Sustainability Risk Notice pursuant to Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector

As of September 2022

In addition to conventional securities risks, advancing climate change and shifts in social awareness combined with the associated regulatory requirements are causing increasing attention to be placed on the issue of sustainability.

Sustainability risks refer to events or conditions relating to sustainability factors that, should they occur, could have significant negative impacts on the value of assets or on the asset, financial, and earnings position and reputation of a company and subsequently on investors. Considering ESG (environmental, social, and governance) factors can thus have a material influence on the value of the securities of the issuer in question.

The FMA Guide for Managing Sustainability Risks (1/2020) especially describes the following risks in detail:

Physical Climate Risks[1]

Physical climate change risks stem directly from the consequences of chances in the climate, such as increases in average global temperatures and the increased frequency of natural disasters and extreme weather events such as floods, heat waves, droughts, storms, and hail. This primarily affects sectors and industries such as agriculture and forestry, food production, (food) transport, food distribution, real estate, health care, tourism, energy, water, and infrastructure. The risk potential arising from physical risks depends on the exposure to assets and value chains that are impacted by physical risks. Physical risks are considered to be a lower threat to the financial market as a whole over the short to medium term but may already represent significant risks for individual companies now. As physical risks often occur in specific geographical areas, a physical risk source affecting companies with activities focused on such a region may also result in concentration risk that must be considered. Physical risks are also likely to increase over the medium to long term unless effective climate protection measures are enacted quickly.

Transition Risks[1]

Transition risks refer to risks arising from the transition to a climate-neutral and resilient economy and society that can potentially lead to a decrease in the value of assets, for example changes in political and legal conditions in the real economy (introduction of a carbon tax, changes in construction regulations and zoning, supply security requirements, changed regulatory treatment of exposures with higher sustainability risks, etc.), technological developments (such as renewable energy), and changes in consumption patterns. This can primarily impact sectors and activities such as energy generation from fossil fuels and emission-intensive sectors with business models based on the availability of cheap fossil fuels or exhibiting high process emissions (such as the cement, iron, and steel industries). Industries whose products generate high levels of emissions are also at risk (such as the manufacture of automobiles with internal combustion engines). Other primarily impacted sectors are: oil exploration, production, refining, and distribution; gas exploration, production, and distribution; airlines; road freight transport; and companies with a high dependency on freight transport. Companies may also be directly affected by factors such as changed energy efficiency requirements for office buildings.

Legal and Reputational Risks relating to Social and Governance Factors[1]

Companies that fail to account for the sustainability factors “social” and “governance”, for example by violating human rights, employing child or forced labour, or engaging in corruption including bribery, are subject to greater legal and reputational risks. The number of lawsuits being filed by damaged parties or activists around the world to force individual companies to change their practices is rising. In addition to legal risks, reputational risks are also on the rise, for example through calls to consumers to boycott certain products or services that are produced using child or forced labour. In extreme cases, reputational risks can endanger entire business models over the medium to long term and can thus have a direct impact on a company’s earnings.

[1] See FMA Guide for Managing Sustainability Risks (1/2020)