Webinar

Harnessing the Power of Data for ESG Investing

Welcome

We will begin promptly at 11 AM ET.

If you are unable to hear the speakers, please let us know in the chat box. You may enter your questions in the Q&A, we will address them at the end of the presentation. You can find a copy of the recording of this webinar at www.fdpinstitute.org/webinars

Financial Data Professional Institute

FDP Institute provides world class training and education to financial professionals to meet the accelerating needs of digital transformation in the industry.

Introductions

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Today's Topic:

Harnessing the Power of Data for ESG Investing

Harnessing the Power of Data for ESG Investing

Utilizing data to fuel sustainable investments

By
Zi Abraham, FDP, MCSI

Agenda

1. ESG Investing
2. ESG Data
3. ESG Data Challenges
4. Can AI help?
5. Q & A

What is ESG Investing?

ESG investing involves investing your money in companies that are committed to creating a positive impact on the world.

When making investment decisions, companies' commitment to enhancing performance in environmental, social, and governance areas is considered alongside financial factors.

Taking ESG factors into account for investment management allows for a comprehensive outlook of companies, mitigating risks and identifying opportunities.

Examples of ESG Criteria used by Sustainable Investors

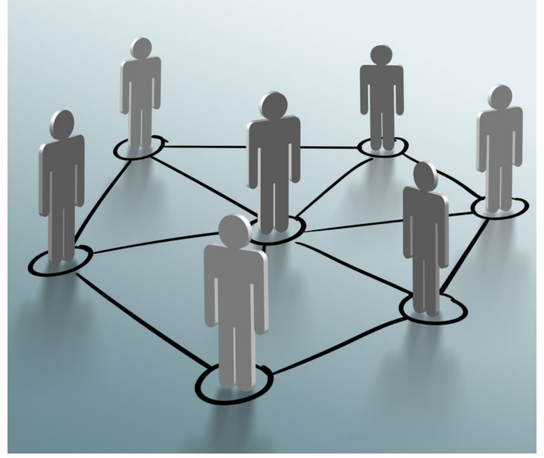
Environmental

Meeting today's needs without compromising the ability of future generations to meet their needs

- Circular economy
- Water use and conservation
- Climate Change/Carbon/Methane
- Sustainable land use
- Biodiversity
- Plastics
- Clean technology

Social

Creating sustainable successful places that promote wellbeing, by understanding what people need from the places they live and work

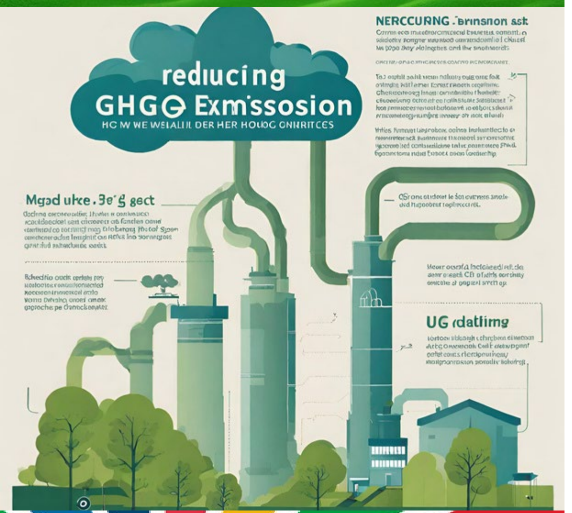


- Human rights
- Labor relations
- Just transition
- Diversity, equity and inclusion
- Workplace benefits

Governance

Links ecological citizenship with institutions and norms of governance addressing the three issues of globalization, democracy and sustainability.

- Tax fairness
- Cyber Security
- Executive compensation
- Responsible political engagement
- Corporate purpose
- Anti-corruption policies
- Board independence



Positive screening refers to the practice of actively selecting investments that meet certain ESG criteria.

- Positive screening provides a proactive approach for values-based investing and for focusing capital on more sustainable companies relative to industry average.
- Common ESG factors considered include GHG emissions, renewable energy use, board diversity, community relations, human rights policy and supply chain monitoring.

Negative screening focuses on limiting exposure to objectionable or unsustainable economic activities rather than a sole emphasis on positive impact.

- Negative screening involves excluding certain companies, sectors or practices based on ESG criteria.
- Common exclusions include tobacco, weapons, fossil fuels, alcohol, gambling, adult entertainment etc.

Alignment to UN Sustainable Development Goals (SDGs) is crucial in directing investments

THE GLOBAL GOALS

Goal 1	No poverty
Goal 2	Zero hunger
Goal 3	Good health and well-being
Goal 4	Quality education
Goal 5	Gender equality
Goal 6	Clean water and sanitation
Goal 7	Affordable and clean energy
Goal 8	Decent work and economic growth
Goal 9	Industry, innovation and infrastructure
Goal 10	Reduced inequalities
Goal 11	Sustainable cities and communities
Goal 12	Responsible consumption and production
Goal 13	Climate action
Goal 14	Life below water
Goal 15	Life on land
Goal 16	Peace, justice and strong institutions
Goal 17	Partnerships for the Goals

SUSTAINABLE DEVELOPMENT GOALS → 17 Goals → 169 Targets

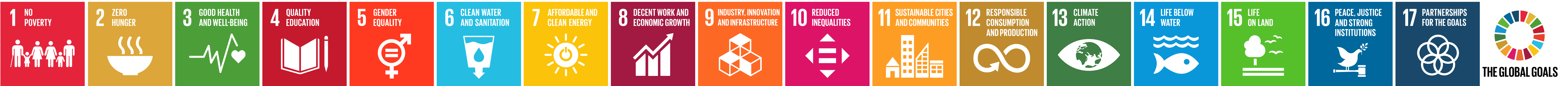
"Unless we act now, the 2030 Agenda will become an epitaph for a world that might have been."

— António GUTERRES

Secretary-General of the United Nations

- New flows of private sector capital will play a decisive role in funding global development efforts. While government spending and development assistance will contribute, they are projected to account for no more than $1 trillion per year.

- To bridge the financing gap, the private sector will need to invest significantly more, either by redirecting existing capital flows or by making new allocations.



Climate Change

Most investors prioritize climate change as top ESG issue, protecting portfolios from risks and taking advantage of opportunities for low-carbon, resilient economies.

Companies face greater physical risks due to changing weather patterns, and, transition risks as economies shift towards being less carbon-intensive. These risks could impact a company's expenses, revenues, asset and liability values, as well as the availability and cost of capital.

Investment strategy is adapted using climate data insights to optimize returns and quantify risks.

Regulations Governing ESG Investing

United States:

- SEC fund naming rule - funds names could be considered materially deceptive or misleading if a fund does not adopt a policy to invest, under normal circumstances, at least 80% of the value of its assets in the investment focus that the name suggests - Sep 2023
- SEC Climate Disclosure Rule - would require firms disclose greenhouse gas emissions, climate transition plans, governance and risk management. Awaiting finalization.
- DOL 401(k) plan ESG guidance - allows fiduciaries to consider ESG factors when evaluating investment choices but not at the expense of returns. Finalized in 2022.
- SEC Shareholder proposal rules - makes it harder for shareholders to demand corporate ESG actions like climate or diversity reports.

European Union:

- EU Sustainable Finance Disclosure Regulation (SFDR) - requires financial products and firms to disclose sustainability risks and consider adverse impacts in investment processes. In effect March 2021.
- EU Taxonomy - provides criteria for determining if economic activities qualify as environmentally sustainable. Applied beginning 2022.
- EU Corporate Sustainability Reporting Directive (CSRD) - requires large companies to report sustainability information. Proposed to take effect in 2023.
- EU Corporate Sustainability Due Diligence Directive (CSDDD) - requires companies to identify, mitigate, and report on the impact of their operations and supply chains on human rights and the environment. Applies to both EU and non-EU companies. Proposed to take effect in 2024.

The regulatory focus on ESG reporting and risk management is increasing globally, though remains fragmented across jurisdictions. This could lead to disconnected standards making it difficult to have common objectives across jurisdictions.

