auctusESG

SECTORAL

UPDATES

SEPT 2021

ESG

Europe’s ESG Bond Deals Surge to Record 25% of Sales

Bloomberg, 21st September 2021

Ethical bonds now make up 1/4th of all debt sales in Europe, with corporates and sovereigns having sold over US $391 billion in debt earmarked for ESG goals, demonstrating almost a 100% increase from last year and an all-time high. The UK’s debut green bond sale or the Italian uand in comparison, swapping traditional debt for environmentally-linked bonds demonstrate a push to achieve global climate goals. The flurry of investors entering the ESG bond market, even at the cost of lower returns or the UK obtaining cheaper borrowing costs (or ‘greenium’) indicates the “vote of confidence” for the market.

https://www.bloomberg.com/news/articles/2021-09-21/europe-esg-bond-deals-surge-to-record-25-of-total-sales-in-2021

Ford Ties Debt Cost to ESG Goals Under $15.5 Billion Sustainability-Linked Credit lines

ESG Today, 30th September 2021

Ford will now include sustainability-linked features in its new US $15.5 billion credit lines, thereby tying the cost of facilities to the company’s ESG goals. These new credit lines will include a 5 year, US $10.1 billion facility, a 3 year US $3.4 billion facility and a 3 year, US $2 billion supplemental facility, under which the cost of facilities would fluctuate based on the company’s ESG performance. Goals include GHG reduction, increase in renewable energy and lower Ford of Europe’s CO2 tailpipe emissions per passenger vehicle, as part of its broader sustainability goals. Ford also recently announced a multi-billion dollar investment in electric vehicle and battery production, including a carbon neutral, zero waste landfill assembly plant, in order to meet these goals.

https://www.esgtoday.com/ford-ties-debt-cost-to-esg-goals-under-15-5-billion-sustainability-linked-credit-lines/

Investors with US$2.3 trillion of assets demand standardized environmental data from private companies

