

SECTORAL

UPDATES

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MAY 2022





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Tesla cut from S&P 500 ESG Index, and Elon Musk tweets his fury

Reuters, 19th May 2022

S&P Dow Jones Indices has removed high profile electric carmaker Tesla Inc from its widely followed S&P 500 ESG Index, citing issues including racial discrimination claims and crashes tied to its autopilot vehicles. This move prompted critical tweets on ESG from Tesla CEO Elon Musk.

Other contributing factors to the changes, effective from May 2, included Tesla's lack of published details related to its low carbon strategy or business conduct codes, according to S&P.

Although Tesla is contributing to reducing emissions, its issues and lack of disclosures relative to industry peers raises debate about the need for well-rounded ESG metrics.

<https://www.reuters.com/business/sustainable-business/tesla-removed-sp-500-esg-index-autopilot-discrimination-concerns-2022-05-18/>

SEC Fines BNY Mellon Over ESG Claims

The Wall Street Journal, 23rd May 2022

BNY Mellon's investment adviser division was fined US \$1.5 million by the US Securities and Exchange Commission for allegedly misstating and omitting information about ESG investment criteria for certain mutual funds it managed.

According to the SEC, BNY Mellon agreed to pay the penalty after regulators uncovered that some of the U.S. mutual funds it managed did not undergo a quality review of ESG aspects between July 2018 and September 2021. This is the first time the SEC has settled with an investment adviser on ESG statements.

BNY Mellon's penalty is the latest in a series of SEC enforcement actions regarding ESG, following its launch of a dedicated greenwashing task force last year. The penalty comes on the back of debate related to applicability of ESG, sparked by Tesla's removal from S&P's ESG Index.

<https://www.wsj.com/articles/sec-fines-bny-mellon-over-esg-claims-11653323966>



India Inc improves ESG compliance: CRISIL

The Economic Times, 19th May 2022

According to CRISIL, an ESG risk assessment of 586 Indian companies across 53 sectors, based on fiscal 2021 data exhibits an improvement in the ESG scores of most of them compared with the previous year, owing to better disclosures and improved performance on various parameters. Service companies such as IT, lending, and auto OEMs are the leaders in terms of ESG disclosures, whereas chemicals, mining, construction EPC, and transport infrastructure lag with disclosures.

When the performance of 225 companies was compared to the previous year's results, 14 exhibited a significant positive deviation (more than 5-point increment in score) and three showed a major negative departure (more than 5-point decline). The evaluation categorized 14 companies under 'leadership,' 108 in 'strong,' and 73 in 'below average,' 'weak', respectively. The 'below average' and 'weak' category companies have poor disclosures and unsatisfactory ESG risk-management practices.

With India intending to reach net zero emissions by 2070, the reports' findings intensify the importance of mainstreaming sustainability reports.

<https://economictimes.indiatimes.com/news/company/corporate-trends/india-inc-improves-esg-compliance-crisil/articleshow/91666206.cms>



Developers increasing focus on ESG compliance: Experts

The Economic Times, 25th May 2022

The rising investor focus on green certification has spurred real estate developers into developing ESG compliant buildings. Investors have already implemented ESG criteria as a part of their investment plans, according to nearly 60% of respondents to CBRE's 2021 Global Investor Intentions Survey, with the Americas, EMEA, and Asia-Pacific showing a stronger focus on these concerns than in prior years.

According to the CEO of a real estate developing company, investor perception that ESG compliant buildings are related to better returns is rising, leading to willingness to pay a premium for them. Developers are now shifting focus to green certifications to ensure interest and preference from corporations and several foreign players. CBRE states that certified green developments attract a higher rental premium than non-certified projects.

While factors like location, asset quality, and the support of a prominent developer or investor might always result in a higher rental premium, green certification has now become a critical criterion for tenant decision-making, especially with the introduction of ESG. ESG compliant buildings are well-placed to mitigate real estate's share of global CO2 emissions, which totals to 40%.

https://economictimes.indiatimes.com/industry/services/property/-/-construction/developers-increasing-focus-on-esg-compliance-experts/articleshow/91786414.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

HSBC sets aside US\$5 billion in sustainable financing to fund projects in the Greater Bay Area to reduce carbon emissions

South China Morning Post, 17th May 2022

HSBC bank has launched a US \$5 billion Greater Bay Area (GBA) Sustainability Fund spanning over 18 months, to finance the companies that are actively working on cutting carbon emissions in 11 cities within the GBA. GBA is a megalopolis, consisting of nine cities and two special administrative regions, in South China. Any body of an organization involved in climate change adaptation, pollution prevention, wastewater management, new climate-based businesses in GBA are eligible to apply.

