SECTORAL UPDATES

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JUL 2021

E S G

EU harnesses finance to make continent ‘climate neutral’ by 2050

Aljazeera, 6th July 2021

The EU leadership has expressed that mobilising the billions needed to achieve climate neutrality is well beyond the capacity of the public sector. To this end, the EU will harness finance from banks and markets to channel annually into sustainable investments, relying on private financial flows towards relevant economic activities to make the continent ‘climate neutral’ by 2050, a central objective of its sustainable finance framework.

Following an assessment by EU states of how their financial markets contribute to achieving the bloc’s climate action goals, EU authorities in collaboration with the European Central Bank will focus on setting intermediate goals for its financial sector along with an anticipated proposal to alter bank rules to integrate ESG factors in banks’ risk assessment.

The European Commission is looking forward to broadening the taxonomy which helps in classification and defining relevant sectors for investors to find opportunities in agricultural and nuclear energy sector, which will further help reduce more emissions and contribute towards carbon neutral efforts. Due to inefficient disclosure of data and lack of uniform standards in accounting, there is an effort to standardise the process to bring ethical sustainable practices. Greenwashing, comparability, and transparency are ongoing issues which leads to overstating green credentials and hinders in achieving sustainable goals. Regulators and countries are making continuous efforts to provide a clear framework for more transparency in reporting which will help the EU achieve climate neutral goal by 2050.

https://www.aljazeera.com/economy/2021/7/6/eu-harnesses-finance-to-make-continent-climate-neutral-by-2050

ESG

ESG push | Banks increase funding for green energy, records low demand for thermal power projects

Money Control, 7th July 2021

Global efforts to scale sustainability and sustainable finance are ongoing to combat climate change impacts. Investor demand for companies who consider ESG risks and opportunities, leading to an increase ESG integration in lending portfolios of Indian banks.

Banks in India are recognising the global efforts towards ESG and in an attempt to capitalise on the global trend, there is an increased recognition of investing and lending into green projects. There is an overall decrease in the lending portfolio to thermal projects and more focus on renewable projects. Leading banks like the State Bank of India, Bank of Baroda, HDFC and Union Bank of India are coming up with incentives and finance products, like EVs, solar and renewable projects which shows shift in bank's portfolios.

There is also a regulatory push from the Reserve Bank of India (RBI) and the Government of India in favour of renewable energy sectors providing finances and bringing certain sub-sectors under priority lending, which will now make banks to consider ESG risks more prominently before lending to fossil fuel sectors.

https://www.moneycontrol.com/news/business/esg-push-banks-increase-funding-for-green-energy-records-low-demand-for-thermal-power-projects-7142241.html

SEC Chair Eyes Mandatory Climate Disclosure Rules Proposal by End of Year

ESG Today, 29th July 2021

US SEC Chair Gary Gensler aims to propose rules for mandatory climate risk reporting by companies by the end of 2021. Speaking at the UN PRIs webinar, he stated that mandatory climate risk disclosures would bring provide more clarity, increase consistency and comparability of data, leading to better-informed and enhanced decision-making for investors.

This development comes following the SEC's re-examination of the role of sustainability disclosures in reporting, with Acting Chair, Allison Herren Lee's review of the commission's guidance for public climate risk disclosures driven by investor demand for material information and exploring the extent to which such reporting be made mandatory for companies. Altering rules for climate risk disclosure is also bolstered by the same investor demand for a more complete understanding of risk exposures in investment, with 75% of Herren Lee's review respondents supporting mandatory climate disclosure by companies.

Gensler also reiterated companies' obligation to share complete risk information with investors regularly, leaving the ball in the investors' court to gauge which investors they are willing to undertake.

https://www.esgtoday.com/sec-chair-eyes-mandatory-climate-disclosure-rules-proposal-by-end-of-year/

Global initiative aims to bring transparency to voluntary carbon markets

Reuters, 29th July 2021

The Voluntary Carbon Market Integrity Initiative (VCMI), a global intervention aiming to bring transparency and greater rigour to voluntary carbon markets was recently launched. This intervention is not only expected to grow rapidly over the next few years, but also ensure that carbon offsets (which are currently traded in voluntary markets) are undergirded by real measures to reduce GHG emissions. Sponsored by Britain and the Children's Investment Fund Foundation with backing from a number of governments, VCMI also aims to aid developing countries better access climate finance.

