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ESG OUTLOOK 2024

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1. 2023 ESG events and Regulatory developments

As we navigate the landscape of 2023, the world of environmental, social, and governance (ESG) has witnessed significant strides and noteworthy milestones. The year has been marked by a dynamic interplay of regulatory advancements, impactful conferences, and influential events shaping the ESG narrative. In this paragraph, we recreate a chrono history of the most significant ESG events of 2023 in the entire geographic areas of the world.

January: the USA unveiled a transformative blueprint for transportation decarbonization, targeting zero greenhouse gas emissions by 2050. This ambitious plan prioritizes the *deployment of zero-emission vehicles* across all transportation modes, aiming to enhance efficiency and affordability. Simultaneously, the UN environment program and S&P global sustainable1 introduced the *nature risk profile methodology*, a pioneering tool aligning with the task force on nature-related financial disclosures.

February: the European Commission took decisive steps towards environmental sustainability. They introduced the *Green Deal Industrial plan*, a comprehensive strategy aimed at boosting the competitiveness of Europe's net-zero industries and facilitating the transition to climate neutrality. The plan focuses on simplifying regulations, upskilling the workforce, accelerating investment in clean tech, and fostering global trade cooperation for clean tech and raw materials. Additionally, the commission proposed detailed rules defining *renewable hydrogen*, ensuring production conditions align with additional *renewable electricity*.

March: lawmakers in the European Parliament and Council have reached an accord on establishing standards for *European green bonds* (EuGB) to address greenwashing concerns and align with the EU's net-zero objectives. The agreement mandates that issuers adhere to rigorous standards, ensuring funds support EU taxonomy-aligned projects, necessitating transparent reporting and external compliance reviews. Simultaneously, the European Commission advocates for a comprehensive analysis of the financial sector's resilience to *climate-related risks*, urging collaboration between key regulatory bodies and institutions. This one-off stress test aims to uncover vulnerabilities and assess how stress could impact the financial sector's transition to the EU's 2030 climate goals.

April: the ASEAN taxonomy board (ATB) has released its second version of the *Sustainable Finance Taxonomy*, expanding on the initial version with a comprehensive framework for assessing economic activities, with a focus on the energy sector, particularly emphasizing the phasing out of coal. The taskforce on inequality-related financial disclosures (TIFD) and taskforce on social-related financial disclosures (TSFD) are collaborating to design a framework for *financial disclosures* related to social and inequality risks, prioritizing inclusivity and stakeholder input, with details to be shared for public consultation.

May: Venture Climate alliance, comprising 23 venture capital firms from the U.S. and Europe, aims to facilitate *net-zero pathways* for startups and finance climate solutions. The alliance will develop tools for the VC industry to measure carbon emissions, report climate impact data, and overcome challenges in aligning early-stage investments with net-zero goals. Additionally, at the G7 summit in Hiroshima, leaders pledged support for the *Paris Agreement*, endorsing the international sustainability standards board's upcoming reporting standards. They called for a halt to new unabated coal-fired power plants, advocated for increased climate finance for developing countries, and emphasized the development of low-carbon hydrogen. Additionally, the leaders set goals to increase offshore wind capacity by **150 GW** and solar PV to over **1 TW** by 2030.

June: European Parliament lawmakers have approved *new regulations* (CSDDD) compelling companies to assess and tackle the impact of their operations on human rights, the environment, and institute climate transition plans. Initially targeting companies with over 500 employees and revenues exceeding €150m, the rules will later extend to those with 250 employees and €40m in revenue, including non-EU firms exceeding specified thresholds for EU revenues. Simultaneously, the IFRS foundation's ISSB has officially launched *global sustainability and climate disclosure standards*. IFRS S1 mandates companies to disclose sustainability-related risks and opportunities impacting cash flows, finance access, or cost of capital. IFRS S2 outlines climate-related metrics, regarding reporting of Scopes 1, 2 and 3 greenhouse gas (GHG) emissions. The new standards will begin applying for annual reporting periods beginning as of *January 2024*, with companies beginning to issue disclosures against the standards in 2025.

July: the IFRS foundation's ISSB is slated to take over the monitoring of companies' *climate-related disclosures* from the FSB's TCFD, starting next year. This shift, initiated at the request of the Financial Stability Board, reflects the evolving landscape of climate-related reporting standards. The TCFD recommendations, established in June 2017 and widely recognized as the industry standard, have significantly influenced the ISSB's climate disclosure requirements, culminating in the recent publication of new ISSB standards. On a different front, the Group of 20 energy ministers meeting in India concluded *without a consensus* on the critical issue of phasing down fossil fuels. While some countries advocated for reducing unabated use of oil and gas, others, notably several Middle Eastern nations, argued for addressing emission concerns through carbon removal technologies like CCUS or other abatement technologies.

August: the International Auditing and Assurance Standards Board (IAASB) has introduced the *International Standard on Sustainability Assurance (ISSA) 5000*, a pivotal move aimed at fostering confidence in sustainability reporting. This initiative, responding directly to IOSCO recommendations and collaborating with key standard setters, including the international ethics standards board for accountants, emphasizes the significance of external, independent assurance grounded in globally accepted standards. ISSA 5000, once finalized, is positioned to be a comprehensive, stand-alone standard designed for diverse *sustainability assurance engagements*. In a notable shift, S&P Global has opted to *remove* environmental, social, and governance (ESG) scores from its credit ratings. Instead, S&P will deliver concise analytical narrative paragraphs, replacing the alphanumeric ESG credit indicators introduced in September 2021.

