SECTORAL UPDATES

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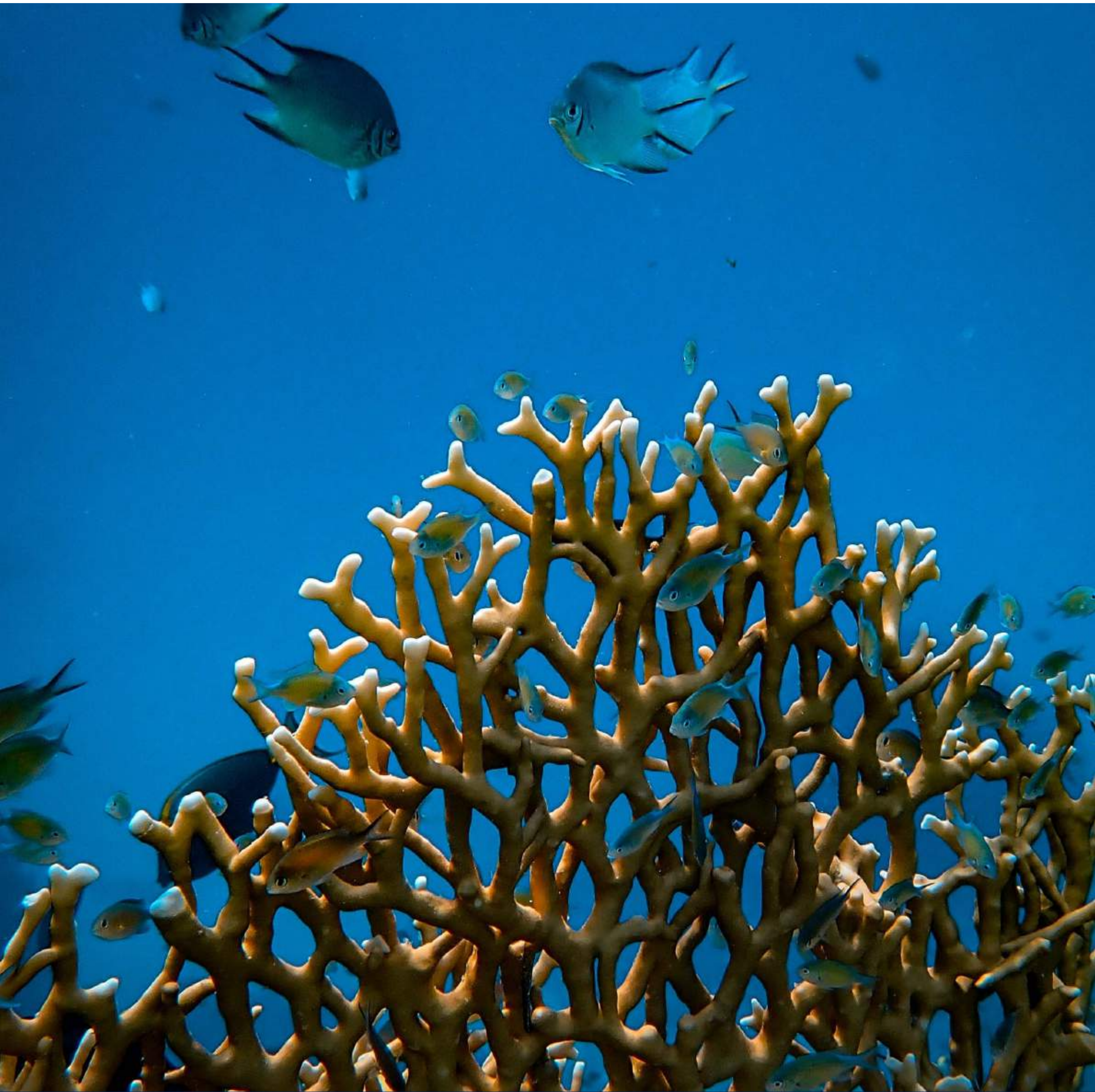
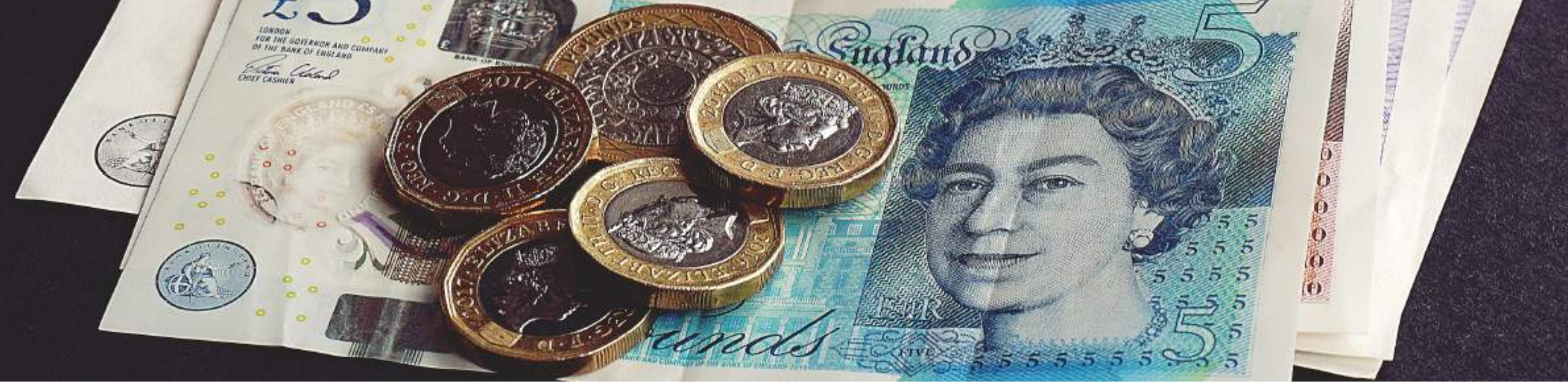
JAN 2022