Sustainability Standard Setters, Framework Developers and Influential Stakeholders

Frameworks provide an overview of the structure and topics to be addressed. Standards provide detailed structures, including specific metrics and detailed criteria.

UN environment programme | finance initiative

PRI Principles for Responsible Investment

United Nations Global Compact

SUSTAINABLE DEVELOPMENT GOALS

United Nations Framework Convention on Climate Change

IFRS Sustainability Alliance

INTEGRATED REPORTING Now part of IFRS Foundation

SASB STANDARDS Now part of IFRS Foundation

WBCSD World Business Council for Sustainable Development

GREENHOUSE GAS PROTOCOL

PCAF Partnership for Carbon Accounting Financials

CDP DISCLOSURE INSIGHT ACTION

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

GRI Empowering Sustainable Decisions

GIIN GLOBAL IMPACT INVESTING NETWORK

GFANZ Glasgow Financial Alliance for Net Zero

IIGCC The Institutional Investors Group on Climate Change

SCIENCE BASED TARGETS DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Ceres

ESG Ratings Frameworks

MSCI MSCI ESG Ratings

MORNINGSTAR SUSTAINALYTICS ESG Risk Ratings

SUSTAINABLE GROWTH LSEG DATA & ANALYTICS

Global Sustainable Fund Flows: Q3 2023

Exhibit 1 Global Sustainable Fund Statistics

Q3 2023	Flows	Assets		Funds	
Region	USD Billion	USD Billion	% Total	#	% Total
Europe	15.3	2,293	84	5,608	73
United States	-2.7	299	11	661	9
Asia ex-Japan	2.0	67	2	539	7
Australia/New Zealand	0.0	31	1	268	4
Japan	-0.9	23	1	236	3
Canada	-0.1	31	1	336	4
Total	**13.7**	**2,744**		**7,648**	

Source: Morningstar Direct, Manager Research. Data as of September 2023.

- Global sustainable fund assets stands at USD 2.74 trillion at the end of September 2023.
- Amid greenwashing accusations and regulatory tightening, fewer funds are adding ESG-related terms to their names.
- A growing number of funds are removing ESG-related terms from their names in the U.S., but not in Europe.

Source: Morningstar Global_ESG_Q3_2023_Flow_Report_final

US$121.3 trillion collective AUM for the 3,826 signatories (as of Mar 2021) of the UN supported Principles for Responsible Investment (PRI) initiative

"Data is the new oil", its value lies in its potential to offer superior long-term results.
AI
ANNUAL REPORT
ESG Data
DATA
ES T
APP ROX IMATE
INTERNET

ESG Data

Quantitative or qualitative pieces of information on the environmental, social, economic and/or corporate governance exposures and practices of companies

Company disclosures
Annual reports, CSR reports, websites, exchange filings..

Company responses
Investor queries, information requests, news queries..

Alternative sources of company data

ESG Data Providers
MSCI, Morningstar, LSEG, Bloomberg, S&P, CDP, Alternative open sources...

ESG Rating Providers
MSCI, Morningstar, LSEG, ISS

ESG Indicies
MSCI, Bloomberg, S&P, FTSE Russell

Asset Owners
Individual Investors, Pensions, Insurance Companies, Sovereign Wealth Funds, Endowments & Foundations, Single/Multi Family Offices

Asset Managers
Blackrock, Vanguard, Fidelity, Capital Group, Allianz, Amundi, JPM Chase, Goldman Sachs, UBS, DB

ESG Data Products

e.g., MSCI provides a wide variety of ESG products and solutions. Here are the key ESG data products

Thousands of Data Points

Power integration of ESG considerations into portfolio construction, analysis, investment strategies, decision-making and reporting

ESG Ratings

ESG Rating is designed to measure a company's resilience to long-term, industry material environmental, social and governance (ESG) risks.

ESG Controversies

ESG Controversies allows investors to analyze a company's significant E, S & G impacts by identifying company involvement in major ESG controversies, company's performance and adherence to international norms and principles.

Climate Change

Climate Change Solutions is designed to facilitate climate risk integration across the investment process. It provides forward looking scenario analysis, temperature alignment, emission data, fossil fuel exposure, clean tech solutions.

Climate VaR

Helps investors to better assess potential future costs and/or profits relating to their portfolio's exposure to future climate change impacts

Business Involvement Screening and Global Sanctions

Enables institutional investors to manage environmental, social and governance (ESG) standards and restrictions reliably and efficiently

Sustainable Impact Metrics

Identify companies that derive revenues from products or services with positive impact towards addressing each of the UN SDGs

ESG Fund Ratings

Measures the ESG characteristics of the total portfolio, and rank or screen funds based on a diverse set of ESG exposure categories.

EU Sustainable Finance

EU Sustainable Finance legislative package data supports key legislative streams - SFDR, EU Taxonomy, Enhanced Corporate/Issuer Disclosures…

Source: [MSCI Data Explorer]

Investment Activities

Investors and corporations prioritize consistent, reliable, and comparable sustainability data for their investment processes

Data Infrastructure

'Data lake' integrates with all different platforms in the firm incentivizing the use of trusted data in the investment process

Research

- Exclusionary screening
- Materiality analysis
- Red flag and watch list
- Norms based screening
- Model development
- Thematic review
- Macroeconomic analysis

Stewardship

- Investee Stewardship
- Engagement
- Active ownership & Proxy voting

Portfolio Construction

- Portfolio review
- Scenario analysis
- Portfolio weighting

Risk Management and Compliance

- Fund mandates
- Client mandates
- Risk and exposure limits
- Screening rules

Reporting

- Reporting at holdings level, financial product level or entity level
- Regional regulations

Reference: UNPRI Driving Meaningful Data programme

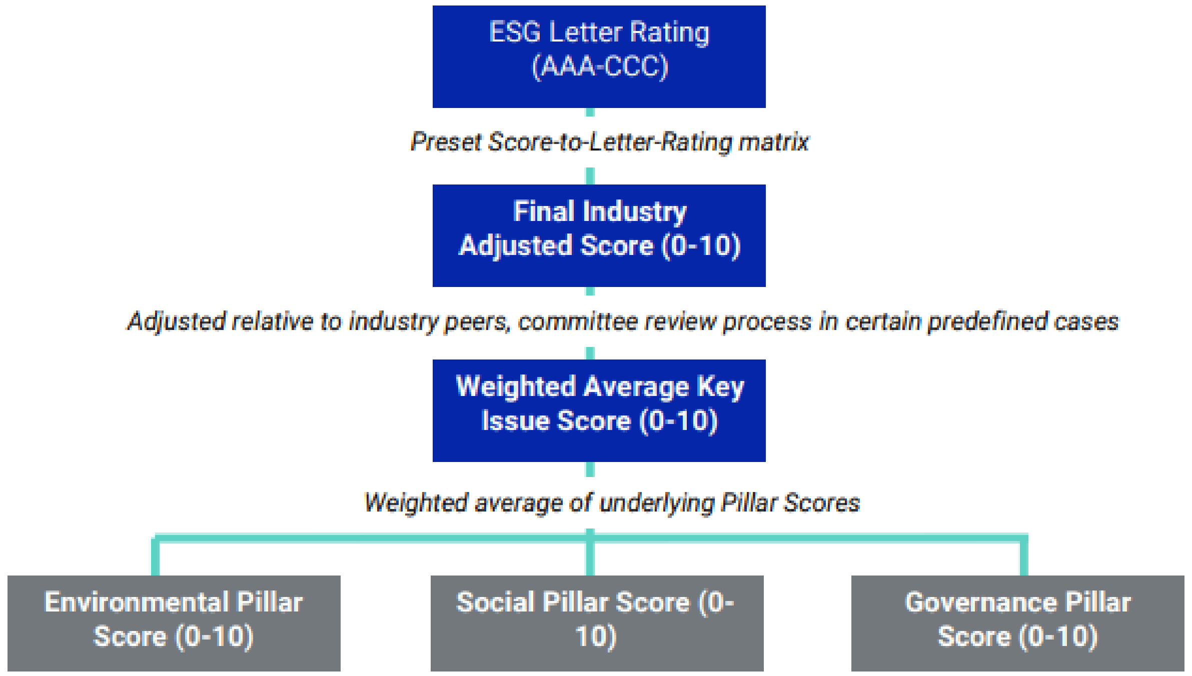
Issuer ESG Ratings Methodology: MSCI and LSEG

