The European Green Deal
and
the Paxiot Community Benefit Trust SAAS Platform

In my last article I commented on the UK sustainability disclosure requirements introduced for fund managers (and others) under the new FCA ESG sourcebook.

The European vision of a 'Green Deal' is more far reaching than the ESG sourcebook as it looks towards a socially just transition to a sustainable economic system where no person and no place is left behind. A laudable mission statement. The EU confirms the September 2015 United Nations 2030 Agenda for sustainable development which has, at its core, three dimensions of sustainability: economic, social and environmental.

Economic foundations are important if we are to decouple economic growth from resource use. Whether this is possible, and what we can each contribute needs thinking about, a lot; but this is essential if we are to achieve net-zero carbon by 2050 and limit the rise in temperature to 1.5ºC above pre-industrial levels.

Social foundations are clearly important if our communities want to retain the social glue and facilities which ensure that local populations regenerate; an outcome that the West is struggling to achieve at the moment. Our first duty is to behave well, to each other. A community in which neighbours help each other to deal with the everyday difficulties in life is a happier community and one that is self-reliant when national measures fall short. Who are our neighbours? Those who are within our sight and ability to help when needed, both within our local community and sometimes within immediate neighbouring communities. Being neighbourly begins with being interested in each other and in our community. It means that we volunteer to help where and when we can. A strong and resilient community with a volunteering culture survives. A strong and resilient community builds the foundations that make it sustainable, economically, socially and environmentally so that no person and no place is left behind. A strong and resilient community is one in which its wealthier members invest in the local economic foundations.

A source of lower cost capital so that the acquisition of local homes for young families can be made affordable and also to finance local energy infrastructure facilities will also be critical. One idea that we think is worth pursuing is for this capital to be raised by a Community Benefit Trust issuing community shares which offer investors a modest 2% annual return and which – as confirmed by our recent correspondence with HMRC – provided certain conditions are met, also qualify for 40% business relief from inheritance tax; such shares to be crowd funded from the friendship networks of the wealthier members of a local community who will have a vested interest, being locals, in promoting such shares, perhaps utilising the **Paxiot Community Benefit Trust SAAS Platform** which can be plugged into a local community's website. The capital raised could be made available as long term fixed rate gap funding at an annual cost to borrowers of 2% (instead of c. 7% p.a.) – without any need to involve fee clipping brokers – plus, perhaps, an equity share so that, over time the community benefit trust might also receive capital dividends from the sale of local homes which it can deploy its own direct developments of local energy infrastructure.

Environmental foundations are important because, as the European Court of Human Rights has now found to be a matter of fact[1], there are sufficiently reliable indications that

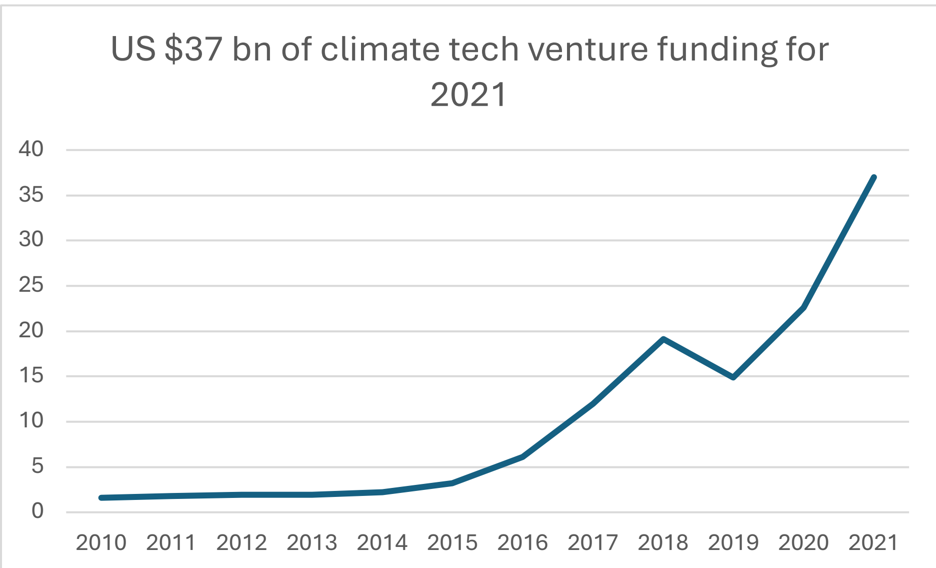
[1] European Court of Human Rights in the case of Verein KlimaSeniorinnen Schweiz and Others v. Switzerland (application no. 53600/20)