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Bloomberg’s 2022 Gender-Equality Index Shows Companies Increasingly Committed to Reporting ESG Data

Bloomberg, 26th January 2022

Bloomberg announced that 418 companies representing a combined market capitalization of US $16 trillion are included in the 2022 Bloomberg Gender-Equality Index (GEI), an increase of 20% year-on-year. Alignment with this index grants greater depth of ESG data available to investors, especially surrounding gender-related practices, which is essential to improving diversity and inclusion.

It was found that GEI members hire more women and have a more diverse board. Joining the GEI allows companies to benchmark their practices against peers and evaluate best practices in the industry. This commitment highlights that businesses are not just committing to the ‘E’ of ESG, but are taking a holistic appraisal of ESG and engaging with best practices to improve diversity and enhance investor confidence.

https://www.bloomberg.com/company/press/bloomberg-2022-gei/

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ESG Ratings: SEBI proposes norms for entities

Livemint, 25th January 2022

On January 24th, SEBI issued a consultation paper to streamline and standardise the ratings of companies on ESG metrics for entities rating companies to address differences between different methodologies offered by ESG Ratings and ERPs, which are unregulated. It has been suggested that ESG rating products are referred to as ‘ESG Corporate Risk ratings’, to differentiate them for ESG impact ratings and reduce confusion.

Ultimately, the finalised guidelines will provide an opportunity for markets to use India-specific rating data, instead of relying on European or US specific ESG rating reports. This is a positive step away from adopting blueprint models as adopted by Europe and the U.S. Standardising these can allow for greater comparability across multiple frameworks, as well as clarity surrounding what ESG ratings and disclosures should look like - one of the main pain points for investors.

https://www.livemint.com/market/stock-market-news/sebi-proposes-only-accredited-entities-can-provide-esg-ratings-11643036827930.html

ESG may surpass $41 trillion assets in 2022, but not without challenges, finds Bloomberg intelligence

Bloomberg, 24th January 2022

Global ESG assets may account for one third of projected total assets under management globally by 2025. ESG exchange-traded funds (ETFs) are growing at a rapid pace, with ESG having grabbed over 10% of the global ETF flows in 2021. Green bonds continue to soar, and sustainability-linked bonds and loans are facilitating another wave of growth by tapping into a broader set of industries. However, whilst ESG gains considerable traction, greater scrutiny will also be necessary to tackle the risk of greenwashing. Some have described this growth as a double-edged sword if auditing and certifications are not adequately implemented. This sets the tone for the need for a continued focus on regulation that can ensure ESG data remains legitimate, or else ESG data will cease to have its intended impact.

https://www.bloomberg.com/company/press/esg-may-surpass-41-trillion-assets-in-2022-but-not-without-challenges-finds-bloomberg-intelligence/

Asset owners pledge to have at least halve portfolio emissions by 2030

Reuters, 25th January 2022

A group of the world's largest asset owners managing US $10.4 trillion committed to halving their portfolio emissions by 2030, aiming between 49% and 65% from a 2020 baseline. They have also looked towards engaging with other company boards through shared practices, targets, and approaches in order to encourage other asset owners to join their campaign. This reflects how seriously carbon emissions are being taken within the sector. With large asset owners setting the tone for ESG targets and metrics, and committing to shared practices with others, this illustrates the steps towards democratising ESG practices, as clarity surrounding how to identify, utilise and benefit from disclosing ESG data is a barrier to many organisations' ESG alignment and achieving authentic carbon targets.

https://www.reuters.com/markets/europe/asset-owners-pledge-least-halve-portfolio-emissions-by-2030-2022-01-25/

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ESG funds face threat from tech sector turmoil

Financial Times, 18th January 2022

Despite huge growth in ESG, funds face uncertain outlook in 2022, pressures are mounting due to research costs and hits to tech stocks. Cutting-edge technology has gained traction as a means to address sustainability issues, representing a huge portion of ESG funds. Since taking a hit, some see this as a test to assess whether those who are buying sustainable funds are truly doing it for environmental and ethical reasons, now that tech stocks have dropped.

