

# ESG WITHIN FOREIGN EXCHANGE

**CLARA WILLIAMS**

Global Macro ESG  
Sponsor, BNP Paribas



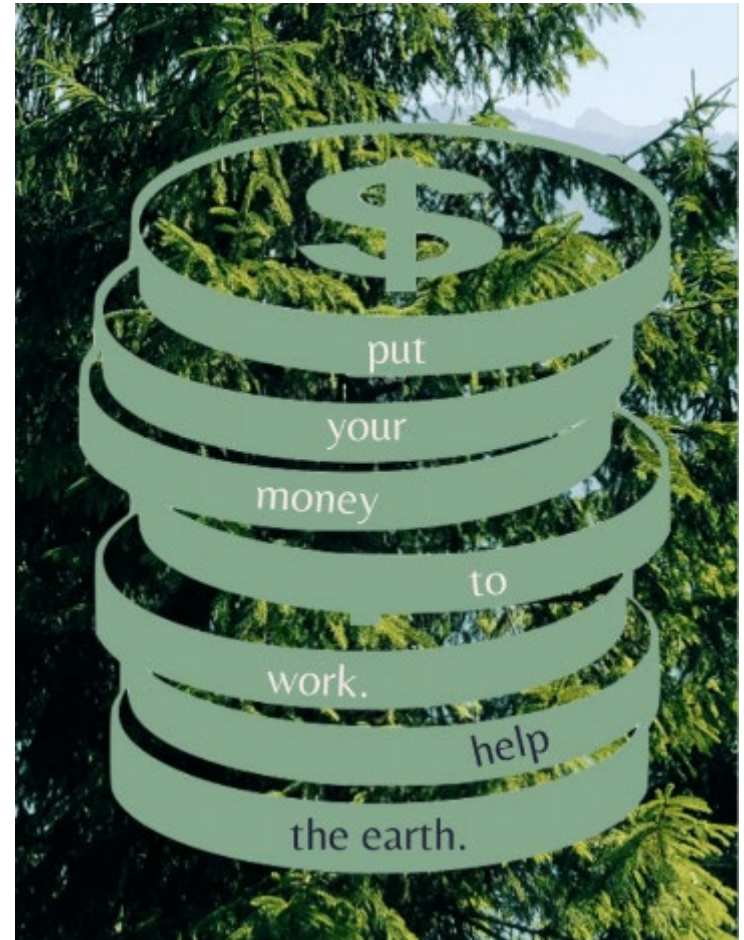
**BNP PARIBAS**

The bank for a changing world

# CONTENTS

---

- 1)FX Global Code
- 2)Link between ESG and AML
- 3)Management of FX Reserves
- 4)Existing ESG-Linked FX Transactions
- 5)Rise of Cryptocurrencies



# FX GLOBAL CODE (GOVERNANCE)

---

## What is it?

The FX Global Code is a set of principles of good practice for the wholesale FX market, developed by the industry and maintained by the Global FX Committee (GFXC).

## Who adheres to it?

Alignment demonstrated by signing a standardised “Statement of Commitment” to the code. There are currently 1,154 public participants. Most banks have signed up, but *only 81 asset managers, 9 insurers, 14 pension funds and 30 corporates*<sup>1</sup>.

## What's needed?

We need to encourage greater take up of the code amongst end users, whom it is ultimately designed to protect.

1) Source: [Global Index of Public Registers \(globalfxc.org\)](https://www.globalfxc.org/)



# LINK BETWEEN ESG AND AML

---



- Currently, money laundering and terrorist financing are addressed with strict regulation and legislation, expanding internationally after the terrorist attacks of September 11<sup>th</sup> 2001, which remains recent in the history of foreign exchange transactions.
- Environmental crimes and human trafficking are two of the most significant crimes behind money laundering, and have clear ESG implications.
- However, financing environmental destruction and companies with socially irresponsible supply chains is by in large still still governed by voluntary codes of conduct, and the onus is on the creditor/investor to hold firms accountable.
- As the spotlight intensifies on unsustainable business practices, and if the list of criminal offences covered by AML regulations grows, banks and FX professionals will need to become even more vigilant.



# MANAGEMENT OF FX RESERVES

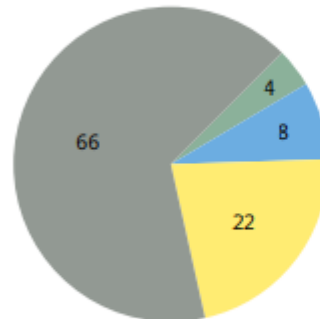
- Traditionally, FX reserves have been used to demonstrate solvency, and thus liquidity and safety have been the key priorities.
- In recent years, however, quantitative easing has increased overall reserves, which has led reserve managers to seek additional returns.

This BIS working paper from March 2020 [[Reserve management and sustainability: the case for green bonds? \(bis.org\)](#)] suggests that an additional sustainability objective could be applied, on top of liquidity, safety and return, to determine where FX reserves are invested.