MSCI- ESG Ratings Key Issue hierarchy:

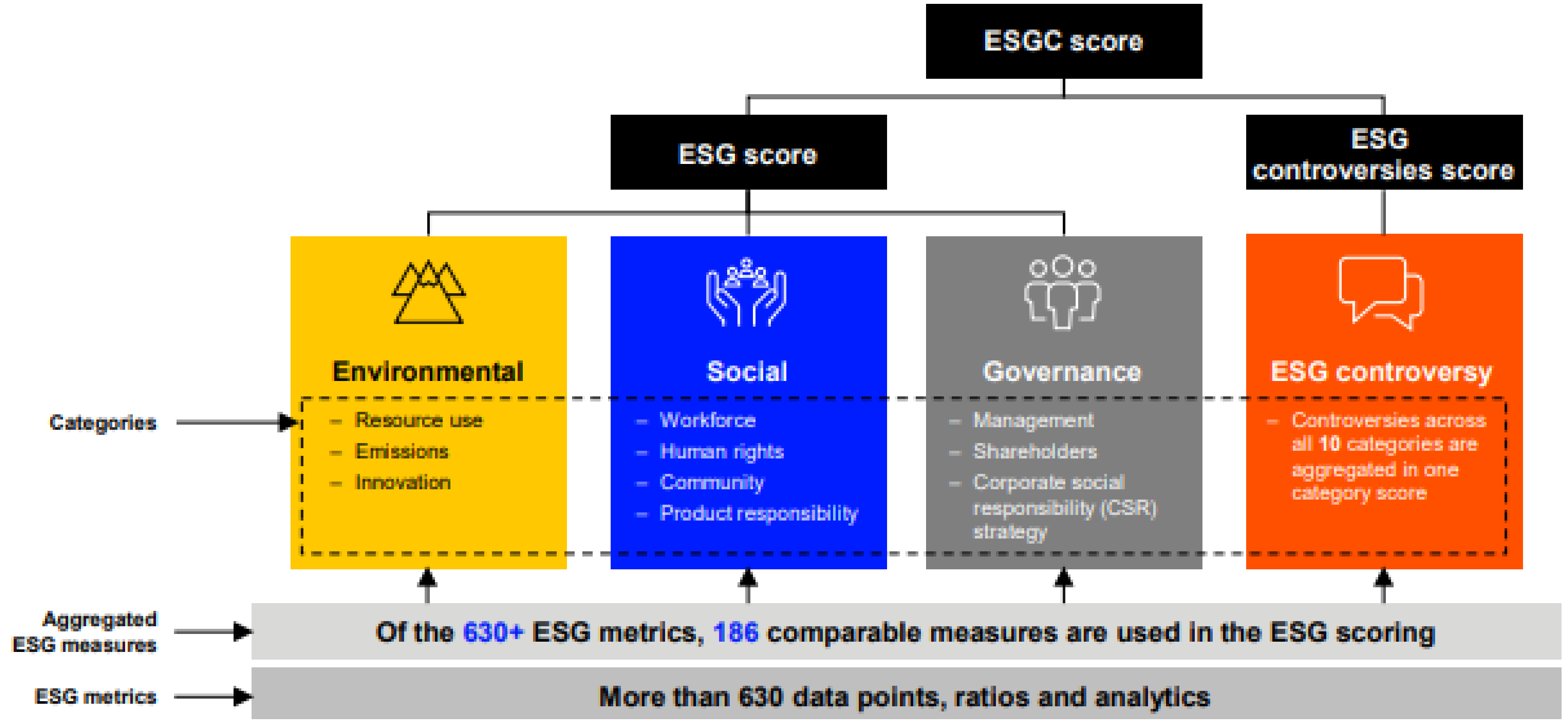
3 Pillars	10 Themes	33 ESG Key Issues
Environmental	Climate Change	Carbon Emissions
		Climate Change Vulnerability
		Financing Environmental Impact
		Product Carbon Footprint
	Natural Capital	Biodiversity & Land Use
		Raw Material Sourcing
		Water Stress
	Pollution & Waste	Electronic Waste
		Packaging Material & Waste
		Toxic Emissions & Waste
	Environmental Opportunities	Opportunities in Clean Tech
		Opportunities in Green Building
		Opportunities in Renewable Energy
Social	Human Capital	Health & Safety
		Human Capital Development
		Labor Management
		Supply Chain Labor Standards
	Product Liability	Chemical Safety
		Consumer Financial Protection
		Privacy & Data Security
		Product Safety & Quality
		Responsible Investment
	Stakeholder Opposition	Community Relations
		Controversial Sourcing
	Social Opportunities	Access to Finance
		Access to Health Care
		Opportunities in Nutrition & Health
Governance	Corporate Governance	Board
		Pay
		Ownership & Control
		Accounting
	Corporate Behavior	Business Ethics
		Tax Transparency

Source: [MSCI ESG Ratings Methodology -June 2023]

MSCI- Hierarchy of ESG Scores:



LSEG - ESG Combined Scores Framework:



Source: [LSEG ESG Scores Methodology]

Issuer ESG Ratings

MSCI's ESG Ratings and Climate Search Tool

https://www.msci.com/our-solutions/esg-investing/esg-ratings-climate-search-tool/issuer/

Sustainalytics Company ESG Risk Ratings

https://www.sustainalytics.com/esg-rating

Tesla

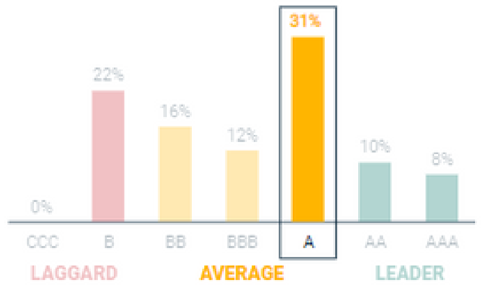
MSCI ESG RATINGS — A

CCC | B | BB | BBB | **A** | AA | AAA

Tesla is **average** among 70 companies in the **automobiles industry**.

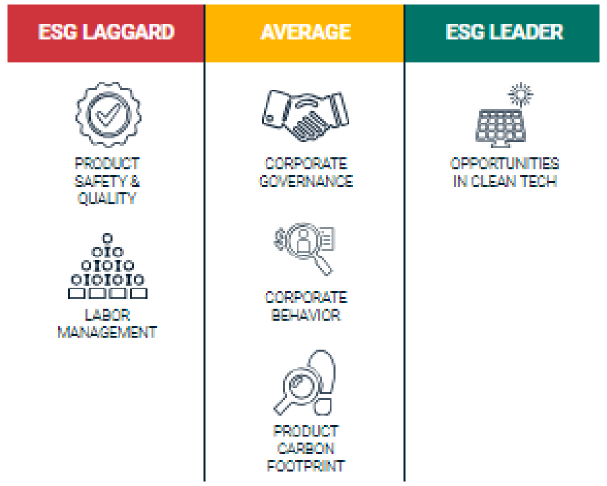
ESG Rating distribution in relation to industry peers

Universe: MSCI ACWI Index constituents automobiles, (70 companies)



Key Issues distribution in relation to industry peers

We focus on the key issues material to the **automobiles industry**. Here is how **Tesla** compares to industry peers. For more details, visit the ESG investing page.