Additionally, research costs are expected to reach US $1.3 billion globally in 2022, due to high data and specialised research costs, and the need to hire departments to engage with companies multiple times per year on sustainability targets. This serves as interesting insight into the investments into ESG-aligned tech giants. Additionally, with ESG research ballooning in costs, this may also push industries to seek to converge ESG measurements for comparability, - or perhaps even serve as impetus for the tech industry to bridge the gap between data and disclosures.

https://www.ft.com/content/415bcf2a-c9d5-4a1a-90bb-80ac8d3bc43c

Bank of England tells banks to quantify climate risks properly

Reuters, 12th January 2022

The Bank of England (BoE) has urged British banks to raise their ambition when quantifying climate risks. The central bank has affirmed in a letter to bank CEOs that particular attention needs to be given to incorporating climate-related financial risks in business strategies, decision making, and risk-taking. The BoE observed that most banks have focused on opportunities arising out of climate change despite the evident risks.

The letter also specified that climate-related financial risks will be included in BoE's core supervisory approach from 2022. In a separate letter, the Bank has requested insurers to undertake further research on the potential impact of litigation risk arising from climate change, and its impact on and assets, and liabilities. This is a welcome move; it would help identify and integrate climate risks in UK's financial system and consequently, across the world.

https://www.reuters.com/world/europe/bank-england-tells-banks-quantify-climate-change-risks-2022-01-12/

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Aavishkaar Capital, KfW launch $250 million ESG First Fund

Business Standard, 25th January 2022

Aavishkaar Capital, the impact investing arm of the Aavishkaar Group, has announced the launch of a US $250 million ESG First Fund in partnership with German state-owned investment and development bank KfW. The Fund is aimed at building ESG practices of mid-cap businesses in India. It intends to provide transformational capital to Indian companies, which would help businesses improve their ESG standards. This would, in turn, help them capitalise on the recent wave of ecologically conscious, gender-equal, and purpose-driven businesses.

Additionally, it would also aid in meeting the rising demands on corporate due diligence which have come up because of the regulatory measures in the European market. While the fund can be accessed by all sectors, importance would be given to sectors with high exports to Europe. Aavishkaar Group's founder and chairman, Vineet Rai has remarked that the Group has developed a unique partnership with KfW which enables them to innovate products and launch them with a long-term impact. This partnership would certainly go a long way in reducing the environmental impact and improving the social working conditions in the SME supply chain in India.

https://www.business-standard.com/article/companies/aavishkaar-capital-kfw-launch-250-million-esg-first-fund-122012501574_1.html

IMF outlines $50 Billion Climate and Resilience Lending Plan

Bloomberg Quint, 20th January 2022

The IMF has drafted a plan for an imminent US $50 billion lending trust fund, Resilience and Sustainability Trust (RST), which is focused on climate change and sustainability. Ceyla Pazarbasioglu and Uma Ramakrishnan, the director and deputy director of the fund's strategy, policy and review department have remarked that it is critical to transform economies to be more resilient to shocks and achieve sustainable and inclusive growth.

About 75% of the IMF nations would be eligible for funding from the RST. The officials have clarified that the amount of money that could be drawn from any nation would be capped at 150% of a country's IMF quota or US $1.4 billion, whichever is smaller. Considering that the trust is focused on addressing the long-term risks to a nation's balance of payments, the payback time has been proposed to being formalised at 20 years. Financial assistance from multilateral agencies such as the IMF is crucial in the run up to building climate resilience.

https://www.bloomberg.com/news/articles/2022-01-20/imf-outlines-plan-for-50-billion-climate-change-lending-trust

SUSTAINABLE FINANCE

China Green Bond Issuances set to cross $100 billion mark in 2022

S&P Global Market Intelligence, 19th January 2022

The green bond market in China is expected to increase exponentially in 2022 due to government's initiatives to widen the investor base and fuel bank lending to energy transition. With the People's Bank of China (PBOC) including its green bond holdings in the overall performance assessment of July 2021, several Chinese banks are expected to become active players in the green bond market. It is also expected that banks would be lending more to green projects as the central bank has offered funding to subsidise green loans.

