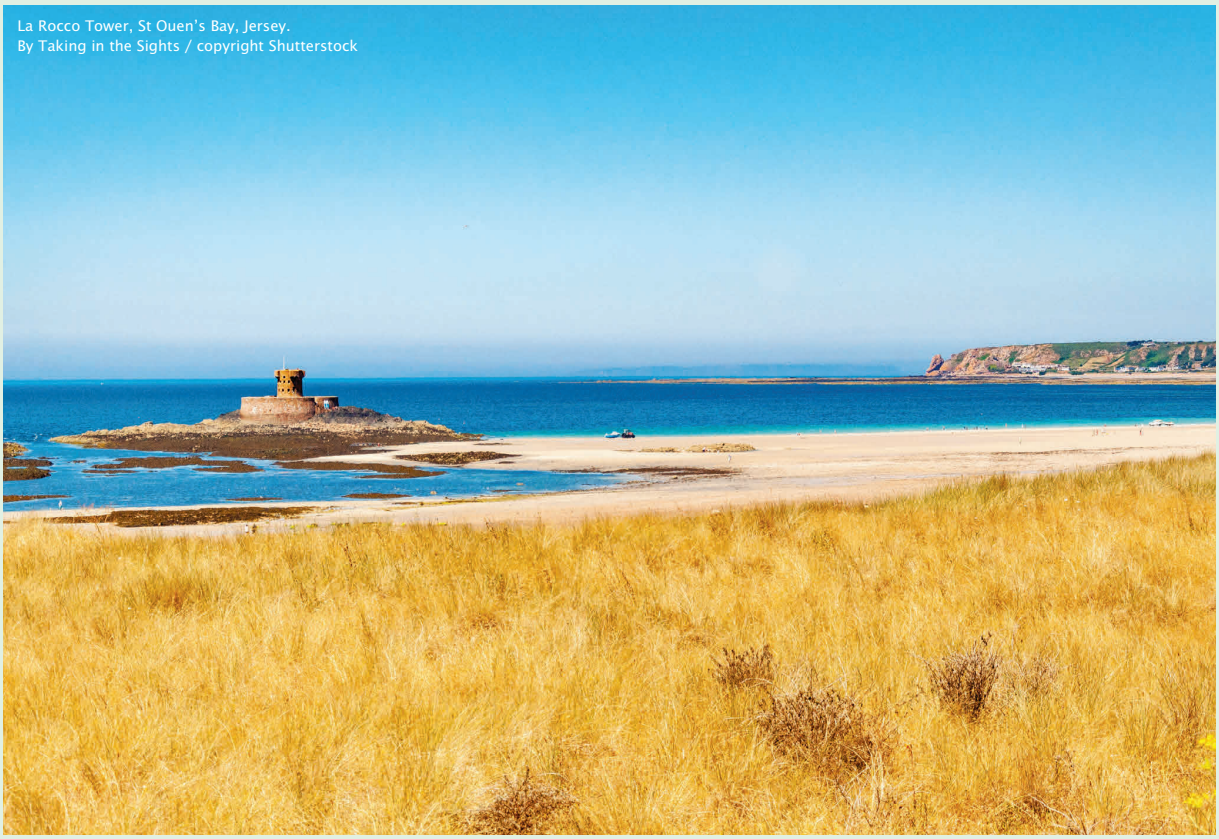

La Rocco Tower, St Ouen's Bay, Jersey.
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Working towards a sustainable future for finance

With $130 trillion of capital being committed to shifting the global economy towards net zero, finance industry professionals in Jersey consider how sustainable finance and integration of environmental, social and governance (ESG) criteria are helping address salient objectives, as Jersey embraces ESG innovation in the context of data showing that prioritising ESG not only benefits doing the right thing but also adds value and commercial advantage, whilst investors may see greater returns on investments too.

INTRODUCTION

BY DAVID POSTLETHWAITE,
SUSTAINABLE FINANCE LEAD, JERSEY FINANCE

As I write this, the oppressive temperatures of an unprecedented summer heatwave that is sweeping much of Europe serve as a stark reminder of the imperatives that underpin our sustainable finance strategy, Jersey for Good – A Sustainable Future.

Launched in March 2021 and backed by a Pathway to Success document for the first two years, this initiative brings together key stakeholders from industry, policy and the regulator around a common goal – to ensure that Jersey plays its part in the global transition to a more sustainable economic model. As we focus on building the capabilities and an enabling environment that will help us to deliver our mission statement, we are also creating the conditions for Jersey's ongoing success as an international finance centre: one which is capable of servicing and creating sustainable value for a client base increasingly focused on environmental, social and governance (ESG).