ESG Risk Rating COMPREHENSIVE

25.2 Medium Risk

Negligible	Low	Medium	High	Severe
0-10	10-20	20-30	30-40	40+

Last Full Update: **Jul 14, 2023**
Last Update: **Nov 23, 2023**

Ranking

Industry Group (1st = lowest risk)
Automobiles — **46** out of 89

Universe
Global Universe — **7860** out of 15718

Microsoft

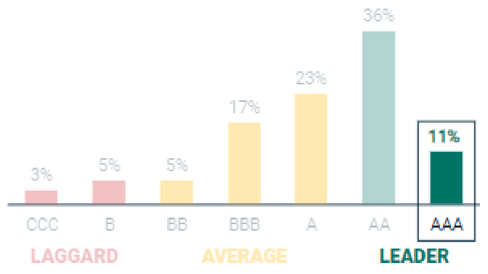
MSCI ESG RATINGS — AAA

CCC | B | BB | BBB | A | AA | **AAA**

Microsoft is a **leader** among 484 companies in the **software & services industry**.

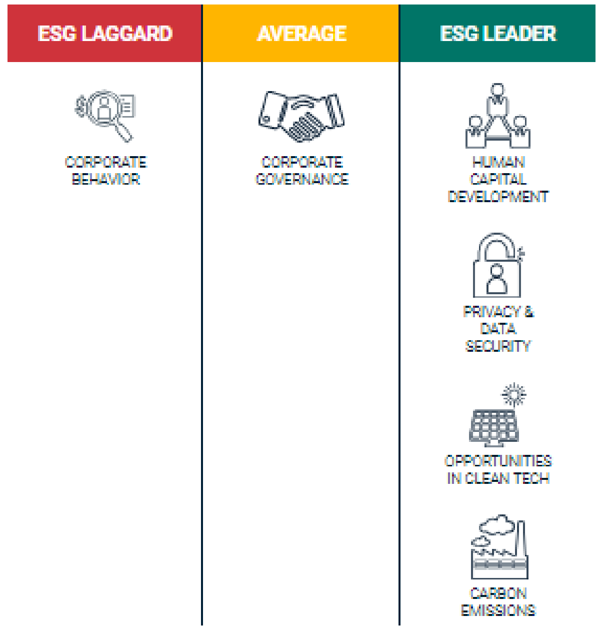
ESG Rating distribution in relation to industry peers

Universe: MSCI ACWI Index constituents software & services, (484 companies)



Key Issues distribution in relation to industry peers

We focus on the key issues material to the **software & services industry**. Here is how **Microsoft** compares to industry peers. For more details, visit the ESG investing page.



ESG Risk Rating COMPREHENSIVE

15.2 Low Risk

Negligible	Low	Medium	High	Severe
0-10	10-20	20-30	30-40	40+

Last Full Update: **Aug 30, 2023**
Last Update: **Oct 28, 2023**

Ranking

Industry Group (1st = lowest risk)
Software & Services — **67** out of 1101

Universe
Global Universe — **1747** out of 15718

ESG Fund Ratings

MSCI's ESG Fund Ratings and Climate Search Tool

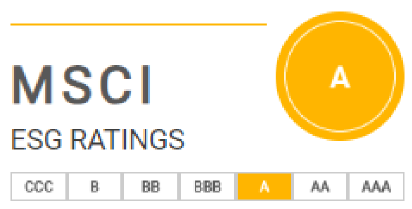
https://www.msci.com/our-solutions/esg-investing/esg-fund-ratings-climate-search-tool/funds/

American Funds New Economy Fund;A

(ANEFX)

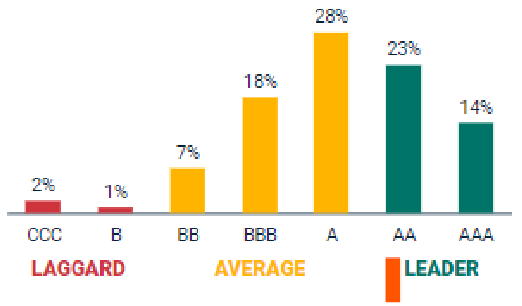
Peer Group: Equity Global
Domicile: USA
Holdings as of: September 30, 2023
As of date: November 26, 2023

Impact of ESG Issues



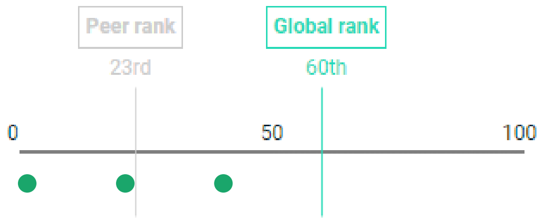
ESG Rating distribution of fund holdings

37% of the fund's holdings receive an MSCI ESG Rating of AAA or AA (ESG Leaders) and 2% receive an MSCI ESG Rating of B or CCC (ESG Laggards).



Peer and global rank

The fund ranks in the 23rd percentile within the Equity Global peer group and in the 60th percentile within the global universe of approximately 34,000 funds in coverage.

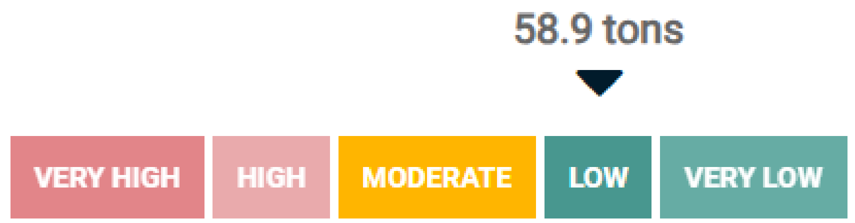


Climate Risk and Opportunities

Weighted average carbon intensity

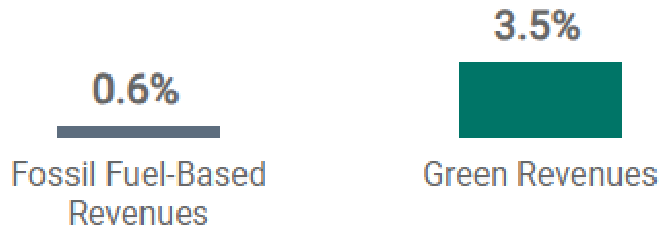
(tCO2e / $m sales)

The fund's holdings have low carbon intensity, based on the weighted average carbon emissions per USD million sales.



Green vs. Fossil Fuel-Based Revenue

We classify 3.5% of the total revenue generated by the fund's holdings as green (e.g. alternative energy) and 0.6% of total revenue as fossil fuel-based (e.g. thermal coal).

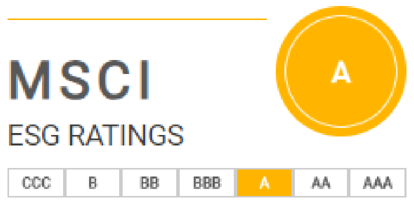


Parnassus Core Equity Fund;Investor

(PRBLX)

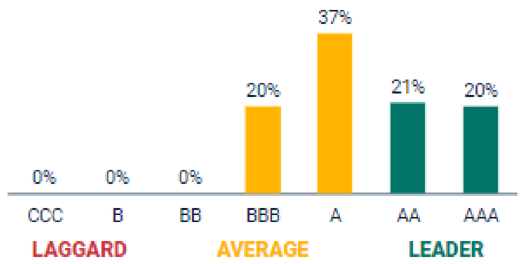
Peer Group: Equity US Income
Domicile: USA
Holdings as of: September 30, 2023
As of date: November 26, 2023

Impact of ESG Issues



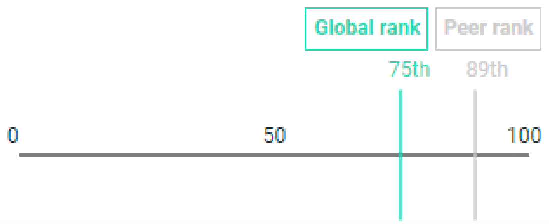
ESG Rating distribution of fund holdings

42% of the fund's holdings receive an MSCI ESG Rating of AAA or AA (ESG Leaders) and 0% receive an MSCI ESG Rating of B or CCC (ESG Laggards).



Peer and global rank

The fund ranks in the 89th percentile within the Equity US Income peer group and in the 75th percentile within the global universe of approximately 34,000 funds in coverage.