September: In the G20 New Delhi declaration 2023, member nations pledged to triple *global renewable energy capacity* by 2030, recognizing the substantial financial needs for developing countries. With a call for **$5.8-$5.9 trillion** pre-2030 and an annual **$4 trillion** for clean energy technologies by 2030, the agreement emphasized fostering hydrogen production and international market advancement with unified standards. On the regulatory front, the European Union implemented the *sustainable finance disclosure regulation* (SFDR) to ensure transparency. Mandating disclosure of sustainability information by financial market participants, SFDR enables investors to make informed choices aligned with sustainability goals, supporting the EU's push for private funding in a net-zero economy. Simultaneously, the SEC amended the *"Names Rule"* requiring funds with ESG-focused names to invest a *minimum of 80%* of assets accordingly. This rule aims to prevent misrepresentation and address concerns about *greenwashing*, aligning with the growing investor interest in environmental, social, and governance (ESG) considerations. These collective commitments and regulatory actions underscore a global push toward renewable energy, sustainable finance, and increased transparency in investment decisions.

October: The European Commission has unveiled plans *to postpone* key elements of the *Corporate Sustainable Reporting Directive* (CSRD), including the implementation of sector-specific sustainability disclosures and extending reporting requirements to companies outside the EU. Simultaneously, the council of the European Union has announced the adoption of a regulation establishing a *European green bond standard*, a significant step toward introducing a European green bonds (EuGB) label. This label aims to combat greenwashing and promote sustainability in the EU's finance market. The regulation outlines requirements for issuers seeking the EuGB designation and includes voluntary disclosure guidelines for other environmentally sustainable and sustainability-linked bonds issued within the EU. Bloomberg and Riskthinking.AI have jointly launched *science-based physical risk indicators* designed to empower companies and investors in assessing exposure to climate-related risks like floods, droughts, and wildfires. The release of these indicators aligns with the increasing regulatory emphasis on climate-related risk disclosure, as seen in frameworks such as Europe's CSRD and the new international IFRS sustainability disclosure standards. This initiative addresses the growing need for comprehensive tools to evaluate and understand climate-related risks in business and investment contexts.

November: in response to the need for *standardized responsible investment terminology*, a collaborative effort involving the Global Sustainable Investment Alliance (GSIA), CFA institute, and UN principles for responsible investment (PRI) resulted in the publication of a resource on November 1. This comprehensive guide addresses *five key areas* within responsible investment, including screening, ESG integration, thematic investing, stewardship, and impact investing, aiming to provide clear and consistent definitions. Simultaneously, the Network for Greening the Financial System (NGFS) released its fourth version of long-term *climate macro-financial scenarios* on November 7. These scenarios offer crucial guidance for central banks and supervisors in assessing forward-looking climate risks. The publication emphasizes the importance of *integrating climate considerations* into financial system assessments for effective risk management.

2. Global Overview of ESG Progress in 2023

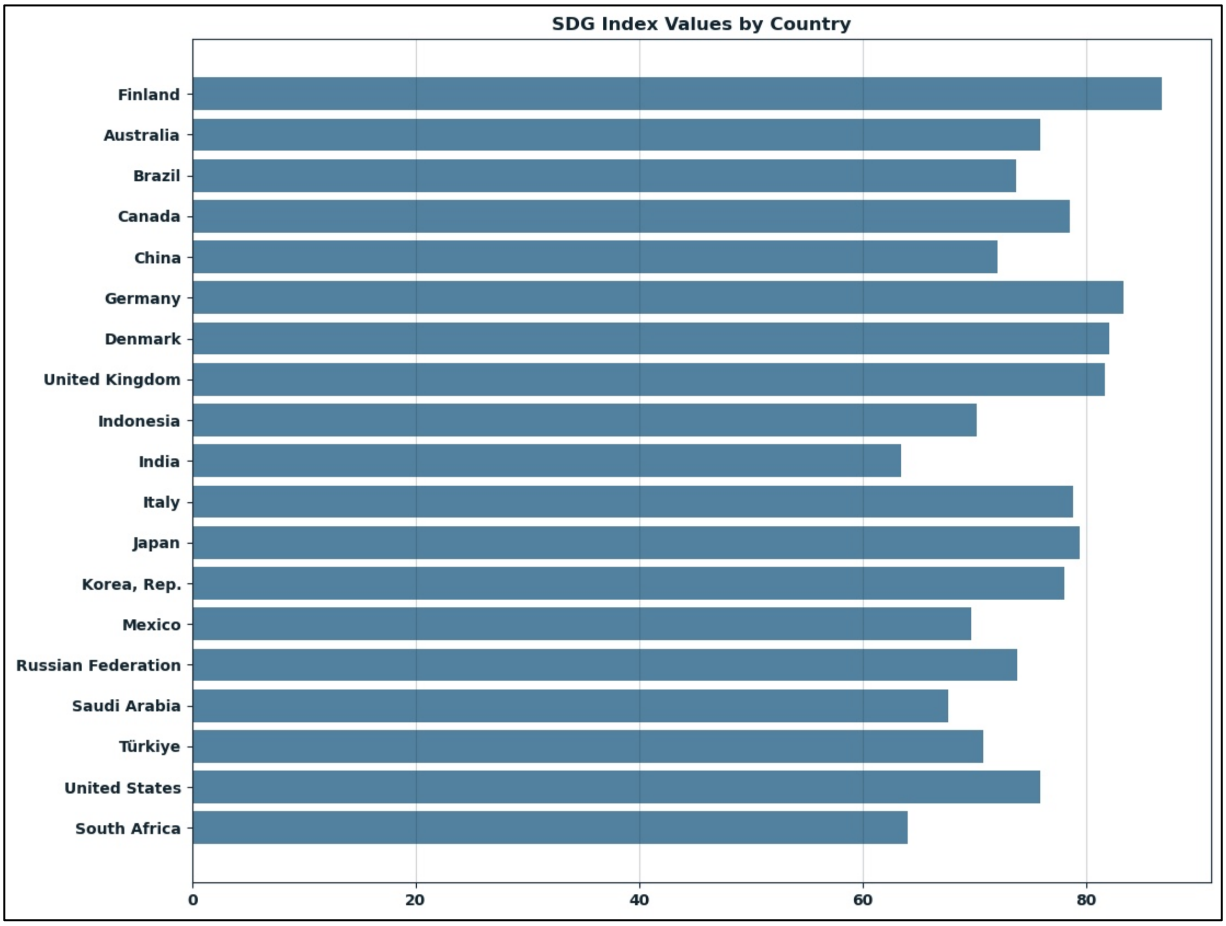
2.1. Global SDG Index: Assessing National Performances

