# SECTORAL UPDATES

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## MAR 2022

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# Environmental, Social, and Governance (ESG) Global Survey Validates that ESG is a Growing Priority for Businesses

*Business Wire , 22nd March 2022*

According to research conducted by NAVEX, leader in integrated risk and compliance management software, ESG measures are a growing priority for businesses in 2022. Grounded in surveys with 1,250 senior executives and managers at companies in the UK, US, Germany, and France, there is evidence of an increasingly more balanced emphasis on environmental, social, and governance factors.

There is a growing belief amongst respondents that formal processes or programmes for measuring ESG metrics should be in place within their companies, with only one-third of respondents believing that their company is performing very effectively within these metrics. Relatedly, 46% of respondents stated that their company plans to increase its focus on ESG, 41% that their focus will remain the same, with only 3% asserting they plan to decrease their ESG spending in 2022. These transnational developments and trends in 2022 mark the timely and growing priority of ESG within businesses.

https://www.businesswire.com/news/home/20220322005783/en/Environmental-Social-and-Governance-ESG-Global-Survey-Validates-that-ESG-is-a-Growing-Priority-for-Businesses

# ESG fund boom masks mispricing dangers for investors

*Financial Times , 20th March 2022*

OIn 2021, ESG bond funds saw a record level of net inflows, with nearly US $102 billion netted, and in February 2022 Google searches for “ESG” reached an all-time high. This data evidences has been deemed as an ESG fund “boom,” yet industry experts such as Brown Advisory’s Tom Graff or AllianceBernstein’s Erin Bigley warn of the implications of the misunderstanding and mispricing of ESG risks. There is currently no universal standard for what comprises an ESG risk, products continue to frequently be treated independently from the core investment business, and ratings are not at the forefront of credit risk assessment processes.

As a result, there are risks which are not priced into markets as is exemplified through the growing threat of natural disasters. According to Graff, this trend can be seen in the commercial-mortgage backed securities market in the United States where floods are becoming more frequent and acute, due to climate change. Similarly, ESG risk remains under-priced in the municipal bond market. While mispricing remains an issue to be challenged in 2022 and within upcoming years, it also provides opportunities for investors.

https://www.ft.com/content/1a4abf9d-b800-4079-94e0-9638ad3bf393?desktop=true&segmentId=7c8f09b9-9b61-4fbb-9430-9208a9e233c8

# Banks undermine their 'net zero' pledges through lobbying - report

*Reuters, 25th March 2022*

A London-based energy and climate think-tank finds thirty of the world's largest financial institutions to be compromising their commitments to reduce carbon emissions. The report reveals that the institutions are part of industry associations that lobby against important sustainable finance policies that intend to enhance disclosures on financed emissions and climate action plans.

Moreover, the institutions are financing new fossil fuel projects, in a step away from fossil fuel exclusion policies. The report calculates primary financing to fossil fuel -related businesses by the financial institutions to be no less than $740 billion in 2020 and 2021, mostly through corporate lending and bond underwriting.

With news of lobbying against climate regulation and financing fossil fuel projects, the institutions have been accused of greenwashing. Compromising of crucial decarbonisation targets by financial institutions impedes the urgency of needful climate action, globally.

https://www.reuters.com/business/sustainable-business/banks-undermine-their-net-zero-pledges-through-lobbying-report-2022-03-25/

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# Nasdaq Launches World’s First Carbon Removal Indexes

*Nasdaq, 24th March 2022*

Capital markets technology and exchange company Nasdaq has launched the world’s first commodity reference price indices that track the price of removing carbon dioxide from the atmosphere. The indices are intended to enhance standardization and transparency in the carbon removal market, making a business case for investing and financing carbon removal projects. The indices stand to help understand the true cost of neutralizing carbon emissions by setting a price benchmark.

Nasdaq acquired a majority stake in the carbon removal marketplace Puro.earth, in June 2021. Consequently, the family of indices will follow the prices of Carbon Removal Certificates issued by Puro.earth. The launch of these novel indices is expected to boost the voluntary carbon market by validating the trends of carbon removal credit pricing to climate finance players. As liquidity is enhanced in the voluntary carbon market, the family of indices provide an opportune platform for innovating new financial products.

https://www.nasdaq.com/press-release/nasdaq-launches-worlds-first-carbon-removal-indexes-2022-03-24



# ESG Funds Get ‘Brutal Wake-Up Call’ on Russian Bond Holdings

*Bloomberg, 15th March 2022*

Following the conflict between Ukraine and Russia, approximately $800 million in Russian foreign-currency debt that are held by ESG funds are at risk of default. Categorised under the EU’s Article 8, which earmarks environmental, social and governance investments, the ESG funds hold bonds that have been issued by the Russian government and were due for payment.