## Sustainability and central bank policy objectives

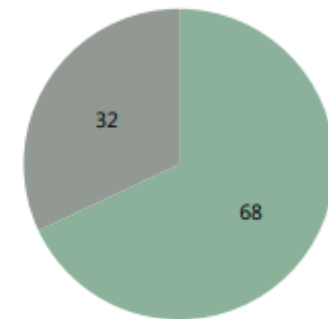
Percentage of respondents<sup>1</sup>

Does your central bank include sustainability considerations in the pursuit of its policy objectives?



■ Yes, to satisfy general statutory/legal obligation  
■ Yes, to satisfy a sustainability objective specified by stakeholders  
■ Yes, for reasons other than the above  
■ No

Do you think there is scope to include sustainability as a reserve management objective?



■ Yes ■ No

<sup>1</sup> Number of respondents = 102.

Sources: Authors' survey of reserve managers and official institutions; authors' calculations.

Source: [Reserve management and sustainability: the case for green bonds? \(bis.org\)](#)



# EXISTING ESG-LINKED FX TRANSACTIONS

---

The sustainability experts I've spoken to at BNP view FX as a neutral product, which makes it difficult to develop FX products that are inherently "green", or "social".

Therefore the existing ESG-linked FX transactions are KPI-based. Most notable are:

- Energy firm Siemens Gamesa signed an FX transaction agreement with BNP in 2019 linking the rate on its FX hedging to a third party sustainability rating;
- In 2020, JP Morgan and Enel SpA entered a EURGBP XCCY swap agreement in which both parties need to meet specific ESG targets or face additional costs;
- Deutsche Bank and Olam International executed a 1y USDTHB FX forward, which gives Olam a discount if it meets pre-agreed targets that support the UN's SDGs, while it must pay a predefined sum to an NGO if it fails.

## Drawbacks?

- Difficult to standardise the transactions, as each firm will have different sustainability goals and targets, so each transaction is very manual;
- High greenwashing risk. The sums of money being saved / spent are extremely small compared to the revenues of the companies in question. If the financial impact is minimal, does it de-legitimise the products, or do they still contribute to the overall transition?

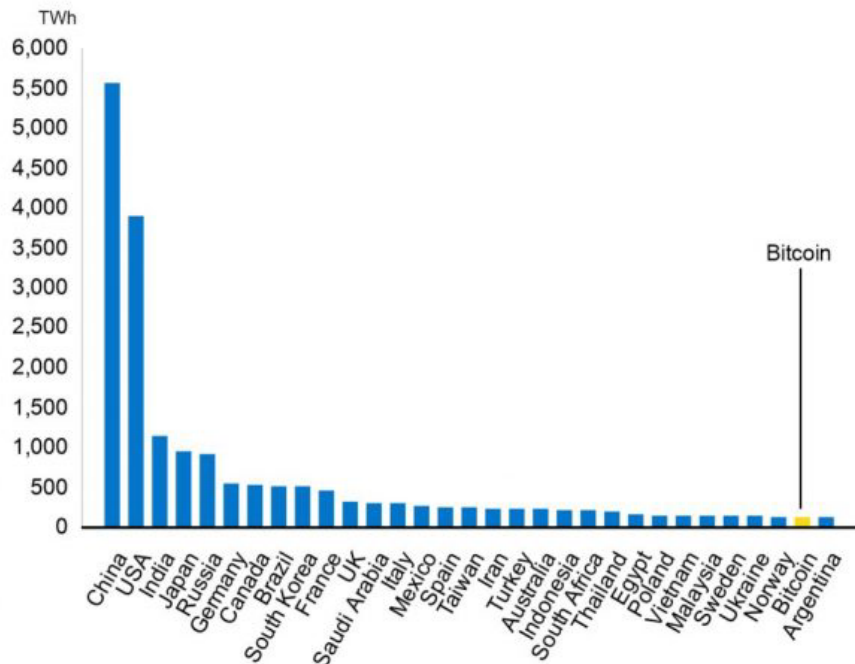


# RISE OF CRYPTOCURRENCIES

- The market for cryptocurrencies is still very small compared to traditional Forex (\$100bn USD a day turnover, vs \$5.3 trillion for FX), but it's grown to be significant, and included in the portfolios of more and more money managers.

## Bitcoin uses more energy than Argentina

If Bitcoin was a country, it would be in the top 30 energy users worldwide



National energy use in TWh

Source: University of Cambridge Bitcoin Electricity Consumption Index



- The extreme energy demands of Bitcoin are well known (see chart left)
- Alternative coins have been designed to use significantly less energy, using different protocols to Bitcoin's proof of work. Ethereum, the second biggest cryptocurrency by market cap, may be roughly 10x more efficient than Bitcoin, but it's still 61,500 times less efficient than Visa payments per transaction.
- Energy considerations, alongside regulatory concerns, are why BNP Paribas has thus far chosen not to engage in cryptocurrency markets.



