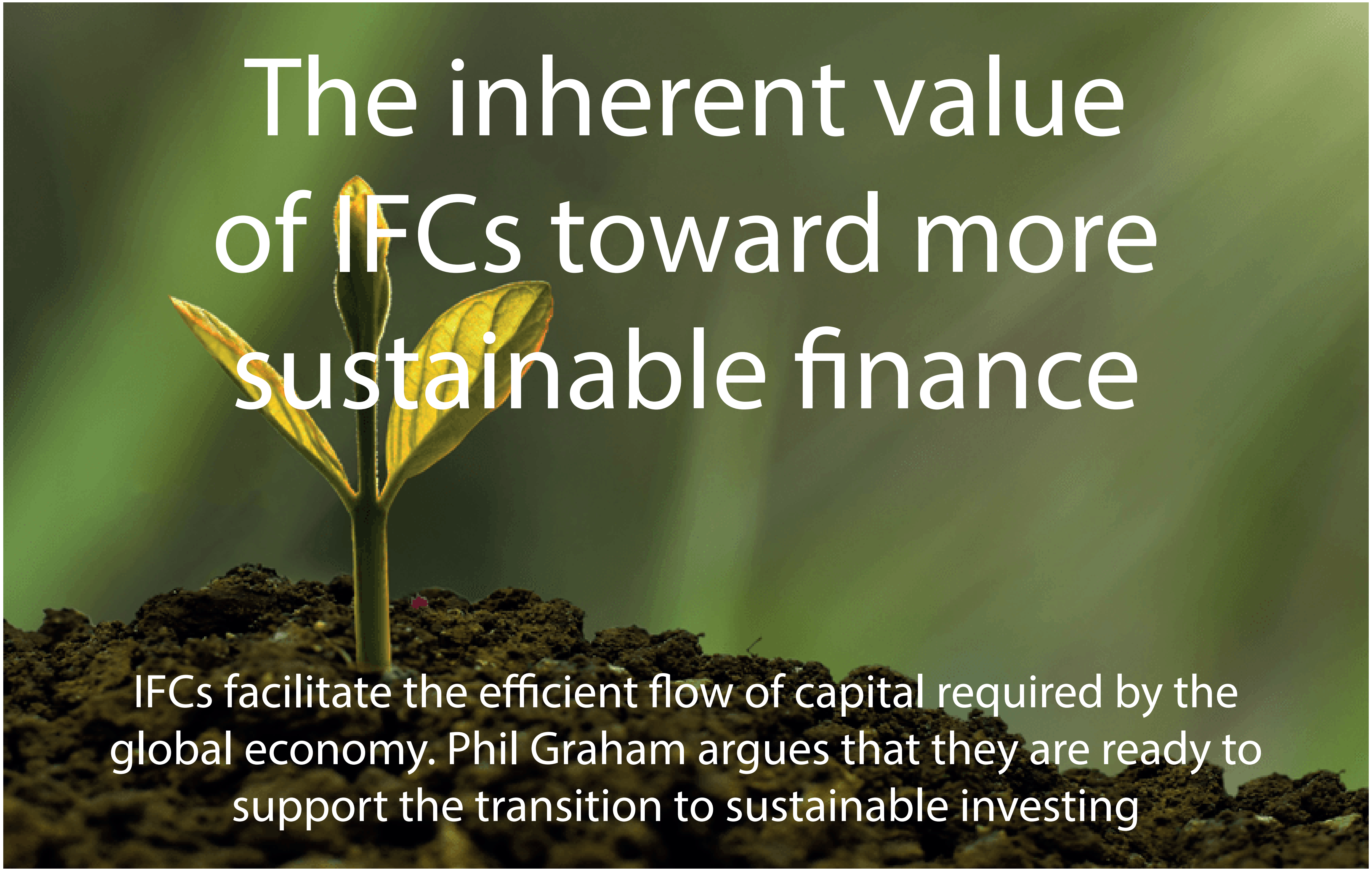

The inherent value of IFCs toward more sustainable finance

IFCs facilitate the efficient flow of capital required by the global economy. Phil Graham argues that they are ready to support the transition to sustainable investing

Sustainable finance and the integration of Environmental, Social, and Governance (ESG) considerations into financial decision-making is fast becoming an integral feature of the global investing environment, with a rising and palpable expectation on the part of investors for action on issues that deeply impact our world.

Indeed, this will be a key topic as leaders across the world meet in Glasgow in November for the United Nations Climate Change Conference, also known as COP26. With a track record of international collaboration on a wide range of global issues, International Finance Centres (IFCs) are ready to play a role in supporting the shift to a more sustainable global economy.

Defining sustainable investing

Sustainable investing is fundamentally motivated by organisations and their investors seeking to do business in a way that helps solve the world's most pressing challenges. These solutions can range from green bonds to thematic investing approaches that are aligned to specific environmental outcomes, for example the UN Sustainable Development Goals.