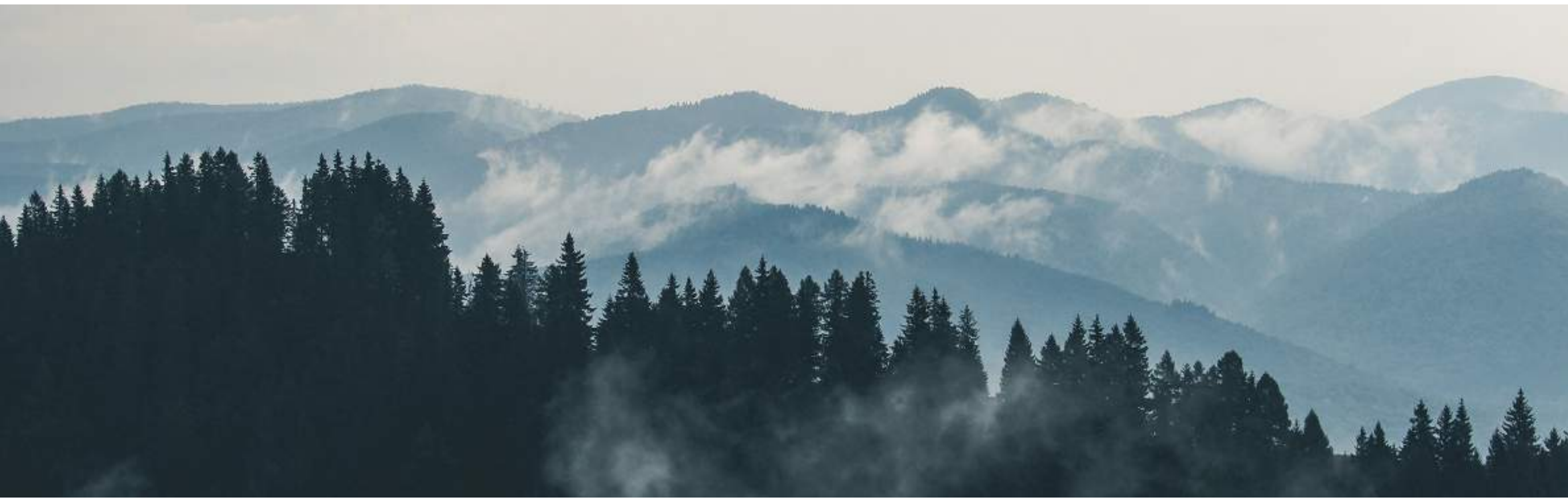
CDP, 8th September 2021

Investors with US $2.3 trillion in assets are demanding standardised environmental disclosures from 1000 portfolio companies through the Carbon Disclosure Project (CDP). This comes following a trend of privatising high-carbon emitting assets leading to less transparency on ESG performance, given that private companies are currently protected from having to comply with non-financial reporting requirements.

CDP is collaborating with investors to create a standardised disclosure, the 'Private Markets Pilot' to increase disclosures from the private sector. This platform would allow investors to benchmark firms, compare performance and bring greater transparency to "business activity that ha[s] historically avoided scrutiny". CDP views this as a unique opportunity to close the 'transparency gap' to affect the sustainability strategies and governance of portfolio companies.

Standardisation for private sector disclosures opens the door to not only increased transparency, but also to a more system-wide approach to non-financial reporting and disclosures.

https://www.cdp.net/en/articles/investor/investors-with-us23-trillion-of-assets-demand-standardized-environmental-data-from-private-companies



ESG

U.S. Bank Launches Full Service ESG Practice, Grows Sustainable Finance Team

ESG Today, 24th September 2021

U.S. Bank, the country's 5th largest commercial bank announced the launch of a full-service ESG practice as part of its Fixed Income and Capital Markets (FICM) vertical. The bank's efforts to deliver innovative sustainable finance comes amidst swelling demand for ESG financing. Stephen Philipson, FICM head stated that establishing this new ESG practice is a "natural evolution" of previous sustainable and ESG finance efforts such as its first green bond issuance in 2014. This effort is demonstrative of the surging demand for greater focus and mainstreaming of ESG financing in conventional banking, and moreover, the bank's effort also indicates a market shift towards a 'risk-return-impact' model.

https://www.esgtoday.com/u-s-bank-launches-full-service-esg-practice-grows-sustainable-finance-team/

SUSTAINABLE FINANCE

auctusESG

China pledges to stop financing coal plants abroad

The Economist, 25th September 2021

Chinese president, Xi Jinping has told the UN that China will not be supporting new overseas power project based on coal. China invests in approximately 70% of the coal plants that are being built today. As per the previous year's data, more than 50% of the world's electricity generated via coal came through Chinese power plants. The decision to stop financing of coal plants located abroad hints that China does not want to be called as a 'spoiler' of efforts taken by the world to fight climate change.

With this decision, there has been buzz around whether China would have more good news to follow at COP26 which is going to be held in Glasgow in November. The speculation revolves around China's plans of reducing greenhouse gas emissions. There has been an argument between many analysts that China's emissions, with effort, could peak in 2025. Since the temperatures have already warmed up by 1.1-1.2°C, achieving the Paris goals to keep the temperature between 1.5°C and well below 2°C is a Herculean task.

https://www.economist.com/china/china-promises-to-stop-backing-new-coal-power-projects-overseas/21804956

Boris Johnson says it will be 'tough' to meet climate finance targets ahead of COP26

CNBC, 20th September 2021

U.K. Prime Minister Boris Johnson mentioned in his remarks that meeting an agreement on climate finance commitments ahead of COP26 will be tough but there is a 'six out of 10 chance' that the climate finance agreement will be fulfilled before the upcoming COP26. He also mentioned in his remarks that though reaching the target is tough, but people should understand how crucial this is for the world.