The *SDG Index* is an assessment that evaluates each country's overall performance on the 17 Sustainable Development Goals (SDGs), assigning *equal weight* to each goal. The scores range between 0 (worst possible outcome) and 100 (target). The dashboard and trend arrows help identify priorities for further actions and indicate whether countries are on track or off track to achieve the goals and targets by 2030, based on the latest trend data.

The 2023 SDG Index edition incorporates *97 global indicators*, with two-thirds of the data coming from official statistics (typically United Nations custodian agencies) and one-third from non-traditional statistics, including research centers, universities, and non-governmental organizations.

There is notable variation in progress by regions and income groups. European countries lead the SDG Index and are on track to achieving more targets than any other region. Specific countries like Denmark, Czechia, Estonia, Latvia, and the Slovak Republic have achieved or are on track to achieving the largest number of SDG targets. Conversely, Lebanon, Yemen, Papua New Guinea, Venezuela, and Myanmar face challenges, with a reversal in progress for several SDG targets.

Finland tops the 2023 SDG Index, followed by Sweden and Denmark. All top 20 countries are in Europe, mostly European Union member states. However, none of these countries achieves a perfect score. Even the highest-performing countries face *significant challenges* in achieving certain SDGs, particularly those related to climate, biodiversity, and sustainable diets and food systems. Trends on several "leave-no-one-behind" indicators are not heading in the right direction in many EU member states. Chad, Central African Republic, and South Sudan obtain the *lowest* 2023 SDG Index scores.



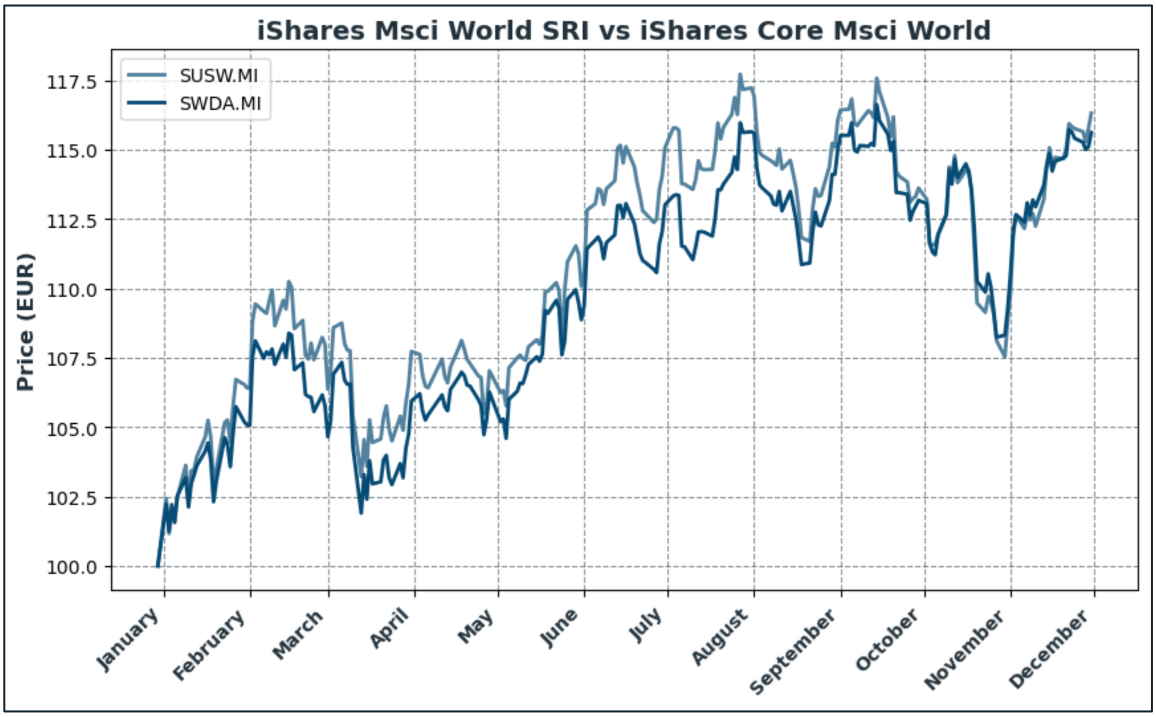
Source: Sustainable Development Report

2.2. Equity ESG Trend

The global shift towards sustainable investing has placed Environmental, Social, and Governance (ESG) criteria at the forefront of investment decisions. In this analysis, we scrutinize the performance of two *Exchange-Traded Funds* (ETFs)— iShares MSCI World SRI UCITS ETF (SUSW) and iShares Core MSCI World UCITS ETF (SWDA)—during the period from January 1, 2022, to November 30, 2023.