The voluntary market is riddled with fragmentation due to a lack of consensus on assurance or integrity. The VCMI looks to bringing clearer norms for businesses to use high-quality carbon credits credibly, transparently and in a manner that is aligned to global net zero targets.

The voluntary carbon market is expected scale substantially, however, a 15-fold growth would be necessary to meet Paris Agreement goals and could potentially be worth US $50 billion by 2030.

https://www.reuters.com/business/environment/global-initiative-aims-bring-transparency-voluntary-carbon-markets-2021-07-29/

IOSCO issues consultation report on ESG ratings, data providers

IPE, 26th July 2021

The International Organisation of Securities Commission (IOSCO), the apex body regulating the world's securities and futures markets, has proposed recommendations to mitigate the risk emerging from ESG ratings and data providers.

These will be aimed at addressing challenges faced by user of various ESG products and services, which generally have heterogenous methodologies and ESG metric assessment techniques.

IOSCO highlighted lack of transparency about the methodologies underpinning ratings or data products and uneven coverage of products across geographies and industries. Further, these challenges could result in gaps and inconsistencies in investment strategies, raising concerns around conflict-of-interest management, fee structures and lack of separation between business lines that provide advisory to issuers to improve their ratings. Users also indicated multiple ESG ratings can cause confusion and lead to questioning on reliability and greenwashing. This further results into incompetency in applying investment strategies and can result in efficiency of final results. IOSCO has mentioned to provide support and guidance related to such differences in the products and services.

Specific recommendations by IOSCO included that regulators may consider the sufficiency of oversight over ESG ratings and data providers and public disclosures of information sources and assessment methodologies. IOSCO also suggested considering high-level public disclosure and transparency as an objective in their ESG rating and data products for securities regulators. Meanwhile, also inviting market participation from investors and users to enhance the level of standards for ESG data and service providers. On similar lines, earlier this year the European Securities and Markets Authority (ESMA) called for legislative action on ESG rating subject to public consultation and impact assessment, related to reliability, comparability, and transparency of ESG ratings.

https://www.ipe.com/news/iosco-issues-consultation-report-on-esg-ratings-data-providers/10054189.article

New Japanese Policies Create Opportunities for ESG Bond Market

Fitch Ratings, 27th July 2021

While the U.S. and Europe lead cumulative green bond issuances, driven by central regulation policies, investor demand and various sustainable financial initiatives, Japan's apex banking body, the Bank of Japan (BOJ)'s inaugural Strategy on Climate Change aims to increase financial flows via green bonds, domestically as well as internationally.

The BOJ aims to bring a bond framework and favourable banking measures to scale green funding. Stress test for banking, disclosure requirements for listed companies by the Financial Services Agency (FSA) and special funds for sustainability-linked projects encourages to fulfil Japanese government's commitment in October 2020 to reach net-zero emissions of greenhouse gases by 2050. Corporates are lagging in issuances of sustainable bonds compared to sovereign issuers. Mainstreaming of ESG into corporate strategy can be one of the measures to increase issuances.

https://www.fitchratings.com/research/banks/new-japanese-policies-create-opportunities-for-esg-bond-market-27-07-2021

Green finance set to touch $2.36 trillion globally by 2023: Report

CNBC, 7th July 2021

A recent Climate Bonds Initiative report showed that the issuance of green bonds witnessed a 60% growth since 2015, crossing a record high of US $269.5 billion in 2020 and crossing a landmark US $1 trillion milestone in 2020. Green bonds are one of the most highly used instruments in the sustainable finance space, and are seen to be as crucial in catalysing the SDGs.

Increase in issuances reflects investor demand as well as more interests towards transitioning to a low-carbon economy with recent initiatives in green policy seen in countries such as the UK, China, Kazakhstan and Uzbekistan. Policies such as those promoting sustainable products, focusing to scale up electric vehicles, direct measures to stop usage of hazardous waste, emphasizing on recycling and many other related measures are touted help towards the transition to a low carbon economy. The green bond market is estimated to be worth US $2.6 trillion by 2023 as per Climate Bonds Initiative report and can be a game changer to accelerate sustainable finance. Recent efforts by EU to harness public and private finance to reduce GHG emission is a key effort to achieve the goal projected by the report.

https://www.cnbctv18.com/environment/green-finance-set-to-touch-236-trillion-globally-by-2023-report-9911281.htm

Luxembourg takes the lead on climate finance

UN PRI, 11th July 2021

Europe is a global leader in climate action plans and contributing funds in climate finance. In 2020, the European Investment Bank assisted with €24.2 billion in climate finance and the EU committed to contribute US $100 billion to developing countries to fight climate change. According to a recent report by CARE, with a pledge of US $250 million in climate finance over the next five-years, Luxembourg is leading the way.