As per the UN, developed nations have earlier pledged that they will support the climate action programs in developing countries by mobilizing US $100 billion per year by 2020, but the target has not been met. The OECD's secretary-general Mathias Cormann mentioned in his statement that it is disappointing to see the limited progress with respect to climate finance volumes between the year 2018 and 2019.

https://www.cnbc.com/2021/09/20/tough-to-meet-climate-finance-targets-ahead-of-cop26-johnson-says.html

Climate change ETFs found to be undermining war on global warming

Financial Times, 20th September 2021

Academic research suggests that the fight against global warming is being undermined by climate-focused investment funds which frequently engage in greenwashing. The greenest companies are being allocated little money through passive exchange traded funds while the companies that have deteriorating environmental performance, are given more money.

According to Felix Goltz, co-author of the paper “Doing Good or Feeling Good? Detecting Greenwashing in Climate Investing”, these ETFs are ignoring sectors that could be at the “heart of the transition”, highlighting that underfunding sectors such as electrification of the economy and decarbonisation of electricity would be perhaps one of the most dangerous forms of greenwashing.

However, according to Kenneth Lamont, senior fund analyst at Morningstar, several asset managers have now started to apply the green lipstick from their makeup box to meet some of the vague standards set by EU's SFDR in articles 8 and 9. Such concerns would be best addressed through policy acceleration on common taxonomies that would eradicate confusion and scope for greenwashing.

https://www.ft.com/content/1587ee6d-e1da-489c-bee5-2199701c12a3

SUSTAINABLE FINANCE

UK's first green gilt draws record $137 billion demand

Reuters, 21st September 2021

The first 'green' government bond amounting £10 billion (US $13.7 billion), attracting about £100 billion (US $137 billion) of investor demand, demonstrating the exciting for assets that can be used for good. The money raised will be used to finance green projects like clean energy and will also help the British Government polish its green credentials before the upcoming COP26 this November.

The UK's new gilt has now become the largest single sale, issued by any sovereign issuer and so, leaves Italy's €8.5 billion record behind, that was set in March this year. The new gilt will reach maturity in July 2033, and in comparison to the conventional June 2032 gilt, will be priced to yield 7.5 more basis points and the new gilt will also be paying a coupon of 0.875% which shows a longer maturity as compare to the June 2032 gilt.

https://www.reuters.com/world/uk/uks-first-green-gilt-headed-record-123-billion-demand-2021-09-21/

SUSTAINABLE FINANCE

Brussels to issue ‘Covid green bonds’ as part of pandemic recovery effort

Financial Times, 7th September 2021

In order to become the world’s largest issuer of sustainable debt, the first COVID-19 green bond is soon going to be issued by Brussels. According to the European Commission, it will be raising funds as the part of pandemic recovery effort, for environment friendly reforms in the member states of EU. To do so, it will be tapping the debt markets for selling green bonds in the month of October and the first EU green bond sale will take place on 21st October.

The ‘COVID green bonds’ by the European Commission will be mainly based on the EU’s sustainable finance disclosure regulation taxonomy, however this is not yet confirmed, and subject to be finalised with EU governments. It is to be noted that in order to fund its €800 billion pandemic recovery programme, Brussels started issuing bonds in the month of July and has raised €45 billion so far.

https://www.ft.com/content/13493c52-47c1-465c-8d33-d5c3358df7ae

CLIMATE RISKS

Reinsurers underplay climate risk by up to half, S&P estimates

Financial Times, 23rd September 2021

A simple stress scenario undertaken based on three-decade of claims data by S&P Global Ratings, suggested that reinsurers are underestimating their exposure to extreme events by between 33% and 50%. Attributing extreme events to climate change is very difficult and in short term, this may not get fully captured in catastrophic modeling. The future scenario regressed with a probability of occurring once in 20 or 30 years may occur once in 10 years due to the unpredictability of the extreme events and the difficulty in capturing risks.