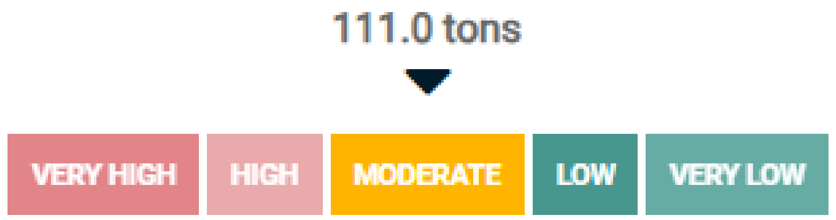


Climate Risk and Opportunities

Weighted average carbon intensity

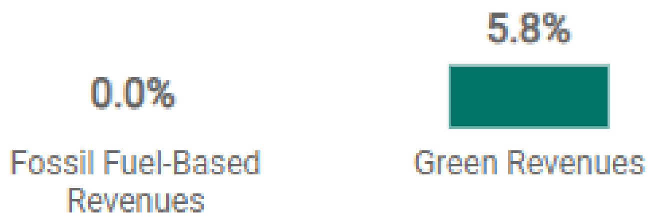
(tCO2e / $m sales)

The fund's holdings have moderate carbon intensity, based on the weighted average carbon emissions per USD million sales.



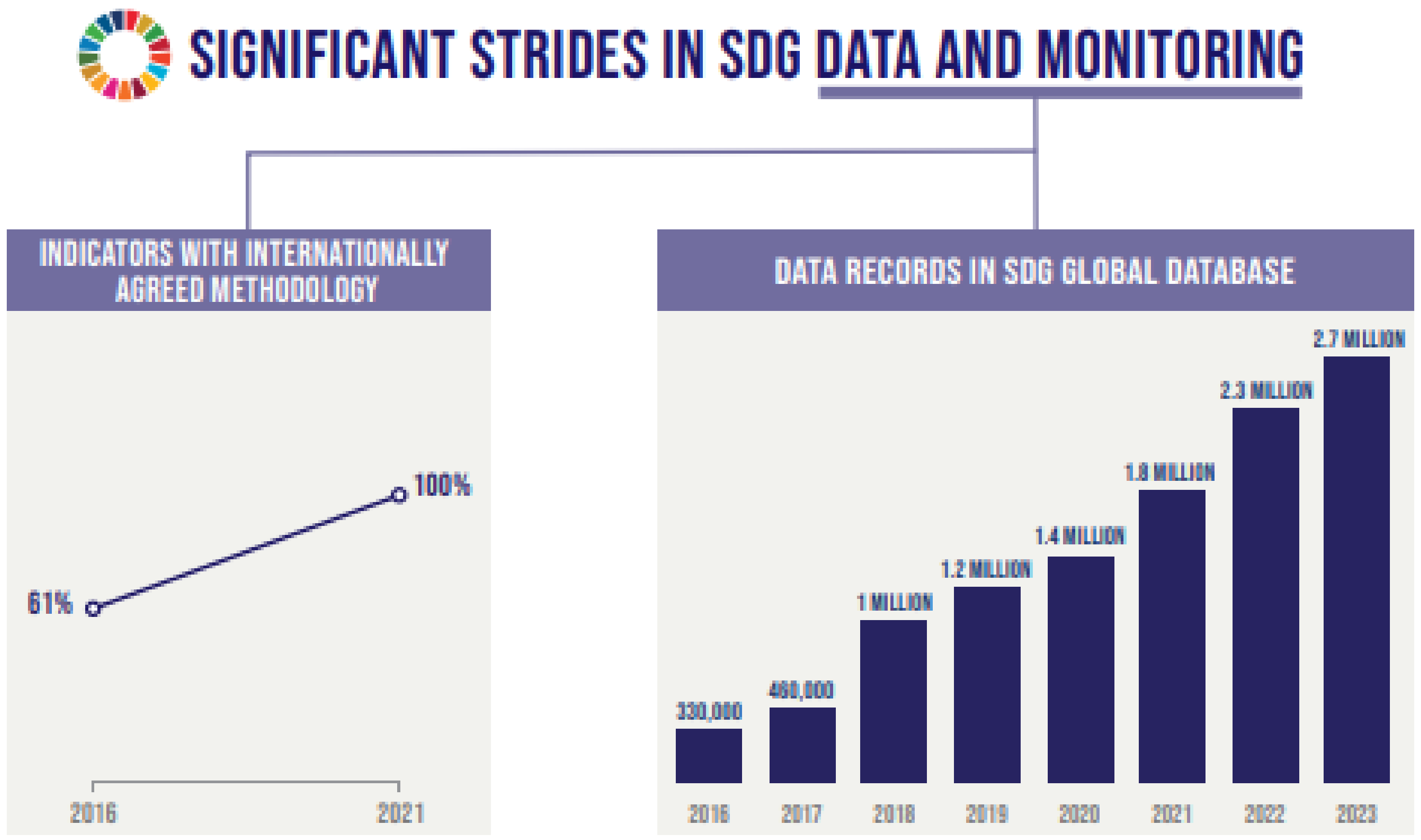
Green vs. Fossil Fuel-Based Revenue

We classify 5.8% of the total revenue generated by the fund's holdings as green (e.g. alternative energy) and 0.0% of total revenue as fossil fuel-based (e.g. thermal coal).



Importance of data: UN Sustainable Development Goals (SDGs)

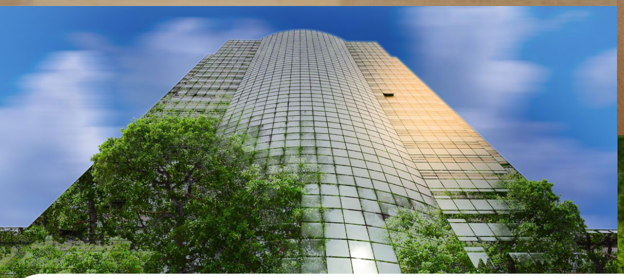
Data plays a pivotal role in shaping policies and driving meaningful change.



Source: The Sustainable Development Goals Report 2023

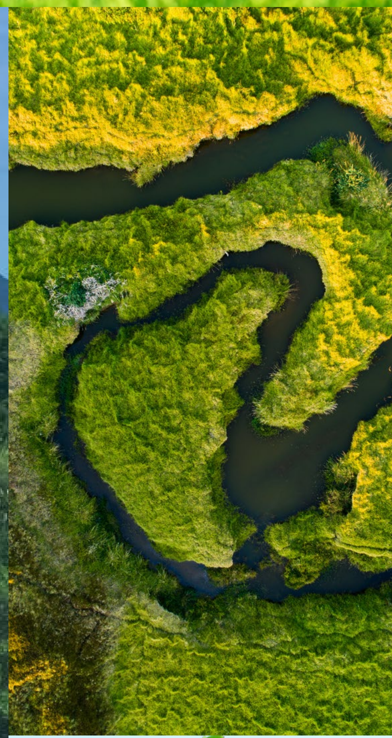
- Investing in improved data infrastructure is crucial in facilitating a rescue plan for both people and the planet.
- With the world grappling with multiple crises in areas such as health, food, energy and climate change, better data is needed to support informed policymaking.
- Need to have efficient monitoring and reporting mechanisms in place, to track progress towards achieving the Sustainable Development Goals (SDGs).
- $5.4 and $6.4 trillion annual investment is needed to achieve the UN Sustainable Development Goals by 2030

ESG Data Challenges



Investing in better data infrastructure is vital for rescuing both people and the planet.








Understanding Investor Data Expectations

Improve Quality of Data

The Importance of keeping Up-to-Date approaches in data provision. It's crucial for data providers to regularly update their methods to keep up with the latest scientific advancements.

Expand Coverage

Data providers should expand coverage to include other asset classes without sacrificing data quality standards.

Enhance Data Granularity

Data providers play a crucial role in assisting investors by providing granular data to assess key issue details, alignment, facilitate engagement, set targets, monitor progress, and produce reports.

Provide Historical and Futuristic Data

Developing portfolio monitoring methodologies and tools that precisely track the improvement of holding and portfolio level metrics, and highlight the drivers behind trends and projections

SHOW ME IT'S GOOD!