Interestingly, the world's largest asset manager, Blackrock, divides its focus into two main strategies for sustainable investment; 'avoid' or 'advance'. Avoid involves the removal of companies and sectors from the investment portfolio that are associated with negative ESG risk or violate certain fundamental values. Advance focusses on companies and sectors that have strong ESG credentials, targeting specific positive outcomes.

Time to make the change

Sustainable investing is no longer the future of investing – it is today's reality, widely recognised as creating favourable social and economic outcomes.

Investment funds and asset managers are continuing to enhance standards, increase transparency, and use the power of their capital and investment decisions to address key issues facing governments and global citizens alike - all while also of course trying to ensure that they generate better returns for shareholders. According to BlackRock's *2020 Global Sustainable Investing Survey*, over half (54%) of global investors consider sustainable investing to be fundamental to investment processes and outcomes.

In many ways, the COVID-19 pandemic has fuelled demand for sustainable investments. It has been a stark reminder of future exogenous risks that can shatter our world as we know it.

For the investment funds industry, many of which have vehicles domiciled in IFCs, non-financial sustainability is an increasingly important element of fiduciary duty

Historically, sustainable investing was simply about 'negative-screening', for example the exclusion of certain types of companies from investment mandates. But this is no longer the case. Across the investment community there is active consideration of non-financial impacts as well as pecuniary returns.

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Opportunity for IFCs

According to the Global Sustainable Investment Alliance (GSIA), global sustainable investment is now over US$35 trillion, accounting for over a third of global assets.

This incredible growth and mainstreaming of sustainable investments drives institutions to look at areas that will achieve the greatest possible outcome (both morally, socially and financially), which in turn provides numerous opportunities for IFCs which act as the essential plumbing for the international financial market.

A rapidly growing share of the opportunities are concentrated in markets well outside the well-trodden paths of Europe and North America and instead focus acutely on the emerging markets sector, especially where the opportunity to make a true impact is vital. But to cater for unstable political environments and investor bases many thousands of miles away, it is essential that the vehicles used to meet the needs of the industry fit certain key criteria.

Companies incorporated in the BVI are, by most measures, the most popular offshore holding structure in the world. BVI Business Companies hold approximately US$1.5 trillion of assets. Furthermore, investment mediated by its international business and finance centre supports around 2.2 million jobs worldwide and, each year, contributes over US$15 billion to government coffers around the world.

Whilst vehicles domiciled in IFCs are of course used for a wide variety of different purposes, there are a number of common factors which feed into the success of the BVI product and make them highly advantageous in this environment.

These include the jurisdiction's essential tax neutrality, the speed and efficiency of its world-renowned Corporate Registry its common law legal system with final appeal to the Privy Council in London, and cost-efficiency as compared to any other equivalent IFC.

The BVI is also committed to ensuring that it meets the constant demands of international standards around money-laundering and international crime, whilst also ensuring that the right to confidentiality is protected at all times.

The jurisdiction's adaptable and sophisticated legislative framework, which includes a focus on ensuring that anything from joint ventures, M&A, ListCos, and fund vehicles are adaptable to both international markets and the private and public sector, guarantee that in this very fast moving ESG environment, the products available to clients are constantly fit for purpose.

In fact, this final point is critical. The speed with which the market is growing and changing plays to one of the many strengths of all IFCs, but the BVI in particular: a commitment to innovation and adaptability that has been consistently demonstrated for over 35 years now.

It is with that in mind that IFCs are seeing the ESG momentum become an industry sector in its own right and indeed, the BVI has seen a significant uptake in the number of fund vehicles and joint ventures formed and launched this year with a green and sustainable focus.

IFCs: nurturing sustainable finance and ESG projects

The in-flows and out-flows of vital capital through BVI vehicles has facilitated domestic investment in homes, factories, hospitals, railways, broadband, machinery, entrepreneurs and a host of other assets which otherwise would not have found proper funding.

The BVI's robust legal system provides not only the neutral platform, but also a critical layer of protection for global investment to take place into these emerging economies.

What's becoming more and more clear though, is that we need to commit to ensuring that sustainable finance truly works. To do this, the regulation in this area needs to be smart – flexible to meet the challenges without putting up roadblocks, but still penalising irresponsible behaviour at a systemic level.

Such regulation doesn't need to be onerous, and for the BVI this fits well with its robust regulatory framework that provides protection, without unnecessary complexity.

From the side-lines to centre-stage

In the last five years, the importance and value placed on sustainable finance has increased dramatically and shows no signs of slowing down.

IFCs have always looked to provide the critical framework to facilitate the efficient flow of capital that the global economy needs, and their role now has never been more important. IFCs are ready to play their part in supporting the transition to more sustainable investing. ■

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