Now more than ever, we believe that Jersey's vision to be recognised as the leading sustainable finance centre in the markets it serves by 2030 sets the right level of ambition. It helps us to focus our efforts as we work with the Government of Jersey to scope out a future regulatory and legislative framework for sustainable finance that is both credible and workable.

It serves as a constant reminder that our industry needs to upskill, strive for quality and demonstrate innovation in providing sustainable financial services that meet the evolving needs of our clients, whether in the alternative funds space or in the management of private wealth.

We have already achieved a huge amount. The first year of our strategy resulted in Jersey implementing a robust new anti-greenwashing regime, join a number of key global networks such as the UN-convened Financial Centres for Sustainability and participate in COP26 as part of the extension of the Paris Agreement commitments to our Island by the UK Government. We have also supported the domestic net-zero agenda through the Government of Jersey's Carbon Neutral Roadmap. The first stocktake of sustainable finance activity in Jersey last year shows some encouraging signs that firms are using frameworks and standards to start re-allocating capital towards sustainable investments.

Our clients expect nothing less. A recent survey by Jersey Finance showed that a jurisdiction's sustainable finance credentials are increasingly expected to play a part in a company's choice of domicile. On our part, we have been supporting thought leadership on key issues such as the interface between fiduciary duties and sustainable investing, helping to develop a global understanding of the challenges and opportunities for fiduciaries.

In deploying our strategy, we are fortunate to be able to draw on the expertise and innovation of a diverse range of Jersey Finance members who form part of our growing sustainable finance ecosystem. We are proud to be showcasing this local talent, through initiatives such as our Sustainable Finance Demo Day and our inaugural Sustainable Finance Awards.

Yet there is much more to do if we are to realise our ambition and deliver on our responsibilities as a finance centre. Also, there is no doubt that headwinds are gathering – alongside the cost-of-living crisis, inflation, global energy and food security issues, the very concept of ESG is experiencing growing pains.

Concerns over the lack of clear ESG data and definitions, the slow pace of convergence in global standards and signs of a regulatory crackdown on firms that make unsubstantiated sustainability claims, all contribute to the sense of a reckoning for sustainable finance.

However, as the current extreme weather events remind us, the clock is ticking down during this crucial decade for action on interconnected issues such as climate, a just transition and the nature crisis. In that context, there is no alternative but to stay the course and, building on our early successes, Jersey will double down on its efforts to build a sustainable finance centre.

By President KUMA / copyright Shutterstock

A GROWING ECOSYSTEM OF EXPERTISE, INNOVATION AND COLLABORATION

JONATHAN GILES, MANAGING DIRECTOR, RATHBONE INVESTMENT MANAGEMENT INTERNATIONAL

Jersey is a leading financial services jurisdiction with the expertise and flexibility to address the rapid evolution in sustainable finance that has brought responsible and ESG investing into the mainstream.

Yet sustainability is not a new concept. For example, Rathbone Greenbank, our specialist responsible investment division, has been managing money on this basis for almost 30 years. However, what have previously been disparate attempts to force positive sustainability change for good have now become an ever-increasing and accepted collaboration. As a jurisdiction, we collectively have clearly visible goals to deliver based on the United Nations-backed Sustainable Development Goals (SDGs).

I will now touch upon how Jersey is engaging on these goals and the importance of partnerships covered by SDG17.

A prime example of our expertise, innovation and collaboration is the Durrell Wildlife Conservation Trust. Not only is the Trust saving endangered species across the world but it also cares passionately about their biodiversity, which provides vital, interdependent ecosystem services that sustain life on land and below the water.

Before 1970, the earth's capacity to regenerate natural resources was greater than mankind's ecological footprint. The Living Planet Index reports that, since then, human expansion has resulted in a 70% decrease in global biodiversity and that we are now overusing global resource capacity by more than 50%.

To tackle the problem, a collaborative project has been established between the Trust, Jersey Finance, industry, government and Jersey Overseas Aid. The aim of the project is to reforest land through the Trust's global Rewild Carbon initiative, an impactful carbon-offsetting programme. This is with the objective of bringing about positive change by restoring global ecosystems.

To put this into context, in 2020 the World Economic Forum estimated at least £36 trillion of economic value generation was moderately or highly dependent on natural services, equating to more than half of global GDP. Without prompt action to reverse decades of catastrophic biodiversity loss, the world could rapidly reach a point of no return, so we need more collaboration and partnerships to address the issue. However, there is much more work that needs to be done.

