Risks in Securities Trading

Insert sheet / March 2024

Insert Sheet for the Information Brochure on Risks Associated with Financial Instruments

March 2024 edition

LIECHTENSTEINISCHER BANKENVERBAND

Insert Sheet on «Risks in Securities Trading»

Recent developments in the economy and the financial markets, and the resulting changes in the regulatory framework, have made it necessary to update the general section of our brochure «Risks in Securities Trading, » in particular with regard to the general risks associated with investing in financial instruments (Section I. General Risks associated with Financial Instruments). These updates were necessary to bring the brochure into line with the new legislation and to provide readers with comprehensive information on the potential risks.

Sustainability Risk / ESG risk

ESG stands for environmental, social and governance, meaning the environment (e.g., energy consumption, water consumption), social issues (e.g., employer attractiveness, supply chain management) and corporate governance (e.g., remuneration policy, corporate management).

Sustainability risks, also known as ESG risks, are events or conditions in the areas of the environment, social issues and corporate governance that could have a negative impact on the company's profitability, costs, reputation and consequently its value and the price of financial instruments, either now or in the future. ESG risks can arise along the entire value chain of a company (own operations, upstream and downstream).

- Environmental risks can be categorised into two main groups:
  - «Physical risks» include losses and costs resulting from acute risks (climate-related extreme weather events such as storms, floods or heatwaves) and chronic risks (long-term climate change) that threaten or damage a company's economic activities or its assets, and
  - «Transition risks» include regulatory risks, changes in consumer habits and liability risks. These include legal measures such as the introduction of a CO_2 levy to promote the transition to a lower-carbon and more resource-efficient economy. Such measures can have a negative impact on the profitability of a company or its shareholder value.

- Social risks result, for example, from labour standards violations, inadequate health and safety in the workplace, poor product safety, inappropriate handling of social issues, shortcomings in the treatment of employees or high employee turnover.

- Governance risks result, for example, from unequal treatment of shareholders, inadequate risk management, a lack of control mechanisms, inappropriate remuneration systems or regulatory violations such as corruption.

Sustainability risks can have different effects on individual asset classes, regions, economic sectors and/or individual companies. Occurrences such as climate change and environmental degradation as well as the need to move towards a sustainable economy can cause changes in the real economy, which can open up new risk factors for investors. This means that investors should always take sustainability risks into account as part of their risk management.

The existing regulatory provisions on sustainability-related disclosure obligations in the financial services sector require providers of investment advisory and/or asset management services to provide information on how sustainability risks are taken into account when making investment recommendations or decisions. In addition, the expected effects of the valuation results of sustainability risks on the return of a financial instrument must be presented.