Luxembourg, along with being an international hub for finance and investments, is directing more funds into climate-related areas and reflects a strong commitment towards the Paris Agreement. Mobilising and scaling of finance is very critical for the most vulnerable to climate change and for those, measures like climate finance and sustainability should be on top under development assistance initiatives. Accelerator funds by Luxembourg currently focus on scaling EVs and businesses related to resilient farming practices. Investing in measures to fight climate change could be the biggest opportunity as per Luxembourg's Environment Minister, Carole Dieschbourg.

https://www.pri.org/stories/2021-06-11/luxembourg-takes-lead-climate-finance

Climate Bonds Initiative: Sustainable Bonds in US Dominated by MBS, Munis, While Corporate Issuers Lag

ESG Today, 14th July 2021

Often there is a dialogue for the need of private investments in sustainable finance to accelerate efforts to transition to a low-carbon economy. According to a report by Climate Bonds Initiative which shows the North American bond landscape, corporate issuers fall behind in issuance of more sustainable bonds.

A majority of green bond issuances are allocated to the building and energy sectors. Overall, there is a sharp increase in issuance of green, social and sustainability (GSS) bonds in North America and this market has grown at an annual rate of 76% between 2016 – 2020. This being said, it is dominated by Mortgage-Backed Securities (MBS) and Munis. There is an opportunity to raise climate finance for issuers since global sustainable bond issuances is forecasted to surpass $650 billion in 2021, as per a recent Moody's report.

https://www.esgtoday.com/cbi-sustainable-bonds-in-us-dominated-by-mbs-munis-while-corporate-issuers-lag/

S. Korea readying global bond offering likely up to $1.5 bn ceiling in Sept

Pulse News, 26th July 2021

South Korea is a leading the sustainable innovation bond market and is one of the leading social bond issuers in Asia. Its blockchain-enabled social bond was one of the first issued by in the world, reflecting the opportunity to bringing more innovative instruments other than mainstream green bonds to accelerate sustainable financing.

In an effort to increase bond issuances, the Korean Exchange issued a dedicated Socially Responsible Investment (SRI) in 2020, wherein the Exchange signed MoUs with external evaluation institutions and will provide financial supports for SRI bond issuers. Further, SRI bond issuers must establish a bond management framework and be reviewed by external professional institutions with the likes of international organizations including the International Capital Market Association (ICMA), the Climate Bonds Initiative among others. As a result of all these efforts, there is a steady rise of issuances of sustainability bond. Adding to this, in September 2021 is readying another global bond sale of around US $1.5 billion.

https://pulsenews.co.kr/view.php?sc=30800028&year=2021&no=717658

Critical measures of global heating reaching tipping point, study finds

The Guardian, 28th July 2021

A new study tracking the Earth suggests that 16 out of the 31 tracked planetary vital signals like energy usage, GHG and temperature, melting ice and more, suggest that global climate crises have approached tipping points. Ecologist William Ripple stated that even the COVID-19 pandemic which caused a significant reduction in transportation and consumption, was not enough to bring transformational changes in terms of reducing GHG emissions on a large scale. In April 2021, CO2 concentration again jumped back to 416 ppm which drop to 390 ppm in 2020. The concentration level of CO2 has risen by over 30% in the past 50 years. Hence, the entire period between 2015-2021 have been touted to be as few of the hottest years of the century.

The livestock population jumped to 4 billion, which is one of the significant sources of planet-warming gases, while the rate of forest loss of Amazon reached 12 years high. Approximately, 1.11 million hectares was deforested in 2020 causing more emissions of GHG and reduction of the carbon sink. However, in contrast, positive news like reduction of subsidies on fossil fuels will make an impact on the level of GHG emissions. There is a need to implement a plan to phase out use of fossil fuels, eventually banning them to prevent climate change risks, as per the study. Other key measures include the Socially Just Fund to finance climate mitigation, climate education, the development of global strategies to preserve and restore biodiversity and carbon sink which will ensure sustainability and better long-adaptability for future generations.