Both ETFs embark on a *global journey*, providing exposure to developed markets worldwide. SWDA put a clear emphasis on the *Information Technology* and *Communication* sectors. The primary players in its portfolio, Apple Inc and Microsoft Corp, lead the pack, steering the fund towards a tech-centric trajectory bolstered by giants like Amazon, Meta Platforms, and Alphabet.

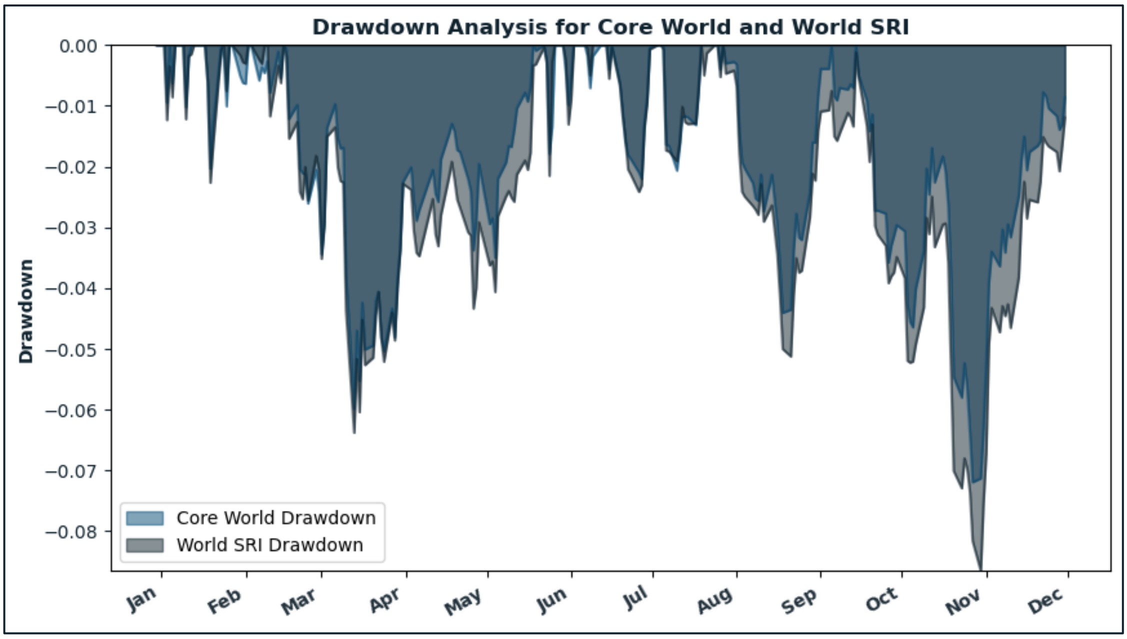
On the other side of the spectrum, SUSW charts a different course. It presents a nuanced investment narrative by weaving together a diverse tapestry of sectors. Led by Tesla Inc and Microsoft Corp, SUSW's top holdings reflect a mosaic that includes *Consumer Discretionary*, *IT, Healthcare, and Communication*. It stands out for its *ESG screening*, excluding companies that fall short of certain environmental, social, and governance criteria.



Data source: FactSet

Daily returns showcase SUSW and SWDA's responsiveness to market fluctuations. SWDA registered an *average daily return* of **0.064%**, while SUSW edged ahead with **0.067%**. When it comes to *market volatility*, both SUSW and SWDA exhibit similar patterns. The daily standard deviation for SWDA is **0.716%**, while SUSW follows closely with **0.775%**. These metrics shed light on the *stability and risk associated* with each ETF daily.

The following plot, additionally, visually captures the *drawdown dynamics*, with the shaded areas representing drawdown periods for both ETFs. SUSW's shaded regions consistently appear *more extensive*, indicating that investors in this ESG-screened ETF might have experienced *more pronounced declines* in their investment value compared to SWDA. It's essential to consider that higher drawdowns don't necessarily imply poor performance; they reflect the *risk* associated with an investment.



For the long-term investor, cumulative returns provide a more comprehensive picture. Over the specified period, SWDA has yielded a *total cumulative return* of **15.622%**, showcasing a commendable performance. However, SUSW takes the lead in this race, boasting a total cumulative return of **16.317%**. This metric encapsulates the overall gains or losses an investor would have experienced over the *entire period*.

2.3. Fixed income ESG trend

A recent report by Moody's signals a *remarkable trajectory* for the ESG bond market, projecting that total issuance will reach **$1 trillion** by 2023. This marks a substantial upswing from the $360 billion recorded in 2020. The *growth* in the ESG bond market can be attributed to various factors. Firstly, there is a *notable and escalating demand* for sustainable investments emanating from both institutional and retail investors. Investors are increasingly seeking avenues that not only deliver financial returns but also adhere to environmental, social, and governance principles. Secondly, *many issuers are turning to ESG bonds* to fund their sustainability initiatives. ESG bonds offer a financially prudent source of capital compared to alternative financing options, making them an attractive choice for companies with a commitment to sustainable practices.

