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Dear ...,

Welcome to the latest *SAFE Update*, the Leibniz Institute SAFE digital newsletter. In this issue, we focus on green finance, its impact on combating climate change, and research on assessing ESG portfolio performances.

We hope you find this newsletter of interest and would welcome your feedback to the editorial team at newsletter@safe-frankfurt.de.

Focus: Green Finance

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Does "green finance" make a difference? And if so, how?

Adapting to and mitigating climate change is also relevant to the finance sector. How green finance influences personal, corporate, and institutional decisions is the subject of various research activities and policy initiatives at SAFE.

SAFE participates in the EU financed project “TranspArEEnS”, for instance, which aims to collect information on energy efficiency and the environmental, social, and governance (ESG) performance of small and medium-sized enterprises, with the aim of developing a standardized rating model. In SAFE Working Paper No. 310, SAFE researcher Loriana Pelizzon – working with with Aleksandra Rzeźnik (York Univeristy) and Kathleen Weiss Hanley (Lehigh University) – analyzed whether ESG ratings are salient in stock pricing. The central question of SAFE Working Paper No. 320, meanwhile, is how disclosure regulations contribute to reallocating capital to green activities. The authors, Tobias Tröger and Sebastian Steuer from SAFE's Law & Finance Cluster, examine the theoretical preconditions under which a disclosure-centered approach to green finance could prove successful.

When it comes to defining which financial products are green, there is a high degree of heterogeneity. You can read about rating agencies and ESG criteria in a blog post by Loriana Pelizzon and SAFE Fellow Monica Billio (“100 trillion dollars of ESG investments in the world must not be wasted”) as well as in this issue’s Research Highlight below.

In an opinion piece for the SAFE Finance Blog, Senior Policy Fellow Ignazio Angeloni and Daniel Gros, Director of the Centre for European Policy Studies CEPS, address green finance and monetary policy. They aim to clarify to what extent and precisely how the European Central Bank should pursue secondary objectives like green finance. In a guest article for *Frankfurter Allgemeine Sonntagszeitung*, which can also be read on our blog, Jan Krahnen, Jörg Rocholl, and Marcel Thum addressed how much influence ostensibly "green" investment options exert on companies and the market more broadly. Recently, SAFE researcher Carmelo Latino commented on the attraction of green bonds in a post by the online magazine Grist: "Has Fannie Mae's $95 billion in green bonds made anything greener?".

Research Highlight: Ratings on ESG investments

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Inside the ESG Ratings: (Dis)Agreement and Performance

by SAFE researchers Carmelo Latino and Loriana Pelizzon together with Monica Billio, Michele Costola, and Iva Hristova (Ca' Foscari University of Venice)

In *SAFE Working Paper No. 284,* forthcoming in a special issue of *Corporate Social Responsibility and Environmental Management* titled "Environmental, social, governance: Implications for businesses and effects for stakeholders", the authors examine the implications of disagreement among rating agencies on ESG investments. The results show that, when it comes to defining ESG criteria, there is as yet no common understanding among rating agencies. In turn, this heterogeneity or disagreement among ESG rating agencies can affect the ratings of a given company – which is crucial for ESG investments since stakeholders require this type of precise information. In addition, indexing ESG criteria serves as a benchmark for performance analyses.

The paper notes that the ESG rating heterogeneity observed poses a problem since it leads to the identification of alternative benchmarks. As a result, disagreement among rating agencies can affect the preferences of ESG investors on asset prices. Even if rating agencies are in agreement, there is no impact on the financial performances of ESG portfolios.

According to the authors, financial performances would be different if ESG rating agencies agreed on a set of common metrics for ESG concerning characteristics, attributes, and standards. In a scenario of common metrics, the authors predict more homogeneous stock selections and, consequently, the setting of a unique benchmark or a set of generally accepted and applied ESG indexes. Likewise, concentrating active as well as passive ESG investment funds on the same stocks would have a positive impact on asset prices. Finally, the paper shows that there are no differences in the financial performance of ESG investment portfolios comprising stocks where there is agreement among ESG rating agencies as compared to non-ESG investments indexes.

[Find the SAFE Working Paper No. 284 here]

#SAFEtheDate

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Outlook
SAFE and the Deutsche Bundesbank are organizing the 8th SAFE Asset Pricing Workshop as a digital event on 28 and 29 September 2021. The workshop sessions include topics such as asset pricing with misallocation, market efficiency in the age of machine learning, and hedge funds and financial intermediaries. Participants will include researchers from Tilburg University, University of California at Berkeley, the Stockholm School of Economics, and Stanford University. Register here.

Review
In an academic colloquium titled "Money and Prices: A Permanent Puzzle" on the occasion of the 85th birthday of Otmar Issing, several renowned researchers – including Markus Brunnermeier (Princeton University), SAFE Director Jan Krahnen, and Volker Wieland (Goethe University Frankfurt) – discussed the current challenges of central bank policy with Issing, former Chief Economist and member of the Executive Board of both German Bundesbank and European Central Bank. Read the follow-up report and rewatch the video here.

Handpicked

Tobias Tröger, Director of SAFE's Law & Finance cluster, recommends an episode of the *Policy in Pieces* podcast featuring economist Christian Leutz:

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"Consequentialist and truly integrated interdisciplinary research in law, finance, and accounting can make all the difference in tackling societies' most pressing problems. Evidence-based policy advice needs to be conscious not only of what we know and what we don't know, but also the institutional environment in which social planning occurs. Listen to the excellent podcast with Christian Leuz scoping the issue!"

Find the podcast here

News & Latest

- **News**: For the second consecutive time, SAFE was certified for equal opportunity
- **Video**: A SAFE Workshop dealt with economic governance reforms in the EU
- **SAFE Finance Blog:** The SAFE Regulatory Radar in August
- All upcoming events and SAFE publications

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