https://www.theguardian.com/environment/2021/jul/27/global-heating-critical-measures-tipping-point-study#:~:text=Critical%20measures%20of%20global%20heating%20reaching%20tipping%20point%2C%20study%20finds,-Carbon%20emissions%2C%20ocean&text=A%20new%20study%20tracking%20the,as%20the%20earth%20heats%20up

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CLIMATE RISKS

US, European and UK diplomats meet to encourage Australia to ramp up climate action

The Guardian, 28th July 2021

Earlier this year in 2021, global efforts to unite against climate change was led by the US at the Leaders' Climate Summit. Similarly, the upcoming COP26 event at Glasgow, with the ambition to mitigate and adapt climate change is preceded by multiple collaboration and mobilising of finance towards sustainability between member nations. Diplomats from the US, Europe and the UK have had multiple gatherings to strengthen the effort to fight climate change and bring out target-oriented solutions and road maps to achieve net zero targets. Australia, being one of the top 20 carbon emitting countries in the world is encouraged to implement stricter measures and mobilise finance towards critical sectors. Australian Prime Minister, Scott Morrison aims to do this by brining innovative solutions leveraging technology. Another event where Australia inked deals with Japan and Germany, will be focused on bringing technology solutions to achieve "a net zero emissions future".

It is estimated that to limit the global heating to 1.5 degree Celsius can be difficult to achieve at current CO2 emission levels, as stated by the UK's president-designate of the Cop26 summit, Alok Sharma. Hence, collaborative efforts are aimed at building road maps, wherein it is important to phase out fossil fuels. As we near 2050, there is an urgent need of more ambitious goals for both Australia and the US, mentioned Mike Goldman, the chargé d'affaires at the US embassy. These events reflect a need to have an inclusive approach, wherein participation is required from every country to accelerate the process to achieve net zero targets. Dialogues followed by immediate action is the current need, without which the possibility of crossing the 1.5-degree Celsius target could become a reality.

https://www.theguardian.com/australia-news/2021/jul/28/us-european-and-uk-diplomats-meet-to-encourage-australia-to-ramp-up-climate-action

Western heat wave virtually impossible without climate change, researchers say, urging action

CNBC, 8th July 2021

Deadly heatwaves that are causing extreme temperatures in Pacific Northwest Canada have resulted into human loss in Pacific and Western Canada. An international team of 27 scientists mentioned that this is a result of human-caused climate change. The temperature recorded in Portland, Oregon is 47 °C while those at the British Columbia was 49.4 C. Researchers at the World Weather Attribution (under the umbrella of Oxford University) estimate it was once-in-a-millennium event. Scientists from the US, Canada, Netherlands, France, Germany, and Switzerland estimate that human-caused climate change can increase heatwaves by 150 times. Researchers recommended for better adaptation measures, early warning systems for high temperature, and more ambitious targets to reduce GHG emissions. They also warned that such extreme climate events are likely to occur every 5-10 years unless there will be a significant cut of GHG emissions.

The Earth's temperature has already risen to 1.2 degree Celsius compared to the pre-industrial level which is a significant increase and can result into extreme climate change events. Scientists using computer simulations comparing a hypothetical world with GHG emissions with the existing world to assess the impact of climate change on weather events, came to the conclusion that more than one-third of global heat-related deaths during the warm season can be attributed to climate change. Hence, these results provide a strong warning of how rapidly warming climate can have devastating consequences on the health and livelihood of society.

https://www.cnbc.com/2021/07/08/western-heat-wave-virtually-impossible-without-climate-change-researchers-say.html

CLIMATE RISKS

How climate change fuelled the devastating floods in Germany and northwest Europe

Vox, 16th July 2021

Heavy rainfall causing devastating floods and landslides resulted in human loss in parts of Northwest Europe, with German Environment Minister, Svenja Schulze calling this “the harbingers of climate change”. These occurred following the EU announcing a set of proposals to address the climate emergency, along with a number of other global measures to achieve the same.

Most of the impact of rainfall was felt in the state of Rhineland -Palatinate, and North-Rhine -Westphalia which recorded 4-6 inches in the 24 hours between July 14th and 15th.

Early warning systems can help in reducing the loss of life, but the ultimate solution is to rapidly reduce GHG emissions to curtail further warming of the planet. This incident demands a stronger commitment to cut down emissions in the short-term to successfully achieve long-term sustainability targets and to prevent from such adversities in the long run.

https://www.vox.com/22577431/germany-flooding-europe-climate-change auctusESG

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