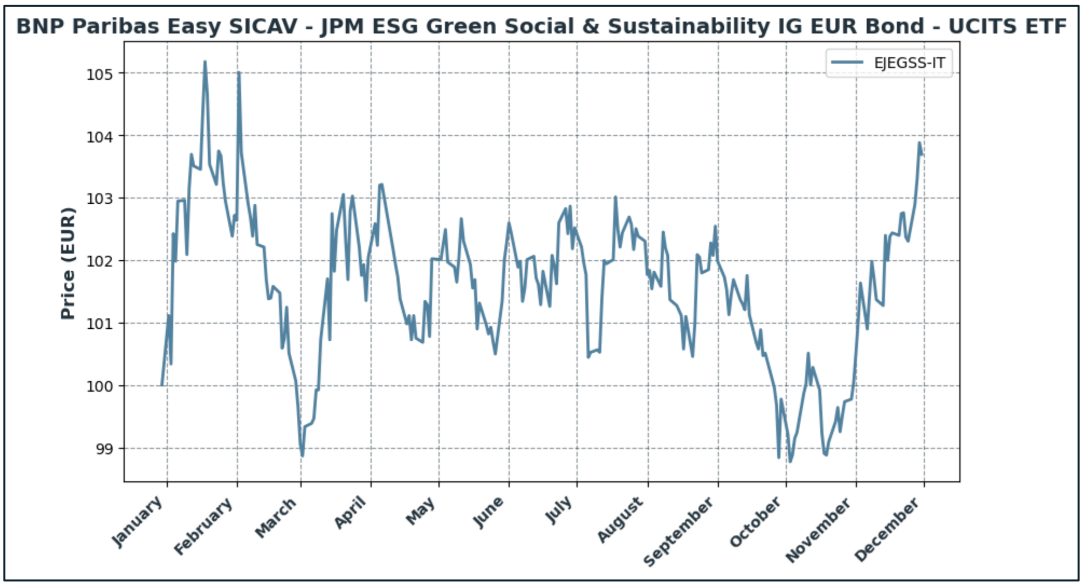
Another driving force behind the expansion of the ESG bond market is the proliferation of *regulations* and *guidelines* mandating companies to disclose their ESG information. This regulatory landscape facilitates investor *identification* of ESG-friendly issuers, enhancing transparency and accountability within ESG investments. In terms of the variety of ESG bonds, green bonds stand out as the most popular. However, social and sustainability bonds, among other types, have also witnessed substantial growth, reflecting the increasing diversity within the ESG bond landscape.

The growth trajectory of the ESG bond market is poised to continue, with new entrants joining the market and existing issuers expanding their ESG offerings. As investors persist in prioritizing ESG considerations in their investment decisions, the ESG bond market is likely to retain its appeal, remaining a compelling option for issuers eager to finance their sustainability initiatives. This trend underscores a broader shift toward more conscientious and socially responsible investment practices.

In the dynamic landscape of ESG bonds in 2023, several noteworthy issuances have marked the commitment of diverse entities to sustainable financing: *Thames*, a UK water company, achieved a milestone by pricing **€575 million** of 6-year bonds and an equivalent volume of ten-year bonds, marking its largest-ever issuance in euros. This move signifies Thames' dedication to sustainability and represents the first instance of a UK water company raising green bonds in euros. *DS Smith Plc*, a key player in sustainable packaging, successfully launched **€850 million** Notes due on July 27, 2027, with a coupon of **4.375%**, and **€650 million** Notes due on July 27, 2030, with a coupon of **4.5%**. *La Caisse d'amortissement de la dette sociale* (CADES), owned by the French government, played a substantial role in social bond issuance during the first half of 2023. *The Federal Republic of Germany* emerged as a significant participant in the green bond market, ranking as the second-largest green bond issuer after *HM Treasury*. This reflects the commitment of major economies to green finance and aligning capital flows with environmental objectives. In a groundbreaking move, *Mitsubishi Electric Corporation* announced its inaugural issuance of green bonds totaling **50 billion yen**. These funds are intended to support the construction of a *silicon carbide* (SiC) power semiconductor plant and related production facilities, showcasing Mitsubishi Electric's strategic focus on contributing to decarbonization through sustainable financing.

These diverse examples illustrate the *global momentum* in ESG bond issuance across various sectors, including water utilities, packaging, government-backed social initiatives, and technology-driven environmental projects. As organizations increasingly embrace green finance, these issuances contribute to the expansion and diversification of the ESG bond market in 2023.

Transitioning from the broader context of Europe's leadership in Green, Social, and Sustainability (GSS) bonds, our lens now zeros in on the investor's viewpoint, with a specific focus on the *BNP Paribas Easy SICAV - JPM ESG Green Social & Sustainability IG EUR Bond - UCITS ETF*. This ETF strategically aligns with Europe's commitment to sustainable finance and mirrors the J.P. Morgan ESG Green Social & Sustainability IG EUR Bond (TR) index. Rooted in meticulous ESG scoring and Climate Bonds Initiative standards, the ETF reflects Europe's rigorous evaluation criteria. It takes a decisive stand against ESG controversies, aligning with Europe's commitment to integrity and global standards.



Data source: FactSet

In the face of prevailing market dynamics, it's crucial to address the recent challenges faced by the ETF. The fund's performance, mirroring the broader bond market, has encountered headwinds attributable to the recent increase in interest rates.