The insurance sector has been majorly affected by the rise in severity of extreme events and the frequency of claims. This could imply that the insurers or reinsurers would have to provide more capital for covering up the risk exposure and they might not be willing to pay the higher amount.

https://www.ft.com/content/a5601a80-d8e3-4281-be93-674a03bdbb68

Carbon emitters 'failing to disclose climate risks'

BBC News, 17th September 2021

Research by Carbon Tracker suggests that a lack of detail in financial disclosures makes it difficult to identify if the money companies are committing is actually being directed toward sustainable activities. Firms need to be transparent in reporting how they will fulfill their sustainability targets. Of the 107 global firms Carbon Tracked studied, over 70% of the companies did not have the parameter of climate impact in their financial reporting.

The lack of transparency in companies' disclosure reduces the chances to adopt decarbonization strategies and meet global emissions goals. Moreover, this makes climate risk quantification for investors as this information is disclosed in financial reporting, complicating the situation for all stakeholders involved including investors and the companies themselves.

https://www.bbc.com/news/business-58589914

CLIMATE RISKS

European fishing communities face their own specific climate risks

Science Daily, 29th September 2021

Recently published study by marine researchers in the UK, Denmark and the Netherlands highlighting that fisheries and coastal communities in the UK and the Eastern Mediterranean have the highest risk of facing climate risk impacts.

Ocean warming has affected the fishing industry by influencing the distribution of local fish species, which affects the livelihood of millions who are dependent on it, throughout Europe and has consequences on local businesses. Communities fishing only one species may be more vulnerable as their numbers can decrease due to climate change.

Climate risk varies across regions and even within regions. Some coastal communities may find it easier to adapt than others. The difference in climate risk across regions requires a local approach for adaptation measures. There could not be a single adaptation measure for all the regions. The solution to this issue is to focus on sustainable management of the present marine resources and diversification in the fishing species.

https://www.sciencedaily.com/releases/2021/09/210929163811.htm

CLIMATE RISKS

U.S. banking regulators working on climate risk management guidance, official says

Reuters, 16th September 2021

Incorporating risks posed by climate change is now part of US banking regulators' agenda, who are collaboratively developing new climate risk management guidance. This guidance aims to help lenders "navigate the physical and transition risks climate change poses" to the American financial system. This step comes amidst concerns about rising climate risk and its devastating impacts on financial assets worth trillions of dollars, around the world. The Federal Reserve has asked lenders to disclose climate risk mitigation measures and have since also highlighted that it would consider conducting climate stress testing for banks' portfolios to assess resilience against climate scenarios.

This move by banking regulators suggests that there is a push to safeguard the American financial system. While it does not "carry the same legal weight" as formal regulation, such guidance can set the stage for future regulation, and would aid lenders across the country in protecting against climate risks.

https://www.reuters.com/business/sustainable-business/us-banking-regulators-working-climate-risk-management-guidance-official-says-2021-09-15/

CLIMATE RISKS

Indigenous leaders push new target to protect Amazon from deforestation

Reuters, 5th September 2021

Indigenous groups are urging world leaders to set a new target to protect 80% of the Amazon basin by 2025, at a conference in Marseille. “Bold action” is needed to halt deforestation in the world’s largest carbon sink. Indigenous groups are pushing leaders to endorse its ‘Amazonia80x2025’ declaration to garner greater support for the initiative.

Joint action to reverse destruction and “safeguard the future of the planet” is crucial as, research shows that less than 50% of the Amazon basin is under official protection or indigenous stewardship. Unsustainable activities such as ranching, mining and oil exploration are growing, as seen with the surging destruction and deforestation under Bolsonaro’s regime in Brazil, which houses 60% of the Amazon. Research also shows that the basin has lost 18% of its original cover, with an additional 17% being degraded, leading to rising concerns and international outcry of the lack of response to the same.

https://www.reuters.com/business/environment/indigenous-leaders-push-new-target-protect-amazon-deforestation-2021-09-05/

auctusESG

auctusESG LLP
1008, Kohinoor Square, N. C Kelkar Road, Shivaji Park, Dadar West,
Mumbai, 400028
Tel: (+91) 98679 00090
Email: corporate@auctusesg.com
Website: www.auctusesg.com

Connect with us!
Twitter: @auctusESG
LinkedIn: linkedin.com/company/auctusESG-llp