However, according to Climate Bonds Initiative, about two-thirds of the green bonds issued in 2021 were not aligned to the international standards. Christina Ng, a researcher at the Institute for Energy Economics and Financial Analysis has opined that the portion of non-aligned green bonds may continue to increase if the regulations about the use of proceeds is not amended to match international standards. These non-aligned bonds are off-limits to international investors as they are bound by their protocols. Strong regulations in the form of detailed, verified, and transparent post-issuance would be paramount to attract foreign investors. An absence of concrete regulations would limit the bond holdings to domestic banks, insurers, and asset managers, leading to a concentration risk.

https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/china-green-bond-issuances-set-to-cross-100b-mark-in-2022-68453272#:~:text=More%20Chinese%20issuers%20are%20expected,lending%20to%20energy%20transition%20projects.

Climate change will limit choice for Winter Games

Reuters, 18th January 2022

A recent study identified historical data and future climate trends to determine the fate of the Winter Olympics host as limited to just one - Sapporo, in Japan, by the end of the century. Research found that the average February temperature has increased from 0.4 Celsius in the 1920s, to 6.3 Celsius in games held in the 21st century, meaning that other potential hosts will be limited due to the unpredictability and lack of climate-reliability, even in a low-emission future. Impacts of changing temperature are starting to show, as crashes and injury rates have been partially attributed to higher temperatures and poor snow conditions.

As climate change disrupts long-standing tradition, such events must adopt a level of flexibility and agility to handle changes. This could result in adjustments for the International Olympic Committee, like turning to higher elevations to run events.

https://www.reuters.com/business/cop/climate-change-will-limit-choice-winter-games-hosts-says-study-2022-01-18/

Australia records highest temperature in 62 years

Reuters, 14th January 2022

Climate scientists and activists have raised alarm bells as the planet's hottest years have all occurred in the last decade. In early January, people in Australia were ordered to stay indoors following a severe heat wave across the north-western coast, pushing temperatures to 50.7 degrees Celsius. As one of the biggest carbon emitters, Australia is both contributing heavily to the climate crisis, and suffering its consequences.

Despite this, the government has refused to back down from its reliance on coal and other fossil fuel industries. Losses in productive hours due to heat are expected to deepen in the coming decades, resulting in billions of dollars lost. This points to the complex question that sits prominently within the discussion of decarbonisation; specifically transitioning to low-carbon industries, without divesting to an extent that can damage livelihoods of those who work in high-emitting industries.

https://www.reuters.com/business/environment/australia-records-highest-temperature-62-years-2022-01-14/

In hot water: Ocean warming hits another record high on climate change

Mongabay, 14 January 2022

The oceanic temperatures have reached the highest it has been in recent times. The research team utilised a network of high-tech autonomous ocean buoys to assess global ocean temperatures. The research found that, in 2021, the upper 2,000 meters in all of the oceans absorbed 14 zettajoules more of human-made energy than 2020. The ocean is generally getting warmer but specific parts of the Atlantic and the Pacific have experienced more warming owing to wind patterns and currents.

Oceanic warming can give rise to extreme weather events such as sudden heavy rainfall, heatwaves, and drought. In addition to this, it is also having an impact on the fishing industry, consequently impacting global food security. Oceans are an inextricable component of the biosphere and are an immediate reduction in carbon-emissions needs to be the non-negotiable clause to mitigating catastrophic effects of ocean warming.

https://news.mongabay.com/2022/01/in-hot-water-ocean-warming-hits-another-record-high-on-climate-change/

Climate Tops 2022 WEF Global Risks Report

UNFCCC, 11th January 2022

Despite a looming pandemic, World Economic Forum's 2022 Global Risks Report has identified climate crisis as the biggest threat to humanity and "climate action failure" has been rated as the top risk in the 2022 Global Risk Perception Survey. Allied risks such as extreme weather events arising out of climate change has been a close second and biodiversity loss is named as the third risk in the survey.

The report encourages governments to create policies beyond a quarterly reporting cycle, by adopting a co-ordinated multi-stakeholder response to ensure the transition to net-zero economies. Peter Giger, Chief Risk Officer, of Zurich Insurance Group has stated that failure to act on climate change could reduce the global GDP by one-sixth. Post the COP-26, all eyes are now on governments to act on immediate, tangible, and effective actions to meet climate targets.

To facilitate this process, economic motivations through innovative financing mechanisms such as carbon pricing, blending of finance, credit enhancements can prove to be excellent drivers to create an important financial opportunity.

https://unfccc.int/news/climate-tops-2022-wef-global-risks-report

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