3. A focus on European authorities' efforts

3.1. Results achieved by European authorities

In the first paragraph, we have already seen the most important achievements in term of regulation in 2023. Now, we will focus on the development of policy and regulation by the primary EU institutions—namely, the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities and Markets Authority (ESMA), collectively referred to as the European Supervisory Authority (ESA)—to understand better the evolving dynamics of the ESG (Environmental, Social, and Governance) market.

In terms of governance & transition, the EBA published a report on the role of *environmental and social risks* in the framework for credit institutions and investment firms. It suggests a risk-based approach recommending short-term and medium to long term improvements to risk categories of the OECD's Pillar 1 Framework so that it captures environmental and social risks. The Pillar 1 Framework grants countries the power to tax profits from non-resident companies conducting sales within their borders. The EBA report suggests enhancements to stress testing, external credit assessments, due diligence requirements, operational risk triggers, and the development of environmental risk concentration metrics, aiming to integrate such in the framework. This is reflecting the increasing relevance of environmental and social risks and the necessity to consider such when collaborating internationally.

However, not only internationally, shortly before, the Dutch Authority for Consumers and Markets (ACM) published its final policy rules on the application of competition law supervising *sustainability agreements* between corporates. The rules highlight the desire to allow businesses to collaborate to achieve sustainability goals. The rules provide a guidance process and description of collaborations that will not be fined.

And with the increased collaboration and activity in achieving sustainability goals, also the supervision on the integration of sustainability in firms' procedures has developed. ESMA announced the new launch of *Common Supervisory Action* (CSA) with National Competent Authorities (NCAs). The CSA will cover aspects like how firms collect information regarding clients' sustainability preferences alongside assessing the sustainability-related suitability of investments. Similarly, the OECD published a methodological supervisory framework for assessing nature-related financial risks. These are all efforts which hope to contribute to a consistent application of EU rules, supervising the *growth of sustainability* and enhancing *investor protection*.

Efforts in regulation don't stop at supervisory authorities. ESMA published another report regarding the disclosure of *climate matters* in financial statements. It aims to provide guidance, assisting and enhancing the ability of issuers to provide robust disclosures. This is in hope to create more consistency in the way climate-related matters are accounted for. It expects firms to take more into account such matters in the preparation and audit of IFRS financial statements. It also tries to encourage the reporting of such matters in a standardized way, to remove uncertainty and instead simplify and promote clarity for investors and the market.

A similar effort of standardization is pursed by the ECB when they adopted a position in favour of introducing an *ESG Rating Regulation*. The regulation introduces a common approach to enhance the adequacy, integrity, transparency, responsibility, good governance, and independence of ESG rating activities. This regulation has not been yet approved, however, there has been movement in the space of ESG bonds.

As previously introduced, the European Parliament adopted the proposal for a *Regulation on European Green Bonds* (EuGBs). The text states that 100% of a EuGB proceeds are to be invested in specific EU Taxonomy-aligned assets. There is also the possibility for it to be invested in capital or operating expenditure for which a Taxonomy transition plan is in place. The regulation also then includes mandatory disclosure templates for Green bonds and voluntary disclosure templates for bonds issued as environmentally sustainable or sustainability-linked bonds. The Regulation then emphasises on rules of external review, organisation and governance, and supervision. These steps towards standardization are key to *remove uncertainty* in the profits behind ESG and ultimately key for firms to become more sustainable, the growth of the ESG market and the achieving of sustainability targets.

These efforts in supervisory authority combined with the standardisation of ESG tools, alongside the ones of past years, seem to be paying off: the International Energy Agency (IEA) released an update of its Net Zero Roadmap. Though global CO2-emissions reaching highest levels ever in 2022, the report transmits a positive sentiment in regard to the global uptake of renewable energy since 2021.

3.2. Authorities' Future Targets and Agendas 2024

The mentioned regulatory authorities and institutions plan to continue the development of regulation regarding the ESG market. The supervisory 'agendas' they have released enable the market to prepare for next year's supervisory focal points: *sustainability remains high on all agendas*. It is of significant relevance to examine such in the scope of providing a sentiment and image of the ESG movements which will take place in the upcoming year.

3.2.1. EBA 2024 work programme

Starting from the EBA, it sets out clear and specific objectives backed by activities which they plan to follow in the upcoming year. Indeed Activity 7, 'ESG in supervision and regulation', is dedicated to such. It plans to contribute to EBA's first two, out of five, priorities: promoting and implementing an effective and proportionate *Single Rulebook* and fostering *financial stability* in a *sustainable economy*.

Following the first priority, much of the focus for 2024 will stay on continuing the Basel implementation and on the enhancing of the Single Rulebook. It has as objective to 'Deliver at least 80% of the number of ESG-related technical standards, guidelines, reports and responses to CfA in line with prescribed deadlines - taking into consideration the recommendations of the ACP'. The EBA, taking into considerations ACP recommendations, shall pay particular attention to maintaining the principle of proportionality delivering these mandates.

Following instead the second priority, based on the EU-wide stress test run in 2023, the EBA also plans to continue analysing risks fostering and monitoring financial stability and ESG sustainability. The EBA, preparing for the 2025 stress test exercise, plans to assess the need for changes to its methodology. By building its ESG risk monitoring framework it will be able to more efficiently 'monitor ESG risks in the banking sector and development of the green financial market'. This plans to include an increase in the use of external data significant for ESG risks.

The specific milestones which EBA has set and plans to achieve each quarter are listed below:

- **Q1**: approval of the revised EU-wide *ESG stress test framework*.
- **Q2**: call for evidence on *greenwashing* - final report.
- **Q3**: annual report on the *SFDR's Principal Adverse Impact* (PAI) disclosures and due diligence practices.
- **Q4**: Pillar 1 follow-up report on capital requirements directly linked to *ESG risks*.