Apart from financing, the applicants can also avail the bank's sustainable finance products, such as sustainability-linked loans, green loans, and ESG training sessions and emissions reduction tools. The bank plans to achieve its goal of net-zero financed emissions by 2050 by providing up to US \$1 trillion in transition finance and investment opportunities to clients by 2030.

<https://www.scmp.com/business/banking-finance/article/3178025/hsbc-sets-aside-us5-billion-sustainable-financing-fund>



SUSTAINABLE FINANCE

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New Zealand targets EVs, industry with new \$2.8 billion climate response fund

Reuters, 16th May 2022

New Zealand government has announced the development of a climate response fund, Climate Emergency Response Fund, valued at US \$2.8 billion. The fund has been set up to drive action towards the national target of net-zero emissions by 2050.

The funds are primarily directed towards three sectors, namely transportation, energy and industry. The funds directed towards transportation are intended to mainstream Electric Vehicles, and decarbonisation of large vehicles and public transport. An amount of US \$250 million and US \$453 million are set aside to be invested into agriculture and the energy sector respectively. Additionally, New Zealand targets energy sector by funding for transitioning into a cleaner energy, creating low-emission jobs opportunities, thereby ensuring job security in a longer run.

Initial funds will come from revenues from New Zealand's Emissions Trading Scheme, executing the polluters' pay principle.

<https://www.reuters.com/business/sustainable-business/new-zealand-announces-new-climate-response-fund-2022-05-16/>

Chinese green bond issuers must improve disclosures to ensure growth of sustainable finance market, report says

South China Morning Post, 22nd May 2022

Chinese green bond issuers, instrumental in China's position as the second largest climate bonds market, have room for improvement with regard to disclosing use of proceeds. A Climate Bonds Initiative (CBI) report finds that enhancing the quality and availability of green bond disclosures is critical to the growth of Chinese sustainable finance market.

Chinese climate bonds witnessed a massive growth in 2021, valuing at US \$199 billion, following China's net-zero commitments. The less-than-global-average post-issuance reporting in China is likely to raise questions about the credibility of the instrument, resulting in investor apprehension. A robust post-issuance reporting system may enable Chinese bond issuers to respond with improved accountability and reduce the risk of greenwashing.

<https://www.scmp.com/business/banking-finance/article/3178588/chinese-green-bond-issuers-must-improve-disclosures-ensure>



Government of Canada convenes a high-level roundtable on sustainable finance with His Royal Highness, The Prince of Wales

Environment and Climate Change Canada, 18th May 2022

The Canadian minister of Environment and Climate Change conducted a roundtable with The Prince of Wales, Canadian President Trudeau, leaders from banking and financial sectors and sustainable finance representatives of the country. The roundtable aimed to identify avenues for private sector engagement in developing net-zero economies in Canada and globally.

The discussion emphasized on mobilizing private sector capital for Canada's decarbonization into a climate resilient economy. This was followed by discussions on working with developing countries to help them achieve their net-zero targets through private sector intervention and capital allocation. Parallely, Canada's 'Sustainable Finance Action Council' has updated to increase its focus on climate disclosures and net-zero capital allocation strategies. The guiding principle of the roundtable and the Sustainable Finance Action Council is to support Canada's climate goals and equip the Canadian economy with long-term resilience.

<https://www.canada.ca/en/environment-climate-change/news/2022/05/government-of-canada-convenes-a-high-level-roundtable-on-sustainable-finance-with-his-royal-highness-the-prince-of-wales.html>

50:50 Chance of Global temperature temporarily reaching 1.5°C threshold in next five years

World Meteorological Organisation, 9th May 2022

The WMO finds that the possibility of the annual average global temperature reaching 1.5 degrees Celsius in at least one of the coming five years is 50:50. The WMO also warns that the probability is increasing with time.