Less obvious is the behind-the-scenes work needed to ensure that our sustainable credentials continue to be built on trust and integrity. In 2021, to mitigate against the risk of greenwashing, Jersey introduced a new, proportionate disclosure framework. It is a robust – yet pragmatic – approach to regulating sustainable investments, offering reassurance to stakeholders, industry and investors.

Jersey is highly regarded as a financial centre due to its well developed legal system, administration capabilities – particularly in alternative investments – and flexible fiduciary structures across individual or family trusts, philanthropic foundations and a variety of fund structures. This infrastructure has grown in previous years, in collaboration with international partners, with Jersey excelling in a range of sustainable finance work and initiatives that meet many of the 17 SDGs and reflect an increasing integration of broader ESG criteria.

Examples of this include a £1.3 billion low-carbon power fund and other renewable energy funds, as well as a £300 million sustainable infrastructure fund focused on water. Also, a growing number of innovative sustainable investment consultancies have emerged locally and in partnership with larger firms and many local professional intermediaries have published sustainable investment strategies.

In addition, more than £400 million in green bonds have been issued via The International Stock Exchange (TISE), with more issuance in the pipeline. Jersey lawyers have also recently advised an offshore bank regarding £1.3 billion of ESG-linked finance facilities, a sustainable clean technology company on a stock market listing and a leading real-estate investment management firm committed to contributing to a low-carbon economy.

Jersey's financial services industry aims to become a leading global centre in sustainable finance by 2030 and the breadth of examples cited represents significant progress. The 2021 report by Jersey Finance – entitled Jersey for Good: A Sustainable Future – has recognised the responsibility of Jersey's finance industry to support the global transition to a

more sustainable future, laying out a two-year plan to deliver on the report's main objectives by increasing collaboration, education, innovation and communication.

Through this vision, multiple steps have been taken across both government and industry to make Jersey a global leader in sustainable finance. This includes the Government of Jersey setting its own ambitious target to make the Island carbon neutral by 2030. It is also forging ahead with discussions on offshore wind farm and additional alternative energy sources such as solar, to support this vision.

DEFINING SUSTAINABLE FINANCE WILL DEFINE THE INDUSTRY

JAMES HIBBS, HEAD OF MELVILLE DOUGLAS DIVERSIFIED INTERNATIONAL

With record-breaking heatwaves rolling across the northern hemisphere and entire regions threatened by unprecedented food insecurity, it is no longer possible to ignore the real and present danger posed by climate change.

Try as we might, there is no hiding from 40ºC temperatures across Europe, wildfires raging from Portugal to Yosemite National Park in the US and major rivers almost evaporating before our eyes.

The finance industry has come a long way over the last 10 years, with ESG and sustainable strategies moving from fringe interest to mainstream offerings. However, it remains vital for the sector to continue to drive the conversation forward, not only for the good of society but also to ensure that the next generation of investors do not suffer from an advice gap on the subject.

Crucially, change is also needed to avoid wider contingent liabilities to our own investment businesses.

It is important to appreciate that sustainable finance is much broader than measuring how organisations fare against ESG measures. Take, for instance, the Jersey Financial Services Commission's (JFSC) 2030 vision that aligns industry objectives with, amongst other things, the United Nations' Sustainable Development Goals (SDGs).

However, the question is: will change be most effective when done voluntarily or imposed on the industry? The JFSC's 2030 vision document paves a way forward without being punitive, setting the norms that the industry will be expected to meet by that date.

These include Jersey's alignment with the European Union Action Plan on Sustainable Finance where needed, removing practical or regulatory barriers that prevent sustainable finance becoming mainstream in Jersey and creating fiscal incentives, grants or reliefs to support the transition. This gives the industry time to adapt, although the transformation to more sustainable finance practices will probably be driven by client demand.

The weight of regulation, both local and worldwide, will continue to move the sustainable investing landscape forward but it should become a self-fulfilling prophecy that businesses

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increasingly concentrate in these areas anyway. The fact that investors are capable of identifying sincerity in this space should also serve to drive businesses away from box-ticking approaches and towards a more thoughtful and intentional implementation.

Inasmuch as the JFSC's 2030 vision document sets out the ambitions for Jersey to become a premier destination for sustainable finance, the context is much broader. Take, for example, financial institutions serving the needs of clients in Africa. The region is under growing pressure from the effects of climate change that is threatening food security, among many other ills, yet it is still heavily dependent on the carbon economy.

Debates around a just transition focus on the need to move towards a more carbon neutral future without destroying economic activity that is crucial to communities' immediate survival. Simply turning off the funding taps to push for meeting climate goals is therefore not always a realistic response.