# Thank You!

---

Hope this was helpful

Any questions please reach out to me:

[Clara.williams@bnpparibas.com](mailto:Clara.williams@bnpparibas.com)





# DISCLAIMER

---

Legal Notice: This document is **CONFIDENTIAL AND FOR DISCUSSION PURPOSES ONLY**; it constitutes a marketing communication and has been prepared by a Sales and Marketing function within BNP Paribas and/or its subsidiaries or affiliates (collectively “we” or “BNP Paribas”). As a confidential document it is submitted to selected recipients only and it may not be made available (in whole or in part) to any other person without BNP Paribas’ written consent.

This document is not a recommendation to engage in any action, does not constitute or form any part of any offer to sell or issue and is not a solicitation of any offer to purchase any financial instrument, nor shall it or any part of it nor the fact of its distribution form the basis of, or be relied on in connection with, any contract or investment decision. To the extent that any transaction is subsequently entered into between the recipient and BNP Paribas, such transaction will be entered into upon such terms as may be agreed by the parties in the relevant documentation.

The information contained in this document has been obtained from sources believed to be reliable, but there is no guarantee of the accuracy, completeness or suitability for any particular purpose of such information or that such information has been independently verified by BNP Paribas or by any person. None of BNP Paribas, its members, directors, officers, agents or employees accepts any responsibility or liability whatsoever or makes any representation or warranty, express or implied, as to the accuracy or completeness of the information, or any opinions based thereon, contained in this document and it should not be used in place of professional advice. Additional information may be provided on request, at our discretion. Any scenarios, assumptions, historical or simulated performances, indicative prices or examples of potential transactions or returns are included for illustrative purposes only. Past performance is not indicative of future results. Investors may get back less than they invested. BNP Paribas gives no assurance that any favourable scenarios described are likely to happen, that it is possible to trade on the terms described herein or that any potential returns illustrated can be achieved. This document is current as at the date of its production and BNP Paribas is under no obligation to update or keep current the information herein. In providing this document, BNP Paribas offers no investment, financial, legal, tax or any other type of advice to, and has no fiduciary duty towards, recipients. Certain strategies and/or potential transactions discussed in this document may involve the use of derivatives which may be complex in nature and may give rise to substantial risks, including the risk of total or partial loss of any investment or losses without limitation and which should only be undertaken by those with the requisite knowledge and experience. BNP Paribas makes no representation and gives no warranty as to the results to be obtained from any investment, strategy or transaction, or as to whether any strategy, security or transaction described herein may be suitable for recipients’ financial needs, circumstances or requirements. Recipients must make their own assessment of strategies, securities and/or potential transactions detailed herein, using such professional advisors as they deem appropriate. BNP Paribas accepts no liability for any direct or consequential losses arising from any action taken in connection with or reliance on the information contained in this document even where advised of the possibility of such losses.

As an investment bank with a wide range of activities BNP Paribas may face conflicts of interest and you should be aware that BNP Paribas and/or any of its affiliates may be long or short, for their own account or as agent, in investments, transactions or strategies referred to in this document or related products before the material is published to clients and that it may engage in transactions in a manner inconsistent with the views expressed in this document, either for their own account or for the account of their clients. Additionally, BNP Paribas may have acted as an investment banker or may have provided significant advice or investment services to companies or in relation to investments mentioned in this document. The information in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction where (a) the distribution or use of such information would be contrary to law or regulations, or (b) BNP Paribas or a BNP Paribas affiliate would become subject to new or additional legal or regulatory requirements. Persons in possession of this document should inform themselves about possible legal restrictions and observe them accordingly.

This document is intended for, and is directed at, (a) Professional Clients and Eligible Counterparties as defined by the European Union Markets in Financial Instruments Directive (“MiFID”), and (b) where relevant, persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, and at other persons to whom it may lawfully be communicated (together “Relevant Persons”). Any investment or investment activity to which this document relates is available only to and will be engaged in only with Relevant Persons. Any person who is not a Relevant Person should not act or rely on this document or its content.

This document is being communicated by BNP Paribas London Branch, 10 Harewood Avenue, London NW1 6AA; tel: +44 (0)20 7595 2000; fax: +44 (0)20 7595 2555 ([www.bnpparibas.com](http://www.bnpparibas.com)). Incorporated in France with Limited Liability. Registered Office: 16 boulevard des Italiens, 75009 Paris, France. 662 042 449 RCS Paris. BNP Paribas London Branch is lead supervised by the European Central Bank (ECB) and the Autorité de Contrôle Prudentiel et de Résolution (ACPR). BNP Paribas London Branch is authorised by the ECB, the ACPR and the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request. BNP Paribas London Branch is registered in England and Wales under no. FC13447. © BNP Paribas 2018. All rights reserved.