Data is the key for unlocking ESG integration into the investment management process and it is fair to have minimum standard expectations

Illuminating data through myriad dimensions

Data providers must offer multidimensional data to evaluate a company's exposure, management, industry specific issues etc.

Provision for overriding data

Clients can improve their investment accuracy by having control over input data, allowing them to use their own research and expertise while maintaining consistency across all tools.

Report on key indicators

Provide data for all key indicators required for mandatory regulatory reporting

Embrace Global Standards and Frameworks

Integrating ESG considerations and methodologies is essential for data providers, and should align with established best practices, relevant standards, and guidance.

Greatest Challenges with Incorporating ESG Data

1. Data consistency

Overcoming lack of consistency in ESG scores

2. Resource intensive

Significant effort required to aggregate, cleanse, interpret and analyze

3. Uneven coverage

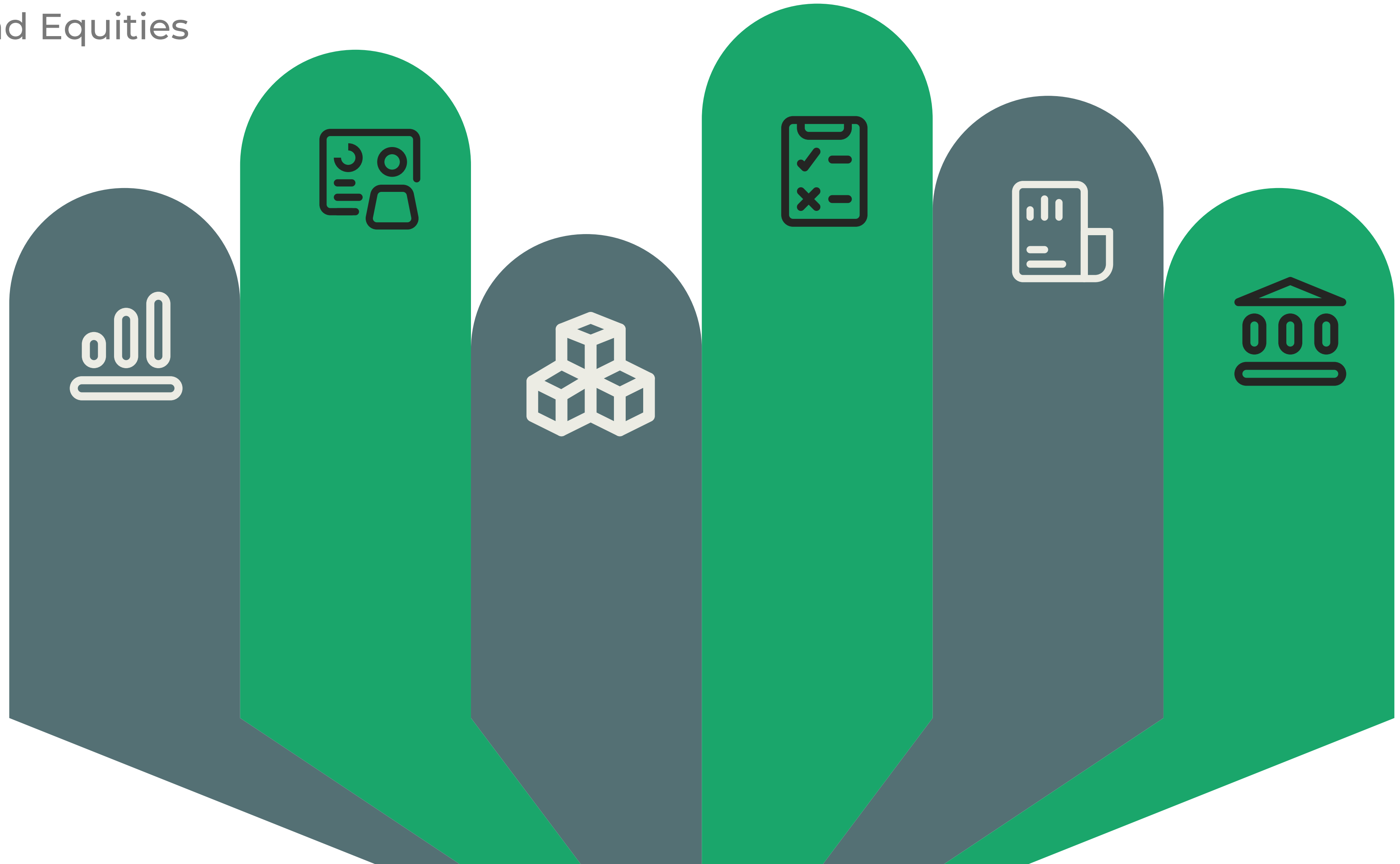
Differences in coverage by asset class, region or provider. More focus on NA, EU and Equities

4. Rapid evolution

ESG metrics and frameworks are constantly shifting and advancing

5. Historical data

Backward-looking ESG data may not reflect current or future risks. Forward-looking analysis is limited.



6. Fitment to defined purpose

Alignment with product objectives, client mandates and firm’s definitions, standards and principles

Overcoming Data Difficulties

Invest in technolgy

Developing AI/ML capabilities to analyze unstructured data, identify material ESG factors specific to sectors and companies.

Internal Solutions

Building in-house data tools with a focus on capturing alternative data and synthesizing into investment workflows.