3.2.2. EIOPA 2024 work programme

European Insurance and Occupational Pensions Authority (EIOPA) has made similar significant efforts to address their 2024 targets. The institution plans to increase focus on models and data to identify and monitor sustainable activities. It aims to make progress the analysis of biodiversity-related, social risks and their corresponding impacts. It plans to implement activities in order to establish itself as a *Centre of Excellence* for catastrophe models and data. It has highlighted and put emphasis on the topics of:

- **Prudential framework**: integration of *ESG risks* and consolidation of the macro/micro-prudential ESG risk assessment.
- **Greenwashing**: monitoring and supervision of insurance products marketed as *sustainable*.
- **Protection gaps**: contributing to increased risk awareness of risk-based prevention measures with the aim to *reduce insured losses*.
- **Data and source modelling**: positioning itself as a *relevant open-source data hub*, providing climate-related data and models.

These measures and additional attention in regard to these topics ensures a *more regulated and stricter* ESG environment creating a fair and safe market for investors. It reduces uncertainty and doubts allowing for industries to begin integrating ESG tools in a more standardised way and ultimately promoting market growth.

3.2.3. ESMA 2024 work programme

European Securities and Markets Authority (ESMA) has again similar 2024 objectives yet placing larger focus on specifically *greenwashing* and *green bonds*, key components for the growth of the market and the achieving of ESG goals. It plans to continue to provide guidance promoting convergence of ESG-related supervision for the key *Directives* and *Regulations* within its remit. These are the MiFID II, the Taxonomy Regulation, the CSRD and the Benchmark Regulation. It has said to release the publications concerning:

- **Greenwashing**: a final report proposing actions to combat greenwashing.
- **Green Bonds**: a publication of technical standards.
- **Credit Rating Agencies**: various technical advice on CRA's review of ESG-related data and reports.
- **IT and data**: feasibility assessment of new data and IT-projects relating to ESG disclosures.

These are all releases which again promote the standardizing of procedures to ensure protection for investors. Moreover, they attempt to guarantee that ESG tools are used correctly and effectively so that they have the desired, *most efficient impact* on sustainability.

3.2.4. ESAs 2024 work programme

Finally, we can further observe the commitment to sustainability from an overall perspective looking at the European Supervisory Authorities (EBA, EIOPA and ESMA, jointly: ESAs) as a whole. For their 2024 fiscal year they intend to publish their third annual report under Article 18 of the SFDR. They have stated they will place focus SFDR's implementation. The *Sustainable Finance Disclosure Regulation* (SFDR) is a set of EU rules which has the purpose of making the sustainability profile of funds *comparable between each other*, standardized and better understood by end-investors. In specific, **Article 18** will be on Principal Adverse Impact (PAI) statements and due diligence practices. The ESA is monitoring the practical application of the SFDR Delegated Regulation, to determine if Level 3 supervisory convergence tools should provide guidance to firms and national authorities. The possible increased guidance and consequent further implementation of the SFDR's will allow for more standardised methods of accounting firms sustainability profile. This subsequent more transparent understanding of firms' stance on sustainability, facilitates investors' analysis. This then overall increases investments in the ESG market and promotes the *growth sustainability* in corporations.

4. Principal risks of ESG growth

As the world witnesses a surge in green finance, driven by the growing demand for sustainable investments, it is essential to scrutinize the *potential risks and challenges* associated with this rapid expansion. This examination delves into critical aspects that warrant careful consideration for both investors and stakeholders in the evolving landscape of green finance.

4.1. Potential Green Bubble

In the realm of green finance, optimism is high, accompanied by *fervent investment*. However, a looming concern is the potential emergence of a speculative bubble as the sector experiences rapid growth. The worry centres on overinvestment in projects lacking genuine environmental impact or economic viability, risking a *burst bubble* and subsequent financial instability within the green finance sector.

A collapse of this bubble could extend beyond environmental sectors, shaking investor confidence and influencing the broader financial landscape. In this dynamic scenario, *vigilance is crucial*. Balancing sustainability and financial viability require strategic planning to ensure the long-term resilience of the green finance sector, this risk will following be analysed specifically.

4.2. Greenwashing

As green investments gain traction and popularity, the risk of companies misleadingly presenting themselves as environmentally friendly grows. The core concern revolves around the amplification of environmental claims, potentially diverting funds from genuine sustainable initiatives. This not only undermines the credibility of the green finance sector but also poses a *substantial risk* to its overarching sustainability goals.

The impact of greenwashing transcends mere misrepresentation. It acts as a corrosive force on trust within the sector, potentially redirecting investments away from genuinely eco-conscious projects. Navigating the intricacies of green finance demands a keen understanding of the risks associated with greenwashing and proactive measures to mitigate them. As we delve deeper into the nuances of green finance, fostering a genuinely sustainable financial future requires a collective effort to tackle the challenges posed by greenwashing. Strengthening regulatory frameworks, enhancing transparency, and promoting education around authentic environmental initiatives become pivotal in building *resilience against deceptive practices*. This commitment ensures that the trajectory of green finance remains aligned with its core mission of driving sustainable and responsible financial practices.

4.3. Lack of standardization and regulation

As we have seen, most of the initiatives are aimed at obtaining a standardized framework. The absence of standardized criteria and regulations introduces *inconsistencies* in the assessment and reporting of environmental impacts, giving rise to concerns about potential overestimation of positive environmental contributions.

