Developing Accurate, Transparent Banking & Investment Standards

Background

The first breakthrough made in the establishment of independently verified quantitively based Environmental and Social metrics, (investment grade metrics based upon established standards) came from a City of London based research group headed by, Yates-Smith, Aalders & Lillandt, who in 2003 devised an innovative but accurate quantitively based Environmental, Social and Governance (ESG), predictive risk algorithm, implementing existing ISO Standards and independent third party audited data.

Over the next ten years Probus developed an international reputation for high quality research into both developing environmentally based standards, and their application and risk factors when implemented as investment benchmarks.

Probus remains the only research entity that has defined sustainability in accurate financial metrics then inwardly developed from these metrics, a series of algorithms based upon quantitative metrics which provide the basis for Global ESG Indices that consistently financially outperform all other "Sustainability" Indices along with most mainstream Indices.

The publication of the ground-breaking July 2012 GHG Mitigation & Private Standards Report by Probus, Independently reviewed and analysed by International Financial and GHG related academia, clearly demonstrated that these "private environmental standards" & programmes actually substantially increase private investor risk, had no discernible positive effect upon manmade climate change factors, and facilitated the substantial fraud which led to the collapse of International Carbon Offset Values.

Exactly the same situation continues to exist within the Sustainable Finance & ESG Investment community, a situation that substantially increases private and corporate investment risk and severely impacts upon available funding for investment into much needed Global Environmental, Social and Governance (ESG), improvement.

Post the publication of the Probus GHG Report, Probus was invited to comment in an academic publication related to The Law & Financial Markets. The resultant article

pointed out to the Legal community that represents a substantial number of Global Investment Funds that a series of risks and contingent liabilities are not subject to their current due diligence procedures, (Socially responsible investment: good corporate citizenship or hidden portfolio risk?) .

The commonality of all these important issues lies in the fact that in an entirely unregulated market, negative situations are caused by special interest groups funding the development of non ISO Private Standards that, while appearing to be ISO standards are not subject to the long term, independent non conflict of interest, rigorous oversight and development required by The International Standardisation Organisation (ISO).

These Private Standards are in fact entirely self-serving to the special interest groups that fund them. All of this is achieved with the latent acquiescence of some foreign National Standards Organisations, Accreditation bodies, Financial Institutions and in some cases the large International NGO community.

Thus we witness the continuing circularity described by senior financial academia as, pseudo metrics based upon fake standards. None of these “standards” are compliant with WTO, Technical Barriers to Trade (TBT) rules, although these “standards” are implemented as investment benchmarks; they are not subject to any additional due diligence or increased accreditation requirements. To account for the fact they facilitate $Billions in Carbon Offset investment and claims. Even the ISO is becoming alarmed at the continuing damage to consumer trust that these standards create (International standards and “private standards”).

The number of private standards and their influence on trade has risen steadily since the early 1990s under the combined forces of globalization, policy liberalization, changing consumer preferences and progress in information technology. There is a wide array of private standards, each with its own objectives, scope, advantages and constraints, which makes it difficult to treat these standards as a homogeneous category. The type of organization that develops the standard and the development process itself may have significant implications for the standard’s suitability. It is difficult to assess the market penetration of private standards, as national customs agencies do not monitor this information.

However, there is evidence that the market for products and services certified to private standards has expanded rapidly over the past decade. A particular growth has been witnessed within the Climate Change and Financial Markets which is due to policy and

regulation gaps and willingness of the investors and general public to undertake climate related investment activities.

Private Standards raise a number of issues due to the nature and lack of transparency of their ownership, also their development process, which is seldom sufficiently participatory, transparent and based on scientific evidence. Complying with some private standards and demonstrating compliance requires substantial capital, time and skills. Yet, the value generated by these standards tends to be captured by specific market operators, in particular large-scale Financial Institutions, and only a small share accrues to Civil Society, especially within the less developed countries who were supposed to benefit from these programmes.

The problem is compounded when the standard becomes de facto mandatory because a majority of large buyers demand it. As a result, it is the poor and small-scale participants who are excluded from high-value markets. This problem is particularly acute for developing countries due to the lack of infrastructure and public finance to help small scale domestic Climate Change related projects adopt standards.

Especially when the extremely low number of accredited certification agents maintains a Cartel like grip on the costs of developing projects.

The British Standards Institute (BSI) has recently published their concerns related to developing,

“a safer, more trusted financial services sector”. However, Probus would question the use of the phrase Private Standards, in view of the ISO concern in regard to Private Standards and in light of Probus and academic research findings regarding the risks of these standards.

Both the structure of a measurement, and the credibility of the measurement process are essential to the science of environmetrics. The measurement process involves, transparency, traceability, sampling size and frequency, consensus between different observers and laboratories, components of variance, auditing, data collection and processing. These vital elements have not been seriously considered by many environmentalists, policy makers and the Banking & Financial world.