The ESG funds have faced criticism for listing Russian sovereign bonds. The Russian government has promised to service its debt. However, it intends to pay investors from countries backing sanctions on Russia in rubles. Payment of foreign-currency bonds in rubles might result in default, affecting Russia’s sovereign bond market and corporate issuers.

https://www.bloomberg.com/news/articles/2022-03-15/esg-funds-get-brutal-wake-up-call-on-800-million-russia-bonds

## Canada issues inaugural green bond

*Department of Finance Canada, 23rd March 2022*

Following the Canadian government's commitment to issue a green bond within FY 2022, the government successfully issued its maiden 7.5-year, $5 billion green bond. The green bond is expected to play a pivotal role in bolstering Canada's economy and job market through investments in green infrastructure and other climate-friendly projects.

The government will release allocation and impact reports that detail the expenditures supported by the proceeds of the bond, and environmental impacts of the expenditures. The green bond comes on the heels of Canada's Green Bond Framework, which includes projects that deliver on clean transport and renewable energy production, among others. The green bond saw an oversubscription of $6 billion, with international investors making up 45% of the investor base. The oversubscription paired with a global investor base is reflective of a strong demand for environmental projects in Canada.

https://www.canada.ca/en/department-finance/news/2022/03/canada-issues-inaugural-green-bond.html

## S'pore, Indonesia ink climate change partnership to pursue goals, including green finance

*The Straits Times, 21st March 2022*

Following the Leaders' Retreat in January this year, Singapore and Indonesia sealed a climate change partnership to collaborate on multiple fronts. The partnership entails establishing work plans, pilot projects, research collaboration and technical exchange in four key areas. These include, carbon market and pricing, nature-based solutions and ecosystem-based adaptation, clean technology, and green financing interventions. In an effort to frontload emission reduction, the countries are set to engage actively to share best practices and develop projects in international carbon markets. These strategic action points succeed Indonesia's introduction of new rules for carbon trading at COP 26. Similarly, the announcement by the Singaporean government on increasing carbon tax by at least 10 times by 2030 expresses strong political intent on carbon pricing.

On the green finance front, the two countries look forward to advance blended finance for climate solutions. The Blended Finance Alliance that is to be set up by Indonesia under the G20 framework would provide much impetus to this area of intervention. Such global developments and partnerships are proof that collaboration and co-creation serves as the way forward for a net-zero global economy.

https://www.straitstimes.com/singapore/environment/spore-indonesia-ink-climate-change-partnership-to-pursue-goals-including-green-finance

# African Development Bank Commits $2.8 Billion to South Africa Over Five Years

*Bloomberg Quint, 24th March 2022*

The African Development Bank (AfDB) has committed to extend a $2.8 billion facility to South Africa over the next five years. The financial commitment also includes a $400 million package to support state power utility, Eskom, in its shift to use clean source of energy.

The AfDB's commitment contributes to an earlier commitment of $8.5 billion by the U.S., U.K., Germany, France and the European Union at COP26 to the utility. Moreover, AfDB's financial support builds on the South African President's initiative to secure $68 billion of investment by 2024 to accelerate sustainable economy in the nation. According to the President, with 95% of the target secured, South Africa is on the path to exceed the target by next year. Facing multiple climate impacts, including water scarcity, support through climate finance ensures South Africa's green journey.

https://www.bloombergquint.com/business/afdb-to-commit-2-8-billion-to-south-africa-over-next-five-years-l14rkb8w

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## The SEC Unveils Proposed Climate Disclosure Rules

*ESG Today, 21st March 2022*

AAfter a year of growing momentum towards the introduction of sustainability reporting rules, the US Securities and Exchange Commission (SEC) has released its climate disclosure proposals. Broadly, the proposed rules would require US companies to disclose information surrounding their board and management's oversight and governance of climate-related risks, the impact of climate-related risks on their strategy, business model, and outlook, as well as their internal processes for identifying, assessing, and managing such risks, and metrices disclosing their climate footprint.