Internal research

Conducting proprietary research, analysis and rating/scoring

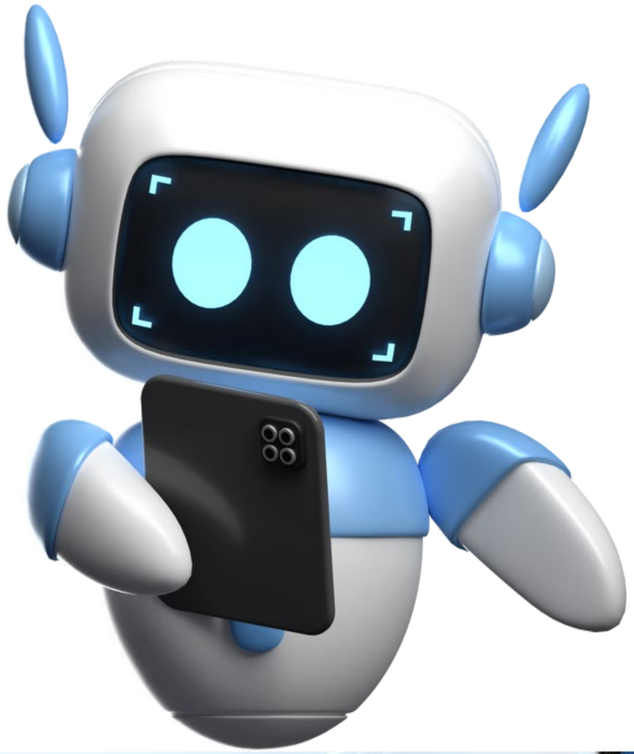
Multiple data sources

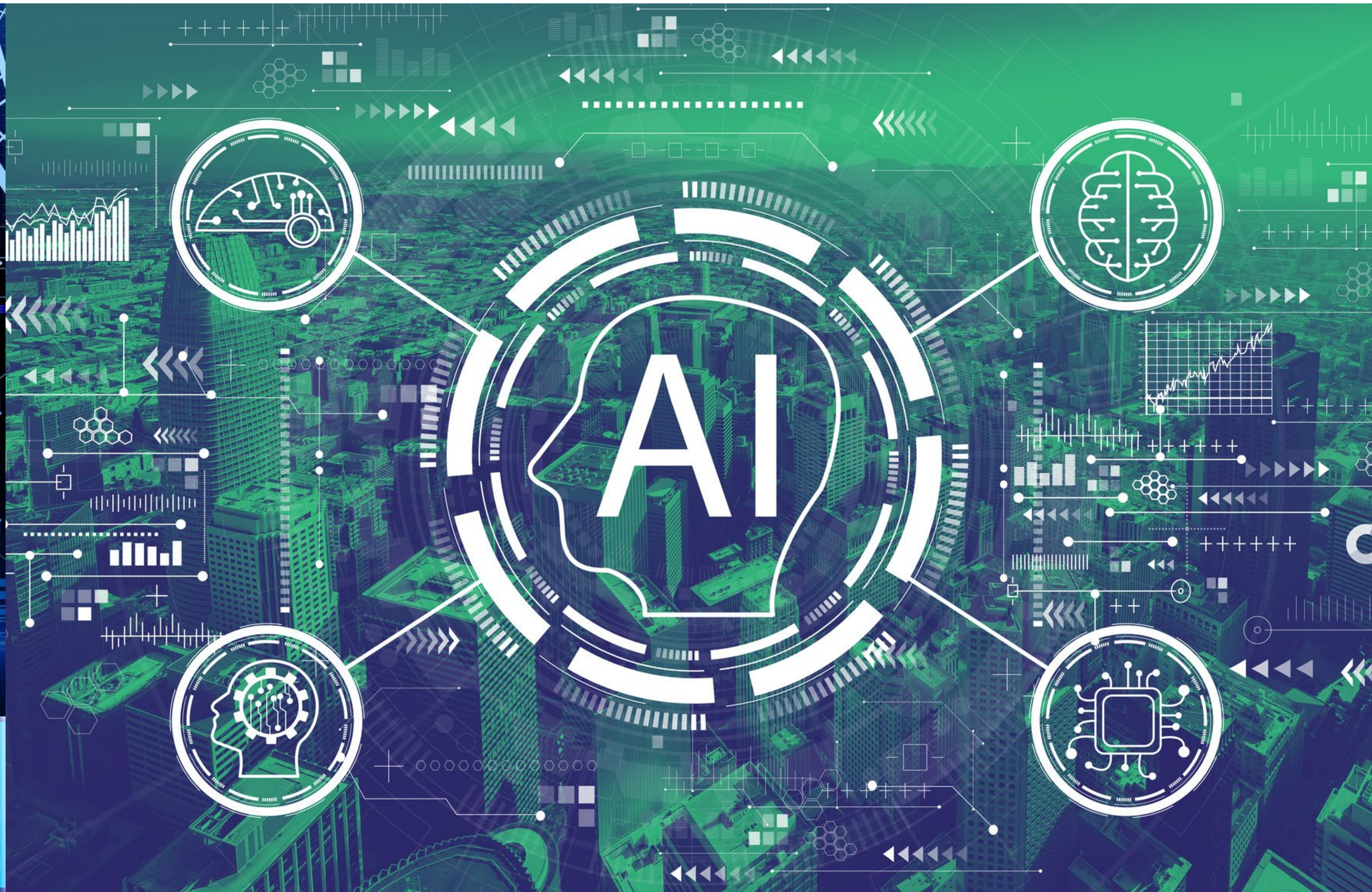
Accessing ESG data from multiple sources rather than relying on a single data provider

Active engagements

Having direct engagement with companies to get disclosure on financially material ESG metrics

Can AI help?





The AI Landscape

Current State of AI

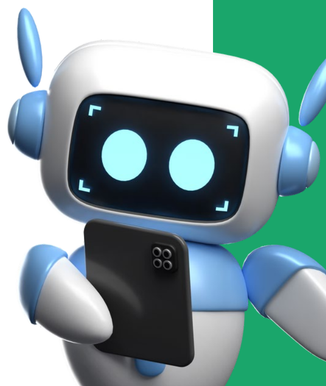
- Advances in deep learning techniques for computer vision, speech recognition, and natural language processing, combined with greater access to data and compute power, are fueling broader AI adoption and building excitement and promise.

AI Trends

- AI is being integrated into various industries and business functions for automation, augmentation of existing processes, discovering new insights, and making intelligent predictions from data.

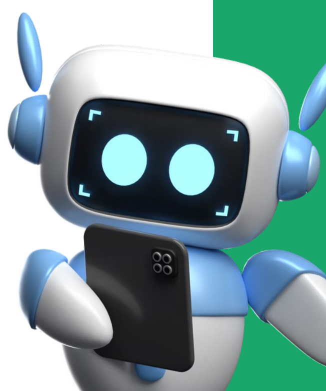
AI in Asset Management

- Predictive Analytics
- Portfolio Optimization
- Risk Modeling
- Trade Execution
- Client Service



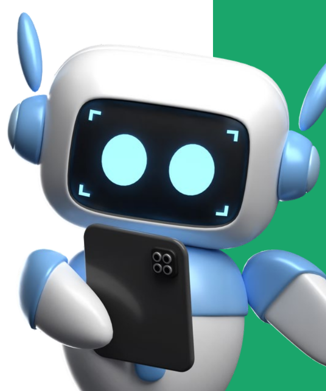
AI Tools and Techniques used for Harnessing ESG Data

- **Natural Language Processing (NLP)** — To extract unstructured ESG data
- **Text Summarization** — Summarize key points from lengthy text documents
- **Machine Learning** — Determine ESG materiality and predict future metrics
- **Neural Networks** — Finding nonlinear relationships between ESG factors and financial metrics
- **Data Validation** — Flag outliers or inconsistencies



AI Tools and Techniques used for Harnessing ESG Data (contd.)

Sentiment Analysis	Classify sentiment of unstructured text on ESG topics
Clustering Analysis	Group companies based on similarity of ESG metrics
Weighting Algorithms	Optimize weighting schemes for ESG factors in scoring models
Forecasting Models	Predictive analytics using ML techniques to estimate future ESG performance
Robotic Process Automation	Automate repetitive ESG data tasks like checking for updates



Using AI to synthesize ESG data

DATA EXTRACTION & ENRICHMENT

- Extract unstructured data
- Summarize text
- Classify sentiments
- Link to comapnies and locations

DATA INTEGRATION

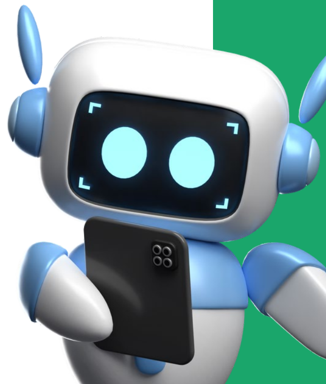
- Map to structured schema
- Validate and assign missing values
- Incorporate alternate datasets

DATA ANALYSIS

- Identify key ESG themes
- Predict future metrics based on historical patterns
- Cluster companies by ESG performance
- Summarize key ESG metrics and events for companies

BUSINESS INTELLIGENCE

- Create interactive dashboards
- Generate summary report of key ESG insights
- Build notifications to view ESG alerts and data



Laws and Regulations Governing Use of AI in Asset Management

SEC regulations

The SEC does not have specific AI regulations but may scrutinize false or misleading claims about AI in investments. AI transparency and explainability is encouraged.

Investment Advisers Act

The SEC requires firms to establish policies to prevent violations of securities laws by algorithms and AI recommendations.

AI model risk management

Regulatory guidance indicates firms should actively govern, test, and monitor AI models to mitigate risks. Documentation and explainability are encouraged.

FTC - Truth in Advertising laws

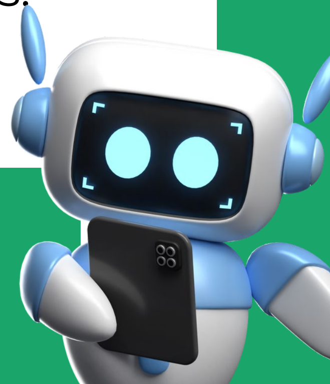
The FTC prohibits false advertising and may examine asset managers' marketing claims about the use and benefits of AI.

FINRA regulations

AI used for automation of tasks like trading or portfolio management must abide by FINRA rules of supervision, surveillance and cybersecurity.

EU GDPR compliance

Asset managers operating in the EU must ensure AI systems comply with GDPR data privacy and consent requirements.



While AI-specific financial regulations are still evolving, existing laws around transparency, fairness, safety and human role would apply to AI use in asset management. Regulatory guidance also emphasizes the principle of ethics in AI.