True sustainable finance, therefore, needs to take into account not only the climate impact but also the effect on communities impacted by climate adaptation strategies. Balancing the needs of these communities with industry goals is one of the biggest challenges we face.

We have solid frameworks in the form of the JFSC's policy document and many industry participants have enabling policies in place to promote sustainable finance. However, much more needs to be done to entrench these principles in the same manner as the ESG principles that have already been widely adopted.

Although this area of the investment market has grown significantly and will continue to do so at a high rate, it is obvious that there are a limited number of players with any substantial track record. The sooner businesses take decisive action on sustainable investing, the sooner they will have an offering that is credible to potential clients.

This is about restructuring their business now to meet future demand and is not just a moral imperative but a commercial one.

Information ubiquity means that companies who do not move in this direction risk their own ESG crisis and tainting their license to operate within society.

Families left homeless by wildfires, communities ravaged by the destruction of their livelihoods and industries destroyed by vanishing resources are unlikely to look kindly on inaction from the finance sector. The time for concrete action is now, with evidence mounting that an even more dire future awaits us if we are unable or unwilling to act.

SUSTAINABLE FINANCE IS SHAPING THE FUTURE OF JERSEY'S FINANCE CENTRE

ANDREW QUINN, MANAGING PARTNER, KPMG IN THE CROWN DEPENDENCIES

Sustainable finance is here to stay and many investors have embraced ESG and see its principles as the new norm. Once considered niche and a highly-specialised practice, integrating sustainability into finance is now rising into prominence, creating huge opportunities for financial centres such as Jersey.

Investor demand for sustainable investment strategies and products continues to rise. This is evidenced by the fact that asset owners, banks and insurers are now listening to the demands of all their stakeholders, not just investors, who have long valued embedding ESG perspectives into their services. As a result, many integrate sustainability into their investment, lending or underwriting decision making processes, intertwined with the first wave of sustainability regulation.

Supporting businesses to adopt a robust ESG framework is at the heart of Jersey's mission, first laid out in 2021, to become a top sustainable finance centre by 2030. After all, Jersey's credentials as a world leading finance centre will only become stronger by embracing sustainability.

Many businesses have already started to integrate ESG standards into their business models and are adapting their client offering to respond to changing demands. Through this, along with additional education and commitment to action, sustainable finance will become ingrained into finance, so there will be no distinction between the two.

Supporting this, Jersey will need to monitor and align to emerging regulations to ensure that it eliminates the risk of greenwashing and retains access to key markets, by understanding and adhering to high quality sustainable finance

standards and regulations, such as the EU taxonomy and other similar frameworks.

In 2021, the Jersey Financial Services Commission (JFSC) made amendments to their codes of practice for funds and private fund guidance, following their 2020 consultation on enhancements to sustainable investments requirements. The consultation sought to obtain feedback on proposals to enhance the processes, procedures and disclosures around investments which are marketed as environmental and socially responsible.

Driven by the Government of Jersey's commitment to enhance the profile of ESG investments, the JFSC were asked to provide confidence that such commitments made by funds in Jersey are supportable and not greenwashing. The resulting amendments are a positive reflection of the JFSC's commitment to maintain high regulatory standards and aim to improve the clarity of sustainable investment requirements, enhance consumer protection and contribute towards the Island continuing to meet international standards.

To be a leading finance centre, Jersey must continue to embrace ESG. The bar is getting higher and the jurisdiction can edge ahead in terms of differentiating itself from competitors by embracing sustainability as a structural change to Jersey's entire finance offering. Jersey can act fast by:

- Strengthening capacity building
- Embracing technology to enhance offerings
- Collaborating
- Breaking down barriers such as costs of compliance and risks around greenwashing

By doing this, Jersey can accelerate industry change and will stand out as a jurisdiction of choice.

The bottom line is that a concerted effort from all parts of the ecosystem is required when adapting to the realities of sustainable finance. While this is achievable, it will be a challenge. Capacity building across all sectors (administrators, accountants, lawyers and other service providers) will take time and investment.

There is a recognition that if the industry pays attention to ESG investing and considers the environmental, social and governance factors, along with governmental collaboration, this will maximise Jersey's potential for a brighter and resilient future for its businesses and Islanders.

By investing in specialist resources to support Jersey and the financial services sector, we can thrive together and the Island can continue to enjoy its premier international finance centre status. In addition, if you are a Jersey business looking for help devising a sustainable business model or integrating ESG, there are professional advisers on the Island that are willing and able to work with you on reaching your goals.