According to PwC's US ESG Leader, companies have been largely supportive of the implementation of rules providing consistency and clarification around reporting requirements. Such requirements are likely to lead to substantial corporate investments within services and tools to track and understand emissions and place pressure on smaller organisations within the supply chain to tackle their impacts. The proposals have since entered a 60-day comment period prior to the SEC commencing the finalisation process of the climate disclosure rules.

https://www.esgtoday.com/the-sec-unveils-long-awaited-proposed-climate-disclosure-rules/

# EU countries support plan for world-first carbon border tariff

*Reuters, 16th March 2022*

Member nations of the European Union have backed the bloc's plan to implement the world's first carbon dioxide emissions tariff on the import of polluting goods. While details remain to be decided upon in upcoming negotiations, a three-year transition phase for the levy would commence in 2023 before the introduction of carbon dioxide emissions costs from 2026 on particular imports.

The aim of the tariff is to hinder cheaper goods—primarily cement, steel, aluminium, fertiliser, and electricity—from countries with weaker environmental regulations from undercutting European industry and is part of the EU's climate policy package aiming to cut emissions by 55% from 1990 levels, by 2030. The replacement of the current free CO2 permits for industries remains contentious with the Commission proposing their phasing out by 2035 and industry lobbying their maintenance. This decision by the EU marks the first global decision to impose the same CO2 costs on domestic (EU) companies and those abroad.

https://www.reuters.com/world/europe/eu-countries-back-plan-world-first-carbon-border-tariff-2022-03-15/

## ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures

*IFRS, 31st March 2022*

Established under the aegis of International Financial Reporting Standards Foundation at COP 26, the International Sustainability Standards Board (ISSB) opened consultations for two proposed standards. While one proposal deals with general sustainability-related disclosure requirements, the second one is more focused as it deals with climate-related disclosure requirements.

The proposals incorporate inputs from G20 leaders, the International Organization of Securities Commissions (IOSCO), the recommendations of the Taskforce on Climate-related Financial Disclosures and industry-based disclosure requirements of Sustainability Accounting Standards Board. Post a 120-day consultation period, the ISSB intends to issue new standards that will underline global sustainability disclosures for capital markets. Along with sustainability and climate-related risks, the proposals have developed requirements for disclosure of sustainability and climate-related opportunities. The launch of ISSB standards will bring a greater degree of harmonization between investors and companies.

https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/

# ECB to Start Work in 2022 to Add Climate Risk to Capital Bar

*Bloomberg Green, 22nd March 2022*

European bank regulators are positioned to commence work on adding climate risks to the existing framework for setting capital requirements. Under this development, lenders would be penalised for the failure to prepare for losses arising from the shift to clean energy, and from extreme weather. According to the European Central Bank's supervisory board, the discussions on methodology are likely to be contentious, thus taking until 2023 or beyond.

Divisions remains on how much pressure should be placed on banks given the uncertainty of climate developments, insufficient data, and the lack of a clear methodology. One possibility being explored is provisioning banks with scores which would be factored into their capital requirements, yet the translation of these scores into bank-specific requirements will be controversial as Europe's industrial sector could be penalised. The requirement for banks to assign more capital on the basis of climate risks would mark a substantial shift in the regulatory framework for preventing financial-sector blow-ups.

https://www.bloomberg.com/news/articles/2022-03-22/ecb-to-start-work-in-2022-to-add-climate-risk-to-capital-buffers

## Heatwaves at both of Earth's poles alarm climate scientists

*The Guardian, 20th March 2022*

Less than a year after the IPCC warned of warming signals which could result in irreversible polar melt, areas of the Antarctic and the north pole region were hit by an unprecedented heatwave. Temperatures reached record levels of 40C and 30C above normal in regions of Antarctica and the north pole respectively. Such heatwaves not only signal the anthropogenic impacts on the climate, but they may trigger changes accelerating the already rapid breakdown of the climate. Polar melt threatens to absorb heat and continue to raise sea levels. According to University College London's Mark Maslin, with these developments a new, extreme climate change phase has been entered much earlier than expected. Following the unprecedented weather patterns and heatwaves of 2021, the developments at the poles call for rapid action on climate change.

https://www.theguardian.com/environment/2022/mar/20/heatwaves-at-both-of-earth-poles-alarm-climate-scientists

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