence.

The EU Green Deal aims to deliver a net-zero emission economy by 2050 and make Europe the first climate-neutral continent by implementing a range of policies such as investing in environmentally friendly technologies and decarbonising the energy sector.

In financial services, industry participants are supporting economic growth while reducing pressures on the environment through sustainable finance.

Euroclear is striving towards creating innovative solutions and has invested in Greenomy, a sustainability reporting Software as a Service (SaaS) that helps companies and financial institutions measure, disclose and improve sustainability in accordance with new EU sustainable finance legislation.

Additionally, Euroclear has acquired MFEX Group, a global digital fund distribution platform, to create a compelling offering for funds distributors and funds management companies. MFEX by Euroclear combines MFEX's distribution platform and its links with close to 1,000 funds companies with Euroclear's trading and custody expertise and access to funds distributors globally.



Together Euroclear, MFEX and Greenomy will address the pressing challenges in sustainable finance and provide innovative, scalable solutions.

Different shades of green

Interpretation of what 'sustainability' means is one of the main challenges in sustainable finance. While financial services firms are keen to incorporate ESG into their strategies, there are challenges around data and interpretation on different shades of green.

There are also many different sustainability and ESG frameworks across the globe, which has created further confusion around a standardised definition. One common rulebook to explain what sustainability is and how it can be measured is needed to help solve these challenges.

Alexander Stevens, CEO, Greenomy, comments: "The legislation that has been generated over the years aims

to measure the financial impact of climate risk, standardise sustainability, score measurements and share information, so that everyone speaks the same language."

"Once regulators standardise the measurement and the understanding of the consequences of climate risk, then the financial industry can understand how it will be impacted," Stevens explains.

The European ESG Template (EET) is set to provide an overview of the regulatory requirements from the Regulatory Technical Standards (RTS) under the Sustainable Finance Disclosure Regulation (SFDR) level 1, which will apply throughout Europe in January 2023. This aims to help financial market participants when exchanging ESG data.

The EET is a voluntary-led template by FinDatEx that gathers all the different data fields asset managers need to report, including the taxonomy reporting, SFDR, the Markets in Financial



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Alexander Stevens, Greenomy

Instruments Directive (MiFID), and Insurance Distribution Directive (IDD).

With MFEX by Euroclear, Greenomy will provide an EET reporting template that will be fed with the various data that MFEX collects, which will help address reporting requirements for asset managers. The EET reporting will also be available to all funds distributors connected to MFEX by Euroclear ecosystem.

Stevens elaborates: “We are providing a digital solution that helps generate a report but also feeds in the relevant data, which will be part of our joint offering in the coming months.”

A.J. Harper, head of sustainable finance, ETFs and asset managers, Euroclear, adds: “The capability through products synergy manufactured with Greenomy and MFEX by Euroclear is a reflection of the kinds of things we can do as a financial market infrastructure by solving market problems with a scaled solution that goes across large constituencies.”

Greenwashing

Greenwashing is another challenge. To prevent it, issuers must be transparent, and establish internal processes for green project selection and decision-making. They must collect the relevant data to make a quantifiable assessment, and establish transparent reporting and disclosure.

The EU Green Taxonomy determines whether an activity can be considered sustainable or not, how to measure it, and what KPIs can be used universally.

There are 25 countries adopting their own green finance taxonomies, which creates a challenge as harmonisation is needed between national frameworks. While there are initiatives from the EU Commission and the Chinese Government to create a common ground taxonomy for the world, there will always be national discrepancies.

Meanwhile, there are other frameworks, such as the International Sustainability Standards Board and the Task Force on Climate-Related Financial Disclosures. It is important to ensure all these different frameworks communicate with each other to create interoperability.

Euroclear, MFEX and Greenomy are meeting this challenge. Stevens comments: “We are offering a solution to match different taxonomies and create interoperability across frameworks. This marks a way of avoiding differences and of capturing ESG data, making sure the asset manager in Ireland that’s investing in a Brazilian company, for example, can do it under its own framework. Once again, legislation is helping reduce discrepancies to ensure we all speak the same language. Technology can also help to enable the flow of ESG data and create interoperable reporting frameworks.”

Building out the infrastructure

Through its partnership with MFEX by Euroclear and Greenomy, Euroclear continues to build a strong fund

distribution proposition for asset managers and distributors.

Harper states: “We see the opportunity to work with leading capabilities that have built infrastructure which solves market problems where there are inefficiencies between investors and asset managers, or between green issuers and the marketplace. MFEX by Euroclear enables business intelligence on funds distributed on our platform which is now augmented with EET and other sustainability views with Greenomy.

MFEX by Euroclear and its fund distribution networks have a strong reach to go out into the market to help Greenomy become the market standard, so the industry can speak the same language and look at the same data set, according to Steffen Ahlers, MD, head of funds companies product development, MFEX by Euroclear.

Ahlers concludes: “We have successfully implemented another RegTech, Global Funds Watch, that has become a market standard for counterparty due diligence. With Greenomy, we would now like to repeat this success story and focus on providing transparency to the market around ESG [and] provide strong data intelligence.”

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