This scenario poses a genuine risk, particularly in the form of *misguided capital allocation*, which threatens the integrity of investments in green initiatives. The impact extends beyond financial considerations to the very core of green finance—the investors. Faced with challenges in accurately assessing environmental impacts, investors encounter hurdles that impede the effectiveness of green finance in promoting authentic sustainable practices.

As we navigate the intricacies of green finance, it becomes evident that addressing these standardization gaps is paramount. Strengthening regulatory frameworks, fostering transparency, and promoting education around authentic environmental impact assessments are essential steps in building resilience within the sector.

This collective effort aims not only to enhance the credibility of green finance but also to fortify its foundation for a genuinely sustainable financial future. By bridging these standardization gaps, stakeholders can ensure that the trajectory of green finance aligns seamlessly with its mission of advancing authentic and impactful sustainable practices.

4.4. Need of ESG experts

The escalating need for ESG specialists is one of the principal concerns about the evolution of green finance. The nuanced assessment of environmental and social impacts within this realm requires a *specialized understanding* of ESG factors.

Yet, concerns emerge in tandem with the soaring demand for ESG expertise, potentially outstripping the available talent pool. This apprehension poses a risk to the adequacy of assessments related to environmental and social risks within sustainable finance initiatives. The potential impact of this shortage is profound. A dearth of qualified ESG specialists has the potential to *hinder informed decision-making*, creating a scenario where critical factors integral to sustainable finance may be overlooked.

As the significance of ESG factors continues to mold the landscape of responsible and impactful financial practices, navigating these challenges becomes imperative. Addressing this demand-supply gap necessitates *strategic initiatives* such as educational programs, talent development, and collaborative efforts between industry and academia. By fortifying the pool of ESG specialists, stakeholders can ensure the *robustness of sustainable finance initiatives*, fostering a future where responsible financial practices thrive.

4.5. Dependency on government policies

The overarching concern lies in the prospect of rapid expansion without a *robust policy framework*. This scenario could introduce uncertainty into the equation, potentially impacting investor confidence. The dependence on governmental support raises questions about the sector's resilience in the face of *policy shifts or uncertainties*.

The potential impact is far-reaching. Changes in government policies can swiftly reverberate throughout the green finance sector, causing disruptions and prompting market corrections. As stakeholders navigate this dynamic landscape, understanding and mitigating these risks become imperative for fostering sustainable growth in green finance.

In this context, the role of regulatory measures, transparency, and the cultivation of expertise becomes paramount. A harmonious interplay between government policies and industry practices is crucial for steering the course toward a resilient and genuinely sustainable financial future. As we delve into the complexities of this relationship, proactive measures and collaborative efforts will be key in ensuring the continued success and sustainability of green finance initiatives.

5. Green bubble: possible explanations

An interesting argument could be the specific valuation of the formation of the “green bubble” and the possible effects (surprisingly positive despite the definition of bubble) that it could have in “the green sector” and, more in general, in the economy.

The current surge in green stocks, often referred to as a "green bubble," has sparked concerns reminiscent of historical market bubbles. However, amid apprehensions, there exists a compelling argument that this green bubble could serve as a *positive force* with transformative potential. From an optimistic standpoint, the green bubble has the potential to facilitate businesses in securing affordable investments in green energy initiatives. The heightened interest and capital influx into sustainable sectors, such as solar and electric vehicles, could catalyse innovation, research, and development in green technologies. This, in turn, might expedite the transition away from fossil fuels, addressing a critical aspect of the global fight against climate change.

Moreover, the infusion of funds into green assets and companies can create a conducive environment for sustainable initiatives, allowing businesses to scale up operations, enhance efficiency, and bring down costs associated with renewable energy projects. Moreover, the positive market sentiment around green investments may attract further capital, fostering a cycle of growth and innovation in the renewable energy sector.

While acknowledging the potential benefits, it is essential to maintain a *cautious approach*. Regulatory frameworks, transparency in reporting, and accurate assessment of the environmental impact of investments must be prioritized to ensure the legitimacy and sustainability of the green finance sector. Striking a balance between enthusiastic investment and prudent oversight will be crucial to harness the positive aspects of the green bubble while mitigating potential risks associated with market exuberance.

In conclusion, the green bubble, despite its challenges and uncertainties, could become a *driving force* for positive change. By channelling investments into sustainable and eco-friendly initiatives, it has the potential to *accelerate the global shift* towards cleaner energy sources and contribute significantly to the broader efforts to combat climate change.

6. Conclusion

In conclusion, from the first part of our analysis, we can assert that in the Equity Market, in 2023, there wasn't a real benefit in terms of return from ESG investing, since the higher yield was accompanied by *higher volatility*. In the Bond Market, the achievements are more evident, considering the *growth* of total emission during these years. This means that ESG bonds satisfy both investors and issuers and allow to realize environmental and social projects.

Moreover, from the continuous efforts of the main international authorities it emerges that ESG is not only a temporary trend, but a proposal on which they are trying to create solid basis. This can also be explained by the advent of *new generations* who are more inclined to environmental and social issues, which translates into a greater demand for ESG financial instruments.

Support for standardization can come directly from the tech industry. Data shows that more and more companies use *ESG reporting software* that allow greater standardization in tracking and regulation. Forecasts estimate that ESG reporting software's CARG will increase from 19% to 30% in the next five years. ESG tracking and reporting are a key point for the *development* of the entire sector.

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