anthropogenic climate change exists, that it poses a serious current and future threat to the enjoyment of human rights and that it is clear that future generations are likely to bear an increasingly severe burden of the consequences of present failures and omissions to combat climate change. The EU Commission commits to ensuring that by 2050 all of the world's ecosystems are restored, resilient and adequately protected and its biodiversity strategy seeks to put Europe's biodiversity on a path to recovery by 2030. These are bold ambitions and controversial where their implementation may conflict with the decisions of the democratically elected European governments.

At RW Blears much of our corporate, tax and regulatory advice is work is done for clients who are entrepreneurial innovators and venture capital investors working to reduce man's environmental impact and from CleanTech to ClimateTech, there has never been more awareness, anticipation or support for innovation and technology to drive a cleaner, more sustainable future.

However, to think we are even close to where we need to be for mass-scale, full-spectrum, unleashed potential would be a mistake. What for some might feel like a hyped-up, valuation toppy, over-capitalized greenwashing machine is really just the beginning of a global wholesale re-allocation of talent, capital and data into technologies and companies that will power a critical decade of climate adaptation and mitigation activity without a moment to spare. The US' decision to rejoin the Paris Agreement, followed by COP26, the highest profile meeting of its kind in history, combined with massive public awareness and pressure for countries and companies to make firm and ambitious commitments has raised the stakes for Climate Tech, aka CleanTech, like never before.

Impact investing, the broad wave of focus on Environmental, Social and Governance (ESG) investment considerations, combined with rising awareness for the United Nations Sustainable Development Goals (SDGs) has created a new consciousness about social and economic impact. Climate Technology is now a core focus area for the global investment community, alongside peer industries such as Health and Education, together allowing investors to participate in the growth of this special cohort and positively contribute towards a cleaner, more sustainable and inclusive future. Impact Venture Investment in 2021 reached $104B, Climate Tech securing over $37B, Digital Health $47B and Education Technology Health $20B. Each of these industries has achieved more than 40% CAGR in Venture Capital investment since 2014, Climate growing at 50%.



Source: Holon IQ

In its Action Plan on Financing Sustainable Growth the EU Commission set out measures to achieve the following objectives:

- reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth;
- manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues; and
- foster transparency and long-termism in financial and economic activity.

The adage that what gets measured gets done is as applicable to the achievement of SDG goals as it is to anything else.

The EU begins by requiring 'large undertakings' and SMEs which are 'public interest entities' (other than micro undertakings) to include in their management report the detailed information considered by the EU as necessary to understand the undertaking's impacts on sustainability matters and how they affect its development, performance and position. By **30 June 2024** the EU Commission intends to adopt sustainable reporting standards proportionate and relevant to the capacities of SMEs and to the scale and complexity of their activities; such standards to be in force no earlier than from four months after their adoption (so potentially from November 2024).

Over the coming months Henry Laird and I plan on walking our readers through the measures already introduced by and to come from the EU Commission and also the standards published by the International Sustainability Standards Board (ISSB) which has taken over from the Task Force on Climate-Related Financial Disclosures (**TCFD**) chaired by Michael Bloomberg and which in 2017 made 11 recommendations structured around four thematic areas of how companies operate: governance, strategy, risk management, and metrics and targets and has since been disbanded.

Under ESG 5.6.3 the FCA considers the following documents relevant in relation to a manager determining the content of disclosures under ESG 5.6.1R(1):

- the IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information with respect to the manager's disclosures on sustainability-related risks and opportunities;
- the Sustainability Accounting Standards Board standards with respect to relevant sector-specific matters; and
- (3) the Global Reporting Initiative Standards with respect to disclosing the impacts of the manager on the environment and/or society.

In his companion article, Henry writes about the Volume 15 requirements within the IFRS S2 ‘Industry-based Guidance on implementing climate-related Disclosures which concerns asset management and custody activities.

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