Between 2022 and 2026, there's a 93 percent chance that at least one year will be the warmest on record, displacing 2016 from the top spot. Temperatures in 2022-2026 are also 93% likely to be greater than 2017-2021. According to the lead scientist of the report, a single year of temperature rise above 1.5°C does not indicate the breach of the Paris Agreement's threshold. However, it signals greater emissions, resulting in the likelihood of exceeding 1.5°C for an extended period.

The IPCC reports that climate-related risks would be higher at 1.5 degrees Celsius than presently, suggesting harmful climate impacts are impending for human and natural systems.

<https://public.wmo.int/en/media/press-release/wmo-update-5050-chance-of-global-temperature-temporarily-reaching-15%C2%B0c-threshold>



Four key climate change indicators break record in 2021

World Meteorological Organisation, 18th May 2022

Main climate change indicators – greenhouse gas concentrations, sea level rise, ocean heat, and ocean acidification – set new highs in 2021. According to the WMO, this is yet another unequivocal indicator that anthropogenic influence is changing land, water and the atmosphere at the planetary level. Such large-scale changes signal detrimental and long-term repercussions for sustainable development and ecosystems.

Extreme weather – an obvious sign of climate change – has led to huge economic losses, loss of human lives, and shocks for food and water security, which will be amplified in 2022. The WMO finds the past seven years to be the hottest on record.

The WMO's State of the Global Climate report supplements the IPCC's Sixth Assessment Report. The new WMO study comes with a story map that shows how the climate change indicators indicated in the IPCC reports have played out globally in recent years, as well as how the corresponding effects on extremes have been felt at national and regional levels in 2021. The WMO's report will be the primary document of reference for COP 27 negotiations, taking place in Egypt this year.

<https://public.wmo.int/en/media/press-release/four-key-climate-change-indicators-break-records-2021>



Bank of England publishes results of 2021 Biennial Exploratory Scenario: Financial Risk from Climate Change

Bank of England, 24th May 2022

The Bank of England (BOE) released the findings of its first climate stress test that was conducted in 2021. The BOE requested UK's top 19 banks and insurers to utilize three scenarios to examine how climate-related risks might affect businesses. Two scenarios (Early Action and Late Action) included regulations to prevent global temperature rise, while the third featured unrestrained global warming (No Additional Action scenario).

The exercise's three primary goals were to:

- 1.Improve climate risk management of banks and insurers
- 2.Quantify the risks that participants in the exercise face
- 3.Gain a better understanding of banks' and insurers' potential reactions to climate-related hazards, as well as their larger consequences

Key findings of the test were:

- 1.Climate loss projections are uncertain as climate scenario analyses face several data gaps
- 2.The improper management of climate risks found in the test are likely to affect the annual profitability of the tested banks and insurers by 10-15% on average
- 3.UK banks and insurers are likely to absorb the transition costs. The lowest costs are associated with the Early Action scenario
- 4.Public climate policies will be key in determining the scale of changes in the global economy

<https://www.bankofengland.co.uk/news/2022/may/boe-publishes-results-of-the-2021-biennial-exploratory-scenario-financial-risks-from-climate-change>

Climate Change is making extreme heat waves in India 100 times more likely: Study

Financial Express, 19th May 2022

According to a study by the UK Met Office, climate change has raised the likelihood of record-breaking heat waves in India and Pakistan by over 100 times, as well as the likelihood of such occurrences occurring more frequently in the future.

The study found that the probability of a heat wave exceeding the average temperature in 2010 naturally was once every 312 years. The probabilities grow to once every 3.1 years in the present climate scenario that accounts for climate change. This probability is estimated to increase to once every 1.5 years by 2100.

While pre-monsoon heat spells are common in the region during April and May, incremental climate change is expected to push the heat intensity on average every year by the end of the century. The heatwave is likely to result in knock-on effects, such as inadequate agricultural output, fires, and poor air quality, affecting the economy.

<https://www.financialexpress.com/lifestyle/science/climate-change-making-extreme-heat-waves-in-india-100-times-more-likely-study/2530907/>

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