AI Requires Dynamic Laws

The US White House signed an executive order on October 30, 2023, addressing labor issues related to artificial intelligence (AI). The order calls for a report on AI's potential impact on the labor market and recommends best practices to minimize negative effects and maximize benefits for workers regarding job displacement and labor standards.

WH.GOV

OCTOBER 30, 2023

FACT SHEET: President Biden Issues Executive Order on Safe, Secure, and Trustworthy Artificial Intelligence

BRIEFING ROOM

STATEMENTS AND RELEASES

Today, President Biden is issuing a landmark Executive Order to ensure that America leads the way in seizing the promise and managing the risks of artificial intelligence (AI). The Executive Order establishes new standards for AI safety and security, protects Americans' privacy, advances equity and civil rights, stands up for consumers and workers, promotes innovation and competition, advances American leadership around the world, and more.

Source: https://www.whitehouse.gov/briefing-room/statements-releases/2023/10/30/fact-sheet-president-biden-issues-executive-order-on-safe-secure-and-trustworthy-artificial-intelligence/

The EU AI Act takes a risk-based approach and categorises AI systems into four risk levels: minimal or no risk, limited risk, high risk and unacceptable risk. Unacceptable risk AI systems will be strictly prohibited, with obligations then tapering based on risk level.

News
European Parliament

MENU

Headlines / Society / EU AI Act: first regulation on artificial intelligence

EU AI Act: first regulation on artificial intelligence

Society Updated: 14-06-2023 - 14:06
Created: 08-06-2023 - 11:40

The use of artificial intelligence in the EU will be regulated by the AI Act, the world's first comprehensive AI law. Find out how it will protect you.

This illustration of artificial intelligence has in fact been generated by AI

As part of its digital strategy, the EU wants to regulate artificial intelligence (AI) to ensure better conditions for the development and use of this innovative technology. AI can create many benefits, such as better healthcare; safer and cleaner transport; more efficient manufacturing; and cheaper and more sustainable energy.

In April 2021, the European Commission proposed the first EU regulatory framework for AI. It says that AI systems that can be used in different applications are analysed and classified according to the risk they pose to users. The different risk levels will mean more or less regulation. Once approved, these will be the world's first rules on AI.

Learn more about what artificial intelligence is and how it is used

What Parliament wants in AI legislation

Parliament's priority is to make sure that AI systems used in the EU are safe, transparent, traceable, non-discriminatory and environmentally friendly. AI systems should be overseen by people, rather than by automation, to prevent harmful outcomes.

Parliament also wants to establish a technology-neutral, uniform definition for AI that could be applied to future AI systems.

Learn more about Parliament's work on AI and its vision for AI's future

AI Act: different rules for different risk levels

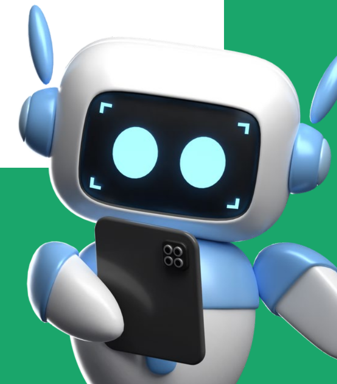
The new rules establish obligations for providers and users depending on the level of risk from artificial intelligence. While many AI systems pose minimal risk, they need to be assessed.

Unacceptable risk

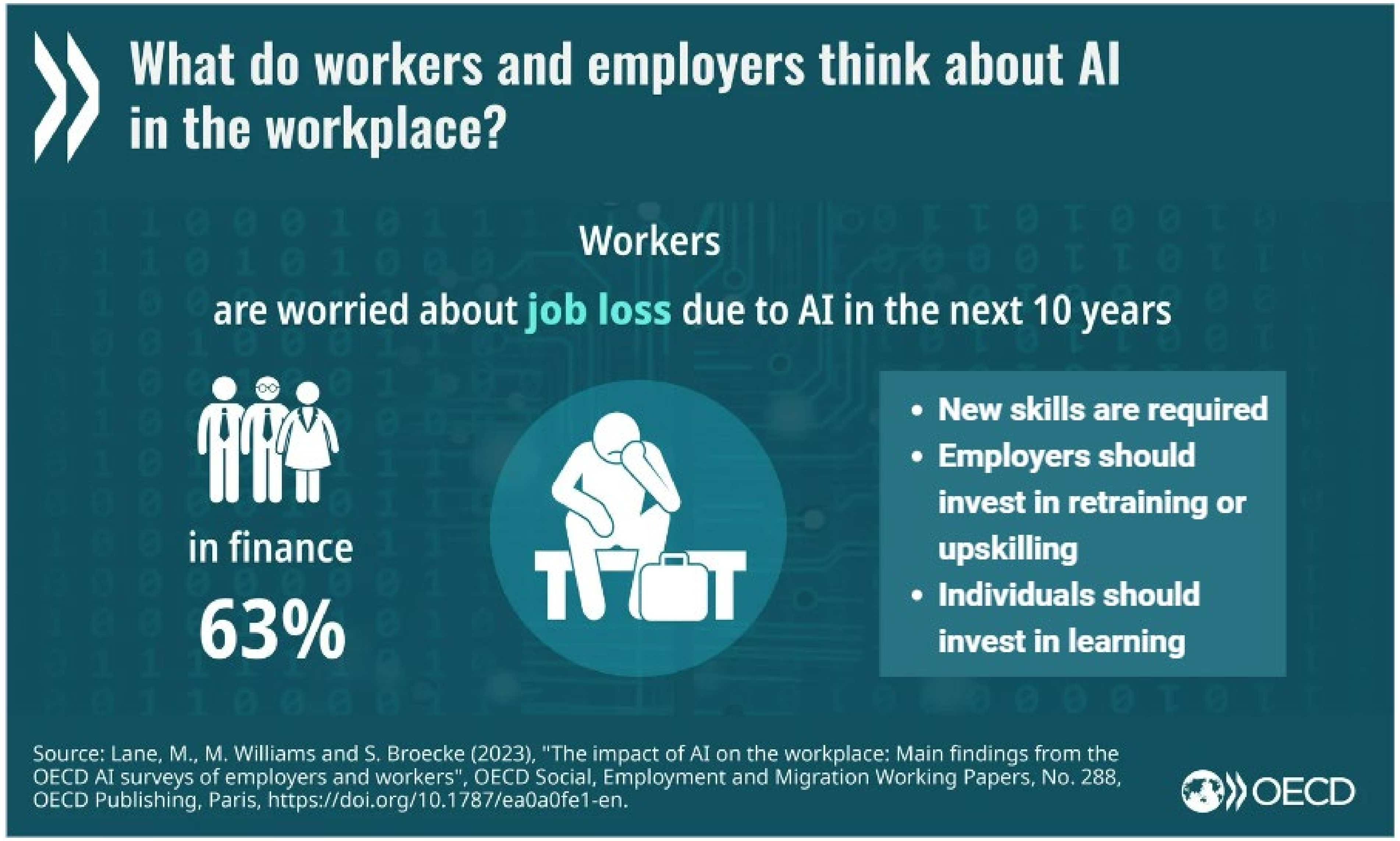
Unacceptable risk AI systems are systems considered a threat to people and will be banned. They include:

- Cognitive behavioural manipulation of people or specific vulnerable groups: for example voice-activated toys that encourage dangerous behaviour in children
- Social scoring: classifying people based on behaviour, socio-economic status or personal characteristics
- Real-time and remote biometric identification systems, such as facial recognition

Source: https://www.europarl.europa.eu/news/en/headlines/society/20230601STO93804/eu-ai-act-first-regulation-on-artificial-intelligence



Governments should not rush with a "comprehensive" law that might become outdated quickly.



Learning Resources for ESG and AI

- PRI Academy: Responsible Investment Courses
- CISI: Sustainable and Responsible Investment
- FDP Institute by CAIA: FDP Charter

LIVE AND INVEST RESPONSIBLY

Contact Info

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Q & A

Please join us for our upcoming webinar:

Investing in Asset Backed Securities Using Data Science

Register Here:
https://bit.ly/3